

No. 08-1423

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

**On Writ of Certiorari to the
United States Court of Appeals
for the Ninth Circuit**

BRIEF FOR THE PETITIONER

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QUESTION PRESENTED

Under the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), the owner of a copy "lawfully made under this title" may resell that copy without the authority of the copyright holder. In *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998), this Court held that "the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." In the decision below, the Ninth Circuit held that *Quality King* is limited to its facts, which involved goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

RULE 24.1(b) AND 29.6 STATEMENT

Pursuant to Supreme Court Rule 24.1(b), petitioner Costco Wholesale Corporation states that all parties to the proceeding below appear in the caption of the case on the cover page.

Pursuant to Supreme Court Rule 29.6, petitioner states that Davis Selected Advisers, LP controls 10% or more of petitioner's corporate stock.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED.....	i
RULE 24.1(b) and 29.6 STATEMENT	ii
TABLE OF AUTHORITIES.....	v
OPINIONS BELOW	1
STATUTORY PROVISIONS INVOLVED	1
STATEMENT	3
A. The Copyright Act and <i>Quality King</i>	4
B. The Events Underlying This Lawsuit	7
C. Proceedings Below	9
SUMMARY OF ARGUMENT.....	11
ARGUMENT	13
I. THE NINTH CIRCUIT’S OPINION IS INCONSISTENT WITH THE TEXT, HISTORY, AND PURPOSE OF SECTION 109(a).....	15
A. The Opinion Below Contradicts The Language Of The Copyright Act	15
B. The Opinion Below Is Inconsistent With The Legislative History Of The First-Sale Doctrine	20
C. The Opinion Below Is At Odds With The Purpose Of The First-Sale Doctrine.....	23
II. THE NINTH CIRCUIT’S OPINION IS INCONSISTENT WITH <i>QUALITY KING</i>	27
A. The First-Sale Doctrine Is Not An Extraterritorial Application Of U.S. Law	28

TABLE OF CONTENTS—continued

	Page
B. The Ninth Circuit Misconstrued This Court’s Discussion Of Copies Made Under A Foreign Copyright.....	33
1. The Court Did Not Say That A Copy Made Under Foreign Law Cannot At The Same Time Conform To The Copyright Act’s Requirements	34
2. The Court Was Referring To Imported Copies Made Abroad By Unrelated Foreign Copyright Holders, Not Copies Made By The U.S. Copyright Holder Itself.....	38
III. APPLYING THE FIRST-SALE DOCTRINE HERE IS NOT IN TENSION WITH THE IMPORTATION PROVISIONS CODIFIED IN SECTION 602	41
IV. DENYING APPLICATION OF THE FIRST-SALE DOCTRINE TO GOODS MADE ABROAD WOULD HAVE SERIOUS CONSEQUENCES, WHICH CONGRESS COULD NOT HAVE INTENDED, FOR AMERICAN BUSINESSES AND CONSUMERS.....	46
A. The Decision Below Has Troubling Implications	46
B. The “Solution” Crafted By The Ninth Circuit Has No Textual Basis	52
CONCLUSION	54

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>Astoria Federal Sav. & Loan Ass'n v. Solimino</i> , 501 U.S. 104 (1991)	27
<i>Bailey v. United States</i> , 516 U.S. 137 (1995)	15
<i>Bauer & Cie. v. O'Donnell</i> , 229 U.S. 1 (1913)	24, 25
<i>BMG Music v. Perez</i> , 952 F.2d 318 (9th Cir. 1991)	10, 28
<i>Bobbs-Merrill Co. v. Straus</i> , 210 U.S. 339 (1908)	3, 13, 20
<i>CBS v. Scorpio Music Distribs.</i> , 569 F. Supp. 47 (E.D. Pa. 1983), <i>aff'd without op.</i> , 738 F.2d 424 (3d Cir. 1984)	10
<i>Continental T.V., Inc. v. GTE Sylvania Inc.</i> , 433 U.S. 36 (1977)	24
<i>Disenos Artisticos e Industriales, S.A. v. Costco Wholesale Corp.</i> , 97 F.3d 377 (9th Cir. 1996)	16, 50
<i>Dr. Miles Medical Co. v. John D. Park & Sons Co.</i> , 220 U.S. 373 (1911)	24
<i>EEOC v. Arabian Am. Oil Co.</i> , 499 U.S. 244 (1991)	29
<i>Green v. Bock Laundry Machine Co.</i> , 490 U.S. 504 (1989)	46
<i>Griffin v. Oceanic Contractors, Inc.</i> , 458 U.S. 564 (1982)	46
<i>Harper & Row Publishers, Inc. v. Nation Enters.</i> , 471 U.S. 539 (1985)	23

TABLE OF AUTHORITIES—continued

	Page(s)
<i>Hasbro Bradley, Inc. v. Sparkle Toys, Inc.</i> , 780 F.2d 189 (2d Cir. 1985)	30
<i>Keeler v. Standard Folding-Bed Co.</i> , 157 U.S. 659 (1895).....	25
<i>Keene Corp. v. United States</i> , 508 U.S. 200 (1993).....	21
<i>L'anza Research Int'l, Inc. v. Quality King Distribs., Inc.</i> , 98 F.3d 1109 (9th Cir. 1996), <i>rev'd</i> , 523 U.S. 135 (1998).....	25
<i>Lamie v. U.S. Trustee</i> , 540 U.S. 526 (2004).....	18
<i>Leegin Creative Leather Products, Inc. v. PSKS, Inc.</i> , 551 U.S. 877 (2007).....	24
<i>LG Elecs., Inc. v. Hitachi, Ltd.</i> , 655 F. Supp. 2d 1036 (N.D. Cal. 2009).....	32, 47
<i>Monsanto Co. v. Spray-Rite Service Corp.</i> , 465 U.S. 752 (1984).....	8
<i>Morrison v. National Australia Bank, Ltd.</i> , No. 08-1191 (June 24, 2010)	29
<i>NEC Electronics v. CAL Circuit Abco</i> , 810 F.2d 1506 (9th Cir. 1987).....	54
<i>Nken v. Holder</i> , 129 S. Ct. 1749 (2009)	19, 45
<i>Parfums Givenchy, Inc. v. Drug Emporium, Inc.</i> , 38 F.3d 477 (9th Cir. 1994)	52
<i>Pearson Educ., Inc. v. Liu</i> , 656 F. Supp. 2d 407 (S.D.N.Y. 2009), <i>appeal pending</i> , No. 10-894 (2d Cir.)	16, 23, 26, 35, 53
<i>Platt & Munk Co. v. Republic Graphics, Inc.</i> , 315 F.2d 847 (2d Cir. 1963).....	38
<i>Powerex Corp. v. Reliant Energy Servs., Inc.</i> , 551 U.S. 224 (2007).....	16

TABLE OF AUTHORITIES—continued

	Page(s)
<i>Prestonettes, Inc. v. Coty</i> , 264 U.S. 359 (1924).....	4, 13
<i>Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.</i> , 523 U.S. 135 (1998).....	passim
<i>Quanta Computer, Inc. v. LG Electronics, Inc.</i> , 553 U.S. 617 (2008).....	4, 47
<i>Regents of Univ. of Cal. v. Pub. Employment Relations Bd.</i> , 485 U.S. 589 (1988).....	15
<i>Robinson v. Shell Oil Co.</i> , 519 U.S. 337 (1997).....	45
<i>Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.</i> , 847 F.2d 1093 (3d Cir. 1988).....	19
<i>Sexton v. Wheaton</i> , 21 U.S. (8 Wheat.) 229 (1823).....	13
<i>Small v. United States</i> , 544 U.S. 385 (2005).....	29
<i>Subafilms, Ltd. v. MGM-Pathe Communications Co.</i> , 24 F.3d 1088 (9th Cir. 1994).....	29
<i>UMG Recordings, Inc. v. Augusto</i> , 558 F. Supp. 2d 1055 (C.D. Cal. 2008), <i>appeal pending</i> , No. 08-55998 (9th Cir.).....	47
<i>United Sav. Ass'n of Texas v. Timbers of Inwood Forest Assocs., Ltd.</i> , 484 U.S. 365 (1988).....	16
<i>United States v. Arnold, Schwinn & Co.</i> , 388 U.S. 365 (1967).....	24

TABLE OF AUTHORITIES—continued

	Page(s)
<i>United States v. Masonite Corp.</i> , 316 U.S. 265 (1942).....	4
<i>United States v. Texas</i> , 507 U.S. 529 (1993).....	27
<i>United States v. Univis Lens Co.</i> , 316 U.S. 241 (1942).....	13
<i>Vernor v. Autodesk, Inc.</i> , 555 F. Supp. 2d 1164 (W.D. Wash. 2008), <i>appeal</i> <i>pending</i> , No. 09-35969 (9th Cir.).....	51

STATUTES AND LEGISLATIVE HISTORY

14 U.S.C. § 97(a)(1)	18
15 U.S.C. § 1124	18
17 U.S.C. § 104(b).....	30
17 U.S.C. § 106	1
17 U.S.C. § 106(1).....	11, 15, 31
17 U.S.C. § 106(3).....	4, 5, 23, 31, 37, 44
17 U.S.C. § 107	4, 16
17 U.S.C. § 109(a).....	passim
17 U.S.C. § 110	4, 5, 17, 45
17 U.S.C. § 115	16, 22
17 U.S.C. § 302	30
17 U.S.C. § 401(a).....	30
17 U.S.C. § 402(a).....	30
17 U.S.C. § 501	45
17 U.S.C. § 601	19
17 U.S.C. § 602(a)(1)	2, 4, 5, 6, 46
17 U.S.C. § 602(a)(2)	2, 41, 42, 44, 45
17 U.S.C. § 602(a)(3)(B)	51
17 U.S.C. § 602(b).....	2, 41, 42, 44, 45
17 U.S.C. § 1001	5
17 U.S.C. § 1004	17, 18
17 U.S.C. § 1006	5, 18

TABLE OF AUTHORITIES—continued

	Page(s)
17 U.S.C. § 1006(a)(1)(A)	17, 45
19 U.S.C. § 1673c(l)(2).....	18
28 U.S.C. § 1254(1).....	1
1909 Copyright Act, ch. 320, § 41, 35 Stat. 1075	21
1947 Copyright Act, ch. 391, § 27, 61 Stat. 652	21
Audio Home Recording Act , 17 U.S.C. §§ 1001 <i>et seq.</i>	17
Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, 104 Stat. 5089	47
H.R. Rep. No. 1476, 94th Cong., 2d Sess. (1976)	22, 23, 49
H.R. Rep. No. 2222, 60th Cong., 2d Sess. (1909)	21
H.R. Rep. No. 617, 110th Cong., 2d Sess. (2008)	44
H.R. Rep. No. 987, 98th Cong., 2d Sess. (1984)	13
Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, 122 Stat. 4259.....	2
Record Rental Amendment of 1984, Pub. L. No. 98-450, 98 Stat. 1727	48
Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., Copyright Law Revision, Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law (Comm. Print 1964).....	39, 40, 42, 43

TABLE OF AUTHORITIES—continued

	Page(s)
Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., <i>Copyright Law Revision, Part 5: 1964 Revision Bill with Discussions and Comments</i> (Comm. Print 1965).....	22
 REGULATION	
19 C.F.R. § 133.23(a)(2).....	54
 MISCELLANEOUS	
Romana Autrey & Francesco Bova, <i>Gray Markets and Multinational Transfer Pricing</i> , Harv. Bus. School Accounting & Management Unit Working Paper No. 09-098 (Feb. 2009).....	46
Book Industry Study Group, Inc., <i>Book Industry Trends 2006</i>	38
Brief for Petitioner, <i>Quality King</i> , 523 U.S. 135 (1998) (No. 96-1470).....	35
Brief for Respondent, <i>Quality King</i> , 523 U.S. 135 (1998) (No. 96-1470).....	28
Brief for the United States as <i>Amicus Curiae</i> , <i>Quality King</i> , 523 U.S. 135 (1998) (No. 96-1470).....	15, 19, 20, 49
1 Coke on Littleton (1628).....	27
Lyle E. Davis, <i>The Thrill of the Hunt!</i> , THE PAPER (San Diego, CA) (Jan. 8, 2009).....	47
Darren E. Donnelly, <i>Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine</i> , 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 445 (1997).....	33

TABLE OF AUTHORITIES—continued

	Page(s)
Felix Frankfurter, <i>Some Reflections on the Reading of Statutes</i> , 47 COLUM. L. REV. 527 (1947)	21
2 Paul Goldstein, Goldstein on Copyrights (2005)	30
Harmonized Tariff Schedule of the United States (2005 imports).....	38
http://www.copyright.gov/carp/dartfact.html	18
KPMG LLP, Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line (2008)	47
Michael J. Meurer, <i>Copyright Law and Price Discrimination</i> , 23 CARDOZO L. REV. 55 (2001)	48
2 Melville B. Nimmer & David Nimmer, Nimmer on Copyright (2008).....	26
Transcript of Oral Argument, <i>Quality King</i> , 523 U.S. 135 (1998) (No. 96-1470)	36, 39

BRIEF FOR PETITIONER

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-17a) is reported at 541 F.3d 982. The district court's order granting petitioner's motion for summary judgment (Pet. App. 18a-19a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on September 3, 2008. Pet. App. 1a. Rehearing was denied on February 17, 2009. Pet. App. 20a-21a. The petition for a writ of certiorari was filed on May 18, 2009, and granted on April 19, 2010. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 106 provides in pertinent part:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; * * * [and] (3) 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 * * *.

17 U.S.C. § 109(a) provides in pertinent part:

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

17 U.S.C. § 602(a)(1) provides:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.¹

17 U.S.C. § 602(a)(2) provides:

Importation into the United States or exportation from the United States, without the authority of the owner of copyright under this title, of copies or phonorecords, the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable, is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under sections 501 and 506.

17 U.S.C. § 602(b) provides in pertinent part:

In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited.

¹ In October 2008, shortly after the court of appeals issued the decision below, Congress amended § 602. Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b), 122 Stat. 4259 [hereinafter PRO-IP Act]. The importation right discussed by the court below, formerly codified at § 602(a), was renumbered as § 602(a)(1). All citations in this brief to “§ 602(a)” are to the prior version, now § 602(a)(1).

STATEMENT

Respondent Omega, S.A. (“Omega”) seeks to prevent petitioner Costco Wholesale Corporation (“Costco”) from reselling genuine watches originally sold by Omega to authorized foreign distributors. Omega affixed to the back of its watches a tiny symbol that it registered under the Copyright Act. The sole purpose was to use Title 17, the Copyright Act, to control the importation and sale of its watches in the United States by those who had purchased them through the authorized foreign distributors.

The Ninth Circuit upheld Omega’s interpretation of the Copyright Act, holding that the Act grants U.S. copyright holders complete control over the resale, redistribution, and importation into the United States of any copyrighted works they manufacture abroad, *even after the holder sells those works to others*. The court found inapplicable the “first-sale doctrine,” summarized by this Court a century ago: “[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose * * * a limitation at which the [copy] shall be sold at retail by future purchasers, with whom there is no privity of contract.” *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

In *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 138 (1998), this Court unanimously held that “the ‘first sale’ doctrine endorsed in [17 U.S.C.] § 109(a) is applicable to imported copies.” Holding that this Court’s opinion was “not ‘clearly irreconcilable’” with pre-existing circuit law (Pet. App. 12a), the Ninth Circuit distinguished between copies manufactured in the United States, sold abroad, and subsequently re-imported (for which

the first-sale defense is available) and copies manufactured abroad and then imported into the United States (for which the first-sale defense is *not* available). This case is about whether the Copyright Act itself creates such a dichotomy. It quite sensibly does not.

A. The Copyright Act and *Quality King*

1. The Copyright Act grants copyright holders certain exclusive rights, among them the right to distribute – or to authorize others to distribute – copies of their work by sale or other transfer of ownership. *See* 17 U.S.C. § 106(3). That distribution right is extended in § 602(a), which provides, in pertinent part, that “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106.” *Id.* § 602(a).

The exclusive rights in § 106 are subject to a number of important limitations codified elsewhere in the Copyright Act, including the rights of fair use (*see* 17 U.S.C. § 107) and educational use (*see* 17 U.S.C. § 110). Also among those limitations is the first-sale doctrine. The doctrine exists in several bodies of intellectual-property law. *See, e.g., Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924) (trademark law); *United States v. Masonite Corp.*, 316 U.S. 265, 277-278 (1942) (the doctrine in patent law asks “whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article”); *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) (patent law).

In copyright law, the doctrine has been codified in 17 U.S.C. § 109(a), which provides (emphasis added):

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord *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 or phonorecord.

The Copyright Act does not explicitly define “lawfully made under this title,” although that phrase is used throughout the Act. *E.g.*, 17 U.S.C. §§ 110, 1001, 1006.

2. In *Quality King*, this Court began its analysis with the following observation (523 U.S. at 140):

This is an unusual copyright case because L’anza [the copyright holder] does not claim that anyone has made unauthorized copies of its copyrighted labels. Instead, L’anza is primarily interested in protecting the integrity of its method of marketing the products to which the labels are affixed.

The Court proceeded to analyze the interaction of §§ 106(3), 602(a), and 109(a). Specifically, the Court addressed whether the first-sale doctrine limits the right to restrict importation in § 602(a). Following the “unambiguous[]” text of the statute, the Court held that “since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right ‘under section 106,’ and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both *domestic and foreign* owners” of lawfully made products that import and resell them in the United

States. *Quality King*, 523 U.S. at 145 (emphasis added). Once a lawful first sale has occurred, resales simply do not infringe the copyright owner's exclusive right to distribute. *Id.* at 143. "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Id.* at 152.

Among the issues the Court addressed in *Quality King* was whether applying the first-sale doctrine to goods imported into the United States would be an impermissible extraterritorial application of U.S. law. The Court held that it would not. "[T]he owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act * * *." 523 U.S. at 145 n.14.

The Court also considered whether applying the first-sale doctrine to lawfully made imported goods would render § 602(a) superfluous or otherwise conflict with its purpose. 523 U.S. at 145. The Court found "several flaws in this argument" (*id.* at 146), foremost among them a faulty "assumption that the coverage of [§ 602(a)] is coextensive with the coverage of § 109(a)" (*id.* at 148). Section 602(a) "is, in fact, broader because it encompasses copies that are not subject to the first sale doctrine." *Ibid.*

The Court identified three categories of copies covered by § 602(a) but not by § 109(a). The first is "piratical copies, of course, because such copies were not lawfully made." 523 U.S. at 146 n.17. The second is copies in the possession of a "nonowner such

as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.” *Id.* at 147. Such copies fall outside the first-sale doctrine, which protects only “*the owner* of a particular copy or phonorecord lawfully made under this title.” 17 U.S.C. § 109(a) (emphasis added). Finally, the Court noted that, because § 109(a)’s first-sale doctrine applies only to goods that are “lawfully made under this title,” the importation right in § 602(a) would still apply to “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” 523 U.S. at 147.

Justice Ginsburg joined the Court’s opinion but filed a lone, one-paragraph concurrence. She “recogniz[ed] that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.” 523 U.S. at 154. She cited, without further comment, two treatises that suggested that allowing a first-sale defense in that situation might constitute extraterritorial application of the Act.

B. The Events Underlying This Lawsuit

Omega manufactures watches in Switzerland and sells them globally through a worldwide network of authorized distributors and retailers. *See* JA60. Except as to a single distributor in each of Paraguay, Israel, and Turkey, Omega has no written sales contracts with any of those distributors or retailers; nor does it impose any restrictions preventing retailers or their customers from reselling its watches to anyone else. JA118-122. Indeed, even Omega’s few written contracts do not unconditionally restrict resale. JA70-71; JA76-78.

Costco is a membership warehouse club, known for selling genuine brand-name merchandise to its members at prices lower than its competitors. For

many years, Costco sold Omega watches that it had legally obtained through third parties who imported them into the United States. Among the Omega watches Costco sold was the Seamaster Model 2531.80. Costco sold the Seamaster for \$1,299 (JA 61), more than one-third less than Omega's suggested retail price of \$1,995. JA66. Costco's guarantee of member satisfaction, unlimited in time, far surpassed Omega's three-year limited warranty. JA130-131; JA133-138.

Though Omega never designated Costco as an "authorized" dealer of Omega watches, it knew for many years that its watches were sold at Costco and made no objection. JA110-111. Omega, however, received complaints from other retailers who felt threatened by Costco's superior price and customer service. JA45-46.² In response, in 2003, Omega began engraving a simple symbol on the back of the Seamaster Model 2531.80. JA116-117. Consisting principally of three Greek "Omega" symbols inside a circle, the "Omega Globe" measures less than one-half centimeter (approximately one-eighth of an inch) in diameter and is barely perceptible (JA132):

² This Court has encountered such behavior before, in the context of other legal issues. *E.g.*, *Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752 (1984) (affirming jury verdict holding Monsanto liable under the antitrust laws for terminating a price-cutting distributor in response to complaints from competing distributors).



Omega registered the symbol with the United States Copyright Office (JA60) for the admitted purpose of invoking the Copyright Act to restrict the resale of its watches. JA46-52. Omega informed no outsiders of its plans, including its own authorized distributors, and Omega neither marketed nor advertised the symbol. JA112-115.

In 2004, unaware of the Omega Globe or its copyright (JA44), Costco purchased 117 Seamaster watches from an American supplier in New York, after they had been imported. JA54-58; JA61. Discovery later revealed that some of those watches were originally sold by Omega to authorized foreign distributors in Paraguay, who subsequently resold them into the regular stream of commerce. JA122-123.

C. Proceedings Below

After Costco's sale of 43 Seamaster watches in 2004, Omega filed suit alleging that Costco's acquisition and sale of the watches constituted copyright infringement under §§ 106(3) and 602(a). JA1; JA30-41. Costco moved for summary judgment, arguing that, under the first-sale doctrine, Omega's initial foreign sale of the watches provided a complete de-

fense. JA9. Omega filed a cross-motion. JA12. The district court ruled in favor of Costco, without explanation. Pet. App. 18a-19a.

The Ninth Circuit reversed, citing *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991). The panel in *BMG* had held that the phrase “lawfully made under this title” in § 109(a) “grant[s] first sale protection only to copies legally made and sold in the United States.” 952 F.2d at 319 (following *CBS v. Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff’d without op.*, 738 F.2d 424 (3d Cir. 1984)). The *BMG* court gave two rationales for that interpretation. First, “[c]onstruing [§] 109(a) as superseding the prohibition on importation set forth in * * * § 602 would render § 602 virtually meaningless.” *Ibid.* (quoting *Scorpio*, 569 F. Supp. at 49). Second, according to the Ninth Circuit, recognizing a first-sale defense as to goods manufactured abroad would impermissibly extend the Copyright Act extraterritorially. *Ibid.* (citing *Scorpio*, 569 F. Supp. at 49).

In the present case, the Ninth Circuit viewed its task, curiously, as determining whether this Court’s decision in *Quality King* undermined *BMG*. Even though this Court had explicitly addressed – and rejected – both rationales for *BMG*, the Ninth Circuit purported to distinguish this Court’s decision on two grounds. First, “the facts [of *Quality King*] involved only domestically manufactured copies.” Pet. App. 10a. Justice Ginsburg had opined that, because the copies at issue in *Quality King* had originated in the United States, the Court’s unanimous opinion did not “resolve cases in which the allegedly infringing imports were manufactured abroad.” 523 U.S. at 154 (Ginsburg, J., concurring). The Ninth Circuit treated her concurrence as controlling because “[t]he majority opinion did not dispute this interpretation.” Pet.

App. 15a. Second, the court of appeals stated that this Court never “discussed the scope of § 109(a) or defined what ‘lawfully made under this title’ means.” Pet. App. 11a. Those two considerations, the lower court concluded, meant that *Quality King* was not “clearly irreconcilable” with prior circuit precedent limiting the first-sale doctrine to copies manufactured in the United States, thus barring Costco’s reliance on § 109(a). *Ibid.*

SUMMARY OF ARGUMENT

The decision of the court of appeals conflicts with the language of 17 U.S.C. § 109(a), with its legislative history and purpose, and with this Court’s straightforward interpretation of the Copyright Act in *Quality King*. The phrase “lawfully made under this title” is used throughout the Act, and makes perfect sense when given its literal meaning of *according to, or as defined by, this title*. Because Omega is the U.S. copyright holder, any copies that it makes are lawful according to 17 U.S.C. § 106(1), and so the first-sale doctrine applies to them here.

In contrast, the Ninth Circuit’s holding that the phrase “lawfully made under this title” means *made in the United States* makes little sense and introduces into the Copyright Act numerous absurdities with which the lower court made no attempt to grapple. The Ninth Circuit’s definition is inconsistent with how the same phrase is used elsewhere in the Act, lacks any basis in the Act’s legislative history, and flows from circuit precedent contrary to this Court’s unanimous decision in *Quality King*. That decision unambiguously held both that the first-sale doctrine applies to imported copies and that applying the doctrine is not an act of extraterritoriality.

This Court’s observation in *Quality King* that the first-sale doctrine does not apply to “copies that were ‘lawfully made’ not under the * * * Copyright Act, but instead, under the law of some other country,” 523 U.S. at 147, does not even mention the place of manufacture, let alone make it dispositive. The drafting history cited by the Court demonstrates that both § 602 and the Court’s analysis of it speak to imported copies made by *unrelated foreign copyright holders*. Consistent with Costco’s argument about the scope of § 109(a), importation of *those* kinds of copies may be prohibited under § 602, not because they are made abroad, but because they are made by entities that lack U.S. replication and distribution rights from a U.S. copyright holder according to the Copyright Act.

Though the distinction between goods made at home and those made abroad has no basis in the Copyright Act’s first-sale doctrine, it would have severe consequences, which Congress could not have intended, for the U.S. economy. Manufacturers that sell globally will prefer to manufacture their goods abroad because of the increased control they will gain over subsequent sales and use of their products. Conversely, retailers and consumers will be hesitant to buy or sell such products for fear of unintended liability for infringement. Moreover, by exempting goods manufactured abroad from the first-sale doctrine, the Ninth Circuit’s decision gives rise to a number of other absurd outcomes unintended by Congress, including copyright infringement liability for libraries that lend foreign books or movies.

The Ninth Circuit showed awareness of the potentially calamitous consequences of its reading of the phrase “lawfully made under this title” and narrowing of the first-sale doctrine. Rather than recon-

sidering whether its reading of the Copyright Act was correct, however, the court took shelter in a unique Ninth Circuit non-statutory “exception” to the rule enforced below, by which goods made abroad *are* granted first-sale treatment so long as their first sale into the United States is authorized by the copyright holder. However convenient that solution may be to some of the problems created by the lower court’s reading of the Copyright Act, it has no basis in the text or history of the Act, conflicts with the Court’s express holding in *Quality King*, and fails to enable retailers generally to differentiate between goods they can and cannot sell. This Court should not condone that exception, particularly when an alternative – and more logical – reading of the Copyright Act precludes any need for it in the first place.

ARGUMENT

This Court has long viewed with disfavor restraints on the alienation of property. *E.g.*, *Sexton v. Wheaton*, 21 U.S. (8 Wheat.) 229, 242 (1823). That aversion has guided development of the first-sale doctrine in patent, trademark, and copyright law. *E.g.*, *United States v. Univis Lens Co.*, 316 U.S. 241, 251-252 (1942); *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-351 (1908); *see also* H.R. Rep. No. 987, 98th Cong., 2d Sess. 2 (1984) (“The first sale doctrine has its roots in the English common law rule against restraints on alienation of property.”).

Congress has the power to limit the first-sale doctrine, but an intent to do so should not be lightly inferred when the consequence would be to curtail freedoms protected at common law and by a long-standing judicial doctrine. When the lower courts (and the United States) misconstrued § 602(a) to make the first-sale doctrine categorically inapplica-

ble to imported goods, this Court unanimously disagreed. “[T]he Solicitor General’s cramped reading of the text of the statutes,” the Court observed, “is at odds * * * with the necessarily broad reach of § 109(a).” *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. at 152.

Now the lower court (and the United States) have misconstrued § 109(a) itself to make the first-sale doctrine categorically inapplicable to goods manufactured abroad, which represent a much greater share of U.S. commerce today than even when *Quality King* was decided. In doing so, they have given “lawfully made under this title” a meaning it plainly cannot bear in other parts of the Copyright Act. They have failed to give § 109(a) its “necessarily broad reach.” They have misconstrued dicta in *Quality King*. They have ignored (or downplayed) the absurd consequences of their construction, consequences that it is inconceivable Congress intended. Finally, they have attempted to mitigate those consequences through an exception for certain goods *sold* in the United States that has no basis in the text of the Copyright Act.

Their arguments fall far short of sustaining the surprising proposition that Congress intended to impose a restraint on alienation, in derogation of the common law, through the use of oblique language. They fall equally short of sustaining the proposition that Congress intended to encourage outsourcing of manufacturing operations by giving greater rights to the holders of U.S. copyrights in foreign-made goods than to the holders of U.S. copyrights in U.S.-made goods.

I. THE NINTH CIRCUIT'S OPINION IS INCONSISTENT WITH THE TEXT, HISTORY, AND PURPOSE OF SECTION 109(a)

The first-sale doctrine, codified in 17 U.S.C. § 109(a), eliminates distribution and importation liability for owners of copies “lawfully made under this title.” Only if those five words are synonymous with “lawfully made in the United States” could the Ninth Circuit’s judgment be affirmed. Respondent has no explanation for why, if Congress meant “made in the United States,” it did not just say so.

A. The Opinion Below Contradicts The Language Of The Copyright Act

The phrase “lawfully made under this title” is best understood in light of “the normal meaning of the language chosen by Congress.” *Regents of Univ. of Cal. v. Pub. Employment Relations Bd.*, 485 U.S. 589, 595 (1988); *accord Bailey v. United States*, 516 U.S. 137, 145 (1995). In its normal usage, the phrase means “lawfully made” *according to, or as defined by*, “this title,” *i.e.*, Title 17, the Copyright Act. *Accord* Brief for the United States as *Amicus Curiae* 30 n.18 (No. 96-1470) (U.S. *Quality King Br.*) (“The correct and more natural reading of the phrase ‘lawfully made under this title’ refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17.”).

Here, because Omega is the U.S. copyright holder, any copies that it makes are necessarily lawful according to 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to

make or to authorize copies.³ As a result, any copies made (or otherwise authorized) by Omega are “lawfully made under this title” and, therefore, subject to the first-sale doctrine regardless of where they are manufactured.⁴

The phrase “lawfully made under this title” is used two other times in Title 17. In both instances the straightforward, literal definition advanced by Costco makes perfect sense. In contrast, reading the phrase to mean “made and sold in the United States,” Pet. App. 8a, is incompatible.⁵

³ There are other ways for authority to be granted under the Copyright Act, including by implication, *Disenos Artisticos e Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996), and by operation of law. See, e.g., 17 U.S.C. § 107 (fair use); *id.* § 115 (compulsory licensing).

⁴ As the court stated in *Pearson Educ., Inc. v. Liu*, 656 F. Supp. 2d 407, 412 (S.D.N.Y. 2009) (internal citations omitted), appeal pending, No. 10-894 (2d Cir.):

§ 109(a) teaches that for first-sale purposes, the lawfulness of a particular copy or phonorecord should be judged by U.S. copyright law no matter where the copy or phonorecord was manufactured. In the normal run of cases, this condition will be satisfied if the copy was manufactured by the U.S. rightsholder; if the U.S. rightsholder authorized the copy to be manufactured; or if the manufacturer’s activities would be privileged under U.S. concepts of fair use.

⁵ “[I]dentical * * * phrases within the same statute should normally be given the same meaning.” *Powerex Corp. v. Reliant Energy Servs., Inc.*, 551 U.S. 224, 232 (2007). Furthermore, “[a] provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme because the same terminology is used elsewhere in a context that makes its meaning clear, or because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law.” *United Sav. Ass’n of Texas v. Timbers of Inwood For-*

In 17 U.S.C. § 110, for example, the Copyright Act exempts from liability copies that are “lawfully made under this title” for educational use. Under Costco’s reading of that phrase, § 110 would permit teachers to use lawful copies of books, recordings, and other media, while barring their use of piratical copies, which are obviously not “lawfully made.” Were the Ninth Circuit’s contrary understanding correct, however, teachers would be liable for copyright infringement simply for exposing their students to genuine musical performances or instructional videos that happened to be made abroad, because the safe harbor created by § 110 would be inapplicable. That cannot be what Congress intended.

Equally nonsensical consequences result from applying the lower court’s definition to requirements introduced by the Audio Home Recording Act (“AHRA”), 17 U.S.C. §§ 1001 *et seq.*⁶ Section 1004(b) of the AHRA provides for a royalty payment “for each digital audio recording medium imported into and distributed in the United States, or manufactured and distributed in the United States.” Section 1006(a) provides that those royalties shall be distributed to those whose musical works or sound recordings have been “embodied in a digital musical recording or an analog musical recording *lawfully made under this title* that has been distributed.” 17 U.S.C. § 1006(a)(1)(A) (emphasis added).

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est Assocs., Ltd., 484 U.S. 365, 371 (1988) (internal citations omitted).

⁶ The AHRA regulates the importation and distribution of audio recording devices and media and requires royalty payments to be paid to copyright owners by manufacturers, importers, or distributors of such products.

A proper reading of the operative phrase to mean *according to the Copyright Act* enables § 1004 and § 1006 to be read in harmony.⁷ If, however, the phrase “lawfully made under this title” referred only to copies manufactured in the United States, no royalty payments under § 1006 would be due on digital audio recording media manufactured abroad and imported into the United States, in direct contravention of § 1004(b), which explicitly provides for such payments. “[W]hen the statute’s language is plain, the sole function of the courts – at least where the disposition required by the text is not absurd – is to enforce it according to its terms.” *Lamie v. U.S. Trustee*, 540 U.S. 526, 534 (2004) (quotation marks and citation omitted). The Ninth Circuit’s interpretation turns that canon on its head by simultaneously departing from the text and *creating* absurd results.

The AHRA also shows that when Congress intends to make the location of manufacturing determinative – and, as in § 1004(b) of the AHRA, it sometimes does – it does so in plain English.⁸ The United

⁷ The Copyright Office, which helps administer the AHRA, takes the position that § 1006 entitles copyright owners to claim royalties for any work “embodied in a digital or analog musical recording lawfully made and distributed,” whether or not that work was made in the United States. See <http://www.copyright.gov/carp/dartfact.html>.

⁸ Provisions outside Title 17 also show this. See, e.g., 15 U.S.C. § 1124 (banning the importation of goods that “bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States”); 19 U.S.C. § 1673c(l)(2) (providing for penalties in certain situations where a trading partner “no longer prevents the suppression or undercutting of domestic prices of merchandise manufactured in the United States”); 14 U.S.C. § 97(a)(1) (“the Coast Guard may not

States raised this point in *Quality King*. U.S. *Quality King* Br. 30 (“When * * * Congress wishes to make the location of manufacture relevant to Copyright Act protection, it does so expressly.”). If Congress meant to limit § 109 to goods manufactured in the United States, it would have done so explicitly. See *Nken v. Holder*, 129 S. Ct. 1749, 1759 (2009) (“[W]here Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.”) (quotation marks and citation omitted). See also *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) (addressing the phrase “lawfully made under this title” in § 109(a) and noting that “[w]hen Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern”).

A further example is the Copyright Act’s now-expired “manufacturing provision,” where Congress used the phrases “under this title” and “manufactured in the United States” in the very same sentence. 17 U.S.C. § 601 (“the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States* or Canada”) (emphasis

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procure buoy chain that is not manufactured in the United States”).

added). This sentence makes it clear that goods protected “under this title” can be manufactured in Canada, as well as in places other than the United States and Canada. Likewise, “under this title” cannot refer to location, because that would result in two different and inconsistent provisions regarding the location of manufacture of the goods, in the same sentence.

B. The Opinion Below Is Inconsistent With The Legislative History Of The First-Sale Doctrine

There is no historical basis for the Ninth Circuit’s understanding of the first-sale doctrine as dependent on the place of manufacture. The legislative history of the codified first-sale doctrine confirms that “lawfully made under this title” simply means lawfully made according to the Copyright Act, and not made in the United States. *Accord* U.S. *Quality King* Br. 30 n.18 (“That reading is also consistent with the legislative history.”).

In *Quality King*, this Court discussed *Bobbs-Merrill*, a case decided under the Copyright Act of 1891. There, as here, a manufacturer attempted to prevent retailers from reselling genuine copies, lawfully obtained in the stream of commerce, for prices less than the manufacturer preferred. 210 U.S. at 341-343. The Court rejected the manufacturer’s claim that the retailers’ activity violated the exclusive right to “vend” under § 1(a) of the 1891 Act (*id.* at 343), because the copyright owner had already “s[old] copies of the book in quantities and at a price satisfactory to it” when it made its first sale into the stream of commerce (*id.* at 351).

After *Bobbs-Merrill*, Congress codified the first-sale doctrine. Indeed, the doctrine apparently takes

its name from the legislative history of the 1909 Copyright Act, where legislators expressed the opinion that “it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale.” H.R. Rep. No. 2222, 60th Cong., 2d Sess. 19 (1909).

The codification provided that “nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of *any copy* of a copyrighted work the possession of which has been *lawfully obtained*.” Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660 (codifying and amending Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084) (emphasis added). The statute on its face did not limit the first-sale doctrine to goods made in the United States, and the rationale that it would be “unwise” to perpetuate the “proprietor[s]” control shows that no such limitation would have accorded with the legislators’ intent. *See Quality King*, 523 U.S. at 152 (“There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope.”); *see also Keene Corp. v. United States*, 508 U.S. 200, 210 (1993) (predecessor provisions can “shed some light” on current ones); *cf.* Felix Frankfurter, *Some Reflections on the Reading of Statutes*, 47 COLUM. L. REV. 527, 537 (1947) (when a legal concept “is obviously transplanted from another legal source, whether the common law or other legislation, it brings the old soil with it”).

When Congress amended the Copyright Act in 1976, a committee explained that “Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to

whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means.” H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79 (1976) [hereinafter “House Report”]. Thus, “[a]s section 109 makes clear, * * * the copyright owner’s rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it,” *id.* at 62, and “the outright sale of *an authorized copy* * * * frees it from any copyright control over its resale price or other conditions of its future disposition.” *Id.* at 79 (emphasis added). As this Court recognized in *Quality King*, 523 U.S. at 142, § 109(a) sets a “comparable limitation” to that expressed in *Bobbs-Merrill*.

Though § 109(a) phrased the first-sale doctrine using the words “lawfully made under this title,” that language was not introduced to refer to the place of manufacturing, but to whether a particular copy was “made under the authority of the copyright owner.” Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision, Part 5: 1964 Revision Bill with Discussions and Comments*, at 67 (Comm. Print 1965). Congress ultimately chose “lawfully made under this title” to *broaden* the doctrine beyond actual consent of the copyright owner – that is, to cover copies that were “not necessarily [made] with the copyright owner’s authorization,” among them, copies “legally made under the compulsory licensing provisions of section 115.” House Report, *supra*, at 79.⁹

⁹ Section 115 provides that, once a copyright holder records a composition and distributes it to the public, others are also entitled to record and distribute copies of that composition without the consent of the holder, subject to the payment of statutory royalties and other minimal requirements.

Of course, that legislative history makes sense if the phrase “lawfully made under this title” refers to the surrounding provisions of Title 17, as Costco argues; for purposes of the first-sale doctrine, there is no reason to treat copies authorized by a copyright owner differently than those made under a compulsory license. Yet the Ninth Circuit’s interpretation would result in such different treatment; a rerecording of a U.S. copyrighted song made abroad might not be subject to the first-sale rule, *even if the artist making the rerecording paid for a compulsory license and abided by the other requirements of § 115*. That interpretation cannot be reconciled with the legislative history of the first-sale doctrine.

C. The Opinion Below Is At Odds With The Purpose Of The First-Sale Doctrine

The lower court’s interpretation of “lawfully made under this title” also conflicts with the purposes of both the first-sale doctrine and the distribution right it is meant to limit.

The distribution right protected by § 106(3) “accords the copyright owner the ‘right to control the *first* public distribution’ of his work, echo[ing] the common law’s concern that the author or copyright owner retain control throughout th[e] critical stage” before a good goes to market. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 555 (1985) (quoting House Report, *supra*, at 62) (emphasis added). *See also id.* at 552 (quoting House Report, *supra*, at 62) (observing that § 106(3) is meant to ensure that “the copyright owner would have the right to control the *first* public distribution of an authorized copy * * * of his work”) (emphasis added); *Pearson Educ., Inc. v. Liu*, 656 F. Supp. 2d 407, 409 (S.D.N.Y. 2009) (Section 106(3) “primarily protects a

copyright owner’s ability to control the terms on which her work *enters* the market”) (emphasis added), appeal pending, No. 10-894 (2d Cir.).

Applying the first-sale doctrine here does not abrogate a copyright holder’s right to bring his work to market on terms of his own choosing; only after that has occurred, when someone else becomes the “owner” of a “*particular* copy or phonorecord,” does the doctrine take effect. 17 U.S.C. § 109(a) (emphasis added). The decision where and when to “exhaust” the distribution right thus remains the copyright holder’s alone.

Conversely, the Act does not empower that copyright holder to divide markets, set resale prices, or otherwise use the Act to choose when or if or on what terms a good can pass between subsequent purchasers. See *Bauer & Cie. v. O’Donnell*, 229 U.S. 1, 17 (1913) (“[T]he right to *vend* secured in the patent statute is not distinguishable from the right of *vending* given in the copyright act. In both instances it was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold.”). As Justice Breyer noted at oral argument in *Quality King*, that kind of control is subject to review under antitrust laws: “Sometimes you can do it, sometimes you can’t.” *Quality King* Oral Argument Tr. 30.¹⁰

¹⁰ At the time Congress added “lawfully made under this title” to the Copyright Act, territorial allocation and resale price maintenance were considered *per se* illegal. *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967); *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911). Today, both are subject to antitrust’s rule of reason. *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007); *Con-*

For “vertically imposed territorial restrictions” to be affirmatively enforceable through copyright law rather than subject to control and potential prohibition under antitrust law, he suggested in questioning the respondent’s counsel, “you [would] have to have a fairly clear expression of congressional intent.” *Id.* at 30-31. No such clear expression exists here.

Omega suggests that Congress at some point became solicitous of copyright holders’ desires to allocate markets and use copyright law to keep resale prices high. Thus, Omega complains that applying the first-sale doctrine here “will undercut the value of U.S. distribution rights.” Brief in Opp. 11.

That objection has nothing to do with the place of manufacture, and it resurrects reasoning the Ninth Circuit used in the very opinion this Court *reversed* in *Quality King. Lanza Research Int’l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1117 (9th Cir. 1996), *rev’d*, 523 U.S. 135 (1998). Furthermore, it supposes – wrongly – that Congress was concerned with such matters when it introduced the phrase “lawfully made under this title” into § 109(a) in 1976. There is no evidence of any such congressional concern. *Cf. Bauer & Cie.*, 229 U.S. at 13 (an author’s interest in “devices intended to keep up the market and prevent the cutting of prices * * * * could have had little weight in framing the [patent and copyright] acts”).¹¹ Indeed, it would be schizophrenic for

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tinental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977). Neither is *per se* lawful under antitrust law.

¹¹ See also *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666-667 (1895) (“[O]ne who buys patented articles of manufacture from one authorized to sell them becomes pos-

Congress to subject territorial allocation and resale price maintenance to scrutiny under the antitrust laws yet provide affirmative protection for those same activities under copyright law without any inquiry into their effect on consumers.

Whereas § 106(3) is meant to protect a good *before* its entrance into the market, “[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” *Quality King*, 523 U.S. at 152. Thus, once a copyright owner has taken his product to market, the first-sale doctrine marks the moment when “the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation.” 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A], at 8-155 (2008).

As a district court recently and correctly observed, “the common law policy against restraints on trade and alienation is not limited by the place a chattel is manufactured.” *Pearson*, 656 F. Supp. 2d at 413. Rather, that ancient policy simply provided that, “[i]f a man be possessed of a horse or any other chattel, real or personal, and give his whole interest, or property therein, upon condition that the donee or

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possessed of an absolute property in such articles, unrestricted in time or place. * * * The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.”).

vendee shall not alien the same, the same is void, because his whole interest and property is out of him, so as he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man.” 1 COKE ON LITTLETON bk. 3, ch. 5, § 360, at 223 (1628). Section 109(a), codifying *Bobbs-Merrill*, reflects Congress’s intent to give effect to, not abrogate, that common law policy in the copyright realm. “[W]here a common-law principle is well established, * * * courts may take it as given that Congress has legislated with an expectation that the principle will apply except when a statutory purpose to the contrary is evident.” *Astoria Federal Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104, 108 (1991) (internal quotation marks and citation omitted); accord *United States v. Texas*, 507 U.S. 529, 534 (1993). No congressional purpose to abrogate the common law, but to do so only in the case of foreign-made goods, is evident in the text, history, or policy of § 109(a).

II. THE NINTH CIRCUIT’S OPINION IS INCONSISTENT WITH *QUALITY KING*

The decision below cannot be reconciled with principles articulated in *Quality King*. Indeed, in *Quality King*, this Court squarely rejected both theories on which the Ninth Circuit’s opinion claims to rest: (i) that applying the first-sale doctrine here would amount to an extraterritorial application of U.S. law, and (ii) that applying the doctrine would render § 602(a) superfluous. Although the Court did introduce a distinction between goods “lawfully made under this title” and goods “lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country” (*Quality King*, 523 U.S. at 147), that distinction only serves to streng-

then Costco's reading of the first-sale doctrine. As the history cited by the Court confirms, both § 602(a) and the Court's discussion of it address goods made by *unrelated* foreign copyright holders who lack authority to make goods according to the Copyright Act.

A. The First-Sale Doctrine Is Not An Extraterritorial Application Of U.S. Law

Following *BMG*, the lower court held that recognizing a first-sale defense as to goods manufactured abroad "would require an invalid extraterritorial application of the Copyright Act." Pet. App. 11a (citing *BMG*, 952 F.2d at 319). But respondent in *Quality King* made the same argument,¹² which the Court summarily rejected in a two-sentence footnote (523 U.S. at 145 n.14):

Despite L'anza's contention to the contrary, * * * the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act any more than § 602(a)'s "acquired abroad" language does.

¹² Respondent there argued that "[a] distribution of copyrighted goods outside the United States is not an exercise of the Section 106(3) right, but rather an exercise of rights conferred by foreign copyright law," and therefore, "[b]ecause a distribution of copyrighted works outside the United States is not an exercise of the Section 106(3) United States distribution right, the Section 106(3) right and Section 602(a) right cannot be extinguished by [a] distribution outside the United States." Brief for Respondent 27, *Quality King*, 523 U.S. 135 (1998) (No. 96-1470).

When it is said that the Copyright Act does not have extraterritorial effect, this merely means that “*infringing actions* that take place entirely outside the United States are not actionable [under the Copyright Act].” *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1091 (9th Cir. 1994) (emphasis added) (quotation marks and citation omitted). See also *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248-249 (1991) (*Aramco*) (refusing to apply Title VII of the Civil Rights Act of 1964 to a claim of harassment and wrongful discharge based on conduct occurring entirely in Saudi Arabia); *Morrison v. National Australia Bank, Ltd.*, No. 08-1191, slip op. 24 (June 24, 2010) (refusing to recognize a cause of action under federal securities law antifraud positions unless there was a fraud “in connection with the purchase or sale of a security listed on an American stock exchange, [or] the purchase or sale of any other security in the United States”). The presumption against extraterritoriality is meant “to protect against unintended clashes between our laws and those of other nations which could result in international discord,” *Aramco*, 499 U.S. at 248, by “restricting federal statutes from reaching *conduct* beyond U.S. borders,” *Small v. United States*, 544 U.S. 385, 400 (2005) (Thomas, J., dissenting) (emphasis altered), unless Congress clearly states otherwise. *Accord Morrison*, slip op. 20-21.

There is no attempted extraterritorial enforcement here. *Omega*, not Costco, seeks to use the Act to prevent or punish another party’s actions, contending that Costco’s distribution of its watches *in the United States* constitutes copyright infringement. Costco seeks only to assert its § 109(a) “entitle[ment] * * * to sell or otherwise dispose of” previously sold copies as a defense in a copyright infringement ac-

tion, just as the petitioner in *Quality King* was entitled to do.

The Ninth Circuit attempted to distinguish *Quality King* by concluding that in an export-and-reimport situation “the statute merely acknowledges the occurrence of a foreign event as a relevant fact,” whereas in the case of a good manufactured abroad “application [of the statute] would go much further.” Pet. App. 13a. But that purported distinction makes no sense: Just as applying the first-sale doctrine to L’anza’s exported-and-reimported goods merely acknowledged the occurrence of a foreign event – “the first sale * * * abroad” (523 U.S. at 145 n.14) – as a relevant fact, applying the first-sale doctrine here merely acknowledges the occurrence of another foreign event – manufacture abroad – as a relevant fact.¹³

¹³ The first-sale doctrine is hardly the only provision of the Copyright Act that treats the making of a good abroad as a relevant event. For example, courts have construed 17 U.S.C. § 104(b) to grant copyright protection to works first manufactured abroad for a term that, under 17 U.S.C. § 302, begins at the time of creation abroad. See, e.g., *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189, 192-193 (2d Cir. 1985) (“Since the toys were authored by a Japanese national and first ‘published’ (i.e. sold) in Japan, they enjoyed copyright protection under United States law from the moment they were created, see § 302(a), by virtue of both § 104(b) of the Act and Article II(1) of the [Universal Copyright Convention, Sept. 6, 1952, [1955] 6 U.S.T. 2731].”). Such results simply embody the principle of “national treatment,” which ensures that authors of works made abroad enjoy “the same rights as are enjoyed by nationals of the country where protection is claimed.” 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHTS § 18.3, at 18:17 (2005). See also 17 U.S.C. §§ 401(a), 402(a) (providing for the placing of copyright notices on works “published in the United States and elsewhere”).

The Ninth Circuit sought to evade *Quality King* with the distinction that applying the first-sale doctrine to foreign-made goods “would mean that a copyright owner’s foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application.” Pet. App. 13a. Whatever extraterritoriality concerns might be raised if this were a lawsuit challenging the lawfulness of Omega’s foreign manufacturing and a defense were based on the rights of reproduction accorded by 17 U.S.C. § 106(1), this is not such a lawsuit. This suit, instead, is about the lawfulness of U.S. sales objected to by the U.S. copyright holder. The question whether the manufacturer was the U.S. copyright holder (or otherwise had authority that U.S. law recognizes) became relevant because § 109(a) made it relevant. That is not extraterritoriality.

Nor does applying the first-sale doctrine to *distribution* of the watches requires the application of any provision of U.S. law extraterritorially. *Distribution* of copyrighted goods is governed not by § 106(1) but by § 106(3). And the codified first-sale doctrine applies, by its terms, “[n]otwithstanding the provisions of section 106(3).” 17 U.S.C. § 109(a). For that reason, this Court held in *Quality King* that the “literal text of” the statutory ban on unauthorized imports “is simply inapplicable to both domestic and foreign owners of L’anza’s products who desire to import them and resell them in the United States.” 523 U.S. at 145.

Tellingly, the United States agrees that “the court of appeals * * * overstated the matter in suggesting that application of Section 109(a) to the foreign-made copies at issue here would actually constitute an impermissible extraterritorial application of

the Copyright Act.” U.S. Inv. Br. 10.¹⁴ Nevertheless, the United States opaquely claims that the presumption against extraterritoriality somehow “informs the proper construction of the phrase ‘lawfully made under this title.’” *Ibid.* Whatever that means, it finds no expression in *Quality King*.

The lower court’s “logic” misconceives the purpose and application of the rule against extraterritoriality. As the U.S. District Court for the Northern District of California recently emphasized when confronted with a similar argument in the context of the foreign sale of a product with a U.S. patent:

[T]he concept of “extraterritorial effect” refers to *imposing liability* under United States law for conduct occurring outside the United States. Holding that exhaustion is triggered by the authorized foreign sale of a patented product does not impose liability of this sort, and thus does not amount to giving extraterritorial effect to the patent law.

LG Elecs., Inc. v. Hitachi, Ltd., 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009) (emphasis added and internal citations omitted).

Section 109(a) does nothing more than require a *U.S. court*, evaluating an affirmative defense in an action brought by a *U.S. copyright holder* alleging infringement of *U.S. copyright*, to determine whether the good bearing that copyright was “lawfully made” as that concept is understood in the Copyright Act.

¹⁴ “U.S. Inv. Br.” refers to the brief filed on March 17, 2010, in response to this Court’s invitation to the Solicitor General to express the views of the United States. If the United States files an amicus brief on the merits, we will cite it as “U.S. Br.”

Accordingly, the presumption against extraterritoriality is not implicated in this case.

B. The Ninth Circuit Misconstrued This Court’s Discussion Of Copies Made Under A Foreign Copyright

The lower court, again following *BMG* rather than *Quality King*, also asserted that permitting recourse to § 109(a) in importation cases “would render § 602[(a)] virtually meaningless.” Pet. App. 8a (internal quotation marks omitted). But that theory was squarely rejected in *Quality King* because of “several flaws.” 523 U.S. at 146. Indeed, the Court identified three categories of copies whose importation is prohibited under § 602(a) because they are not subject to the first-sale doctrine, among them “piratical” copies and copies in the possession of a non-owner. *Id.* at 146-147.¹⁵

¹⁵ The United States argues that permitting the first-sale doctrine to apply to lawful goods made abroad by a U.S. copyright holder “would disserve Congress’s intent to extend the importation ban beyond piratical copies.” U.S. Inv. Br. 11 n.4. That argument ignores the fact that “the first sale doctrine * * * would [still] not provide a defense to a § 602(a) action against any nonowner” of a lawfully made non-piratical good, 523 U.S. at 146-147, *even if* such goods include those made abroad by a U.S. copyright holder. Though the United States asserts, without substantiation, that this would make “the category of copies whose importation could be blocked under Section 602(a)(1) * * * extremely small,” U.S. Inv. Br. 14, the historical rationale for Section 602(a) was to solve just that problem. *See* Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 445, 461 n.107 (1997) (“These situations arose when parties abroad, who had not acquired a copy via a first sale, improperly transferred possession of their copies to others who would then reimport. These were substantial copy-

The Court also noted that “§ 602(a) applies to a category of copies that are neither piratical nor ‘lawfully made under this title.’ That category encompasses copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” *Quality King*, 523 U.S. at 147. The Court did not indicate that this category was a large one; it “mention[ed] one example of such a comment in 1961 [in the drafting history] simply to demonstrate that the category is not a merely hypothetical one.” *Ibid.* Nevertheless, in justifying the decision below, the Ninth Circuit, Omega, and the United States all cite the Court’s discussion of this species of copies as if *all* copies made abroad must have been lawfully made *only* under the law of another country and necessarily *not* under Title 17. Pet. App. 14a-15a; Br. in Opp. 11-12, 18-20; U.S. Inv. Br. 9-10, 14-15. From that premise, they conclude that the first-sale doctrine *categorically* does not apply to goods made outside the United States. The Court neither said nor meant any such thing.

1. The Court Did Not Say That A Copy Made Under Foreign Law Cannot At The Same Time Conform To The Copyright Act’s Requirements

Goods manufactured abroad and lawfully made under foreign law can, at the same time, conform with the requirements of the United States Copyright Act and thus be “lawfully made under” Title 17. For example, the act of printing a book in France may require authorization under French law to make

[Footnote continued from previous page]

right problems before the 1976 Act for which § 602(a) [was] the solution.”).

copies in France. But, if the act of making those copies in France is carried out by the U.S. copyright holder, then those copies were made in accordance with standards enumerated in the Copyright Act (which gives the U.S. copyright owner the right to make copies) and, therefore, “lawfully made under this title [17]” as well.¹⁶ In other words, the concepts of being lawfully made “under the law of some other country” and being “lawfully made under this title” are not mutually exclusive. It is possible to be both, one, or neither.¹⁷

Indeed, the petitioner in *Quality King* contrasted “a copy made by, or under the authorization of, the United States copyright holder, [which] would doubtless be ‘lawfully made under this title’ *regardless of whether it is made in this country or abroad,*” with “a lawful copy made by an *unrelated entity solely pursuant to a foreign copyright*, without the express or implicit authorization of the U.S. copyright owner, [which] is arguably not made ‘under this title’ within the meaning of Section 109(a).” Brief for Petition-

¹⁶ This is not to say that both laws govern the creation of copies abroad. In this example, even though only the law of France (the place of manufacturing) governs production in France, a copy made in France can, at the same time, accord with requirements set out in the intellectual-property laws of the United States (and indeed of many countries). This is not an unusual scenario in the modern, global economy.

¹⁷ In addition to the example this Court gave in *Quality King*, discussed immediately below, see other examples given in *Pearson*, 656 F. Supp. 2d at 415 (“there clearly exist circumstances where a copy is *not* lawfully manufactured under the standards of Title 17 but is lawfully manufactured under the standards of some other source of law[;] [a] copy, for example, might be manufactured pursuant to a compulsory license required by foreign law”).

er 27-28 (No. 96-1470) (emphasis added). The petitioner conceded that in the latter “circumstances, *and unlike the facts of the present case*, the imported copies would not have been made as a result of any authority ‘under this title,’” and therefore would not be subject to the first-sale doctrine. *Id.* at 28 (emphasis added). The petitioner made the point again at oral argument. *Quality King* Oral Argument Tr. 12-14.¹⁸

Nothing in the Court’s opinion indicates a belief that the category of goods lawfully made under the law of a foreign country *and not* lawfully made under the United States Copyright Act was any broader than petitioner’s example of copies made by a foreign party without authorization to do so under the Copyright Act. Rather, in discussing an example from the drafting history, the Court wrote (*Quality King*, 523 U.S. at 148):

If the author of [a] work gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an ac-

¹⁸ Only Justice Souter asked any questions about the place of manufacturing at oral argument, *Quality King* Oral Argument Tr. 15 (“But if the contract is silent, your answer is the geography of manufacture is irrelevant.”), and the Court’s opinion makes no reference to it.

tion under § 106(3), if there was a distribution of the copies).

The court of appeals read “this illustration [to] suggest[] that ‘lawfully made under this title’ refers *exclusively* to copies of U.S.-copyrighted works that are *made* domestically.” Pet. App. 15a (emphasis added). But the illustration does no such thing. It speaks only about rights granted and the grantor of those rights. And it sensibly presumes that a copy made by the recipient of British rights cannot be “lawfully made under this title” *not* because of where the work is made, but because, *according to the Copyright Act*, someone who possesses *only* British rights has no authority to make a lawful U.S. copy. That treatment conforms perfectly with a definition of “lawfully made under this title” that turns on whether the manufacturing entity possesses rights *according to Title 17*.

The example obviously does *not* speak about the place of manufacturing.¹⁹ It does not suggest that works made by the holder of British distribution rights would be subject to the first-sale doctrine if those works were printed in the United States. Nor does it say that those books made by the publisher of the United States edition would be “lawfully made under this title” only if they are printed in the United States. Were that true, then *none* of the approxi-

¹⁹ The Ninth Circuit acknowledged that the Court did not *say* the hypothetical British editions were manufactured outside the United States, and that one would have to make an *assumption* about the Court’s unstated meaning to construe the quoted dictum as supporting a construction of “lawfully made under this title” as turning on place of manufacture. Pet. App. 15a & n.6. But the Ninth Circuit regarded itself as constrained to follow its own *BMG* precedent unless *Quality King* was *clearly* irreconcilable with that precedent. This Court, of course, is under no such constraint.

mately *1 billion* printed materials imported into the United States each year – nearly a third of all books purchased in the United States – would be subject to the first-sale doctrine. See Harmonized Tariff Schedule of the United States § 4901 (2005 imports); BOOK INDUSTRY STUDY GROUP, INC., BOOK INDUSTRY TRENDS 2006 at 13 (2005 total consumption).

That is quite unlikely. As the Second Circuit (through Judge Friendly) noted some 47 years ago, “it would seem exceedingly odd that copyright protection should turn on which party has furnished the physical stuff to which the copyrighted conception is affixed – with the protection lost if the author does not assume a role for which others are usually better suited.” *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963). It would be exceedingly odd too if increased copyright protection were *gained* if the author of the U.S. edition cited in the Court’s illustration merely (and sensibly) outsourced production of the books to China. Yet reading the Court’s illustration to turn on place of manufacture – a factor the Court did *not* mention – leads to exactly that odd result. It is far more sensible to assume that the Court meant what it said when it spoke of “rights” in separate U.S. and British editions and said nothing about place of manufacture.

2. The Court Was Referring To Imported Copies Made Abroad By Unrelated Foreign Copyright Holders, Not Copies Made By The U.S. Copyright Holder Itself

The Court indicated that its market-allocation example was drawn from drafting-committee discussions about concerns raised by the book and record industries. See *Quality King*, 523 U.S. at 148 n.20. Those historical materials reflect concerns about *who* was manufacturing, not *where*. Specifically, the ma-

terials point to concerns that U.S. copyright holders faced competition not from goods they themselves made and sold abroad, but from imported copies made and sold abroad *by unrelated foreign copyright holders* without express or implicit authorization to do so under the Copyright Act. *See also Quality King* Oral Argument Tr. 13-14 (colloquy between Justice Stevens and counsel for petitioner, in which neither mentions place of manufacture but Justice Stevens brings up situation in which “[t]he U.S. copyright holder could be a licensee of the author, and you have a different copyright holder who’s also a licensee in Britain”). Such copies would not be lawfully made under U.S. copyright law whether or not lawfully made under other countries’ laws.

Concerns about competition from unrelated foreign copyright holders were raised throughout the lengthy process that preceded the 1976 Copyright Act. For example, a 1964 submission by the American Book Publisher’s Council reflected the concern underlying the Court’s example in *Quality King*: “At present when a British publisher contracts with an American publisher to give him exclusive American rights to a work, the American publisher has no effective legal means of redress against sales into the United States by a third party, *e.g.*, a British wholesaler.” Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law*, at 260 (Comm. Print 1964) [hereinafter 1964 Copyright Revision]. *See also id.* at 209-210 (statement of Mr. Manges) (addressing concerns of U.S. publishers regarding books printed abroad by foreign publishers); *id.* at 210 (statement of Mr. Karp) (questioning if infringement occurs if “some American importer buys from a Ger-

man jobber, who legitimately bought copies *from the German publisher*, who had the authority to make and sell them,” and then the “American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies”) (emphasis added).

The General Counsel of the Copyright Office – which prepared the preliminary drafts of the 1976 Act – took the position that the “whole answer [to the question whether the importation of good made under an arrangement conferring limited geographic rights was infringing] depends on whether the distribution that would take place in the United States would itself constitute an infringement of copyright” (1964 Copyright Revision at 211 (statement of Mr. Goldman)), a position the Copyright Office took throughout the review process. That view, like Costco’s here, turned on whether the goods made abroad were made by someone with authority to do so under the Copyright Act; if they were, then their importation would not be infringing.

The market-allocation example the Court gave in *Quality King* thus can be traced directly to legislative history referring to U.S. copyright holders who never had the opportunity to control the first publication of their works because they were competing with copies *made only in accordance with a foreign copyright*. In contrast, those materials nowhere suggest that the first-sale doctrine should be limited so that a U.S. copyright holder could exercise control over goods *that copyright holder* had already taken to market abroad.

III. APPLYING THE FIRST-SALE DOCTRINE HERE IS NOT IN TENSION WITH THE IMPORTATION PROVISIONS CODIFIED IN SECTION 602

In another attempt to demonstrate that the first-sale doctrine does not apply to goods manufactured abroad, both Omega and the United States raised in opposition to Costco's petition for certiorari an argument that was not made below. Br. in Opp. 15-16; U.S. Inv. Br. 11-13. They cited language from § 602(b) (which grants U.S. Customs and Border Protection ("Customs") the authority to stop the importation of piratical copies), as well as the recently enacted § 602(a)(2) (which was added in 2008 to provide a private right of action and criminal penalties against piratical imports and exports). Both of those sections refer to goods whose making "would have constituted an infringement of copyright if this title had been applicable."²⁰ That "counterfactual formulation" (U.S. Inv. Br. 12), Omega and the United States contend, demonstrates Congress's recognition that the Copyright Act does not apply abroad and that special language must be used when Congress wishes to refer to foreign manufacture.

But Costco does not argue that the Copyright Act applies abroad. *Supra* pp. 28-33. It simply contends (consistent with footnote 14 of *Quality King*) that acts occurring abroad may be relevant to determin-

²⁰ Section 602(b) provides in pertinent part: "In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited." Section 602(a)(2) forbids unauthorized importation or exportation "of copies or phonorecords, the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable."

ing whether a first sale has occurred with the authority of the copyright owner. Because that evaluation occurs only when a lawsuit has been brought (*i.e.*, when the good is already inside the United States), there is no application of the Copyright Act *outside* the United States.

The cited language from §§ 602(b) and 602(a)(2) does not show that the first-sale doctrine depends on place of manufacture. Omega suggests that the provisions distinguish between goods manufactured domestically and those manufactured abroad, but the actual distinction is between genuine goods and goods that would be considered piratical under U.S. law. By prohibiting the importation of goods that “would have constituted an infringement of copyright if this title had been applicable,” Congress merely recognized that goods considered piratical or counterfeit under U.S. law may well be considered lawful under the local law of a particular foreign country. By prohibiting the importation of such goods, Congress closed a potential loophole that would have otherwise allowed the importation of piratical, foreign-made goods so long as the country of origin did not consider them to be “infringements.”

The drafting history of § 602(b) confirms that Congress divided the category of piratical goods into two groups – those made in countries that recognized the rights of U.S. copyright holders and those made in countries that did not. Commenting on an earlier version of language that became § 602(b), one committee member noted his concern “that the present language, ‘if this title had been applicable,’ somewhat obscures in general terms an issue which is rather specific.” 1964 Copyright Revision at 207 (statement of Mr. Goldberg). As others agreed, that *specific* issue was importation of goods whose making *would* have “constituted an infringement of copyright

had such making taken place in the United States.”
*Ibid.*²¹

Omega argues that the language “if this title had been applicable” in § 602(b) demonstrates an intent to refer to conduct to which the Copyright Act does not apply because it takes place overseas. Omega contrasts that language with § 602(b)’s reference to copies “lawfully made,” for which Customs has no authority to prevent importation. The distinction actually cuts the other way. Section 602(b) expressly contemplates that it is *not* prohibited to import goods of the exact character at issue in this case – goods made by the U.S. copyright holder abroad – because making those goods would *not* have “constituted an infringement of copyright had such making taken place in the United States.” 1964 Copyright Revision at 207 (statement of Mr. Goldberg). Congress’s decision to *permit* importation of goods made by a U.S. copyright holder abroad cannot be transmuted into a decision to *forbid* application of the first-sale doctrine to such goods.

²¹ See also 1964 Copyright Revision at 203-204 (statement of Mr. Goldman) (“the importation of copies for distribution in the United States *in contravention of the rights of the copyright holder in the United States*, would be an infringement of copyright”) (emphasis added); *id.* at 206 (statement of Mr. Goldman) (“If there is no one whose rights are being infringed by distribution in the United States, there is nothing that this section applies to.”). *Cf. id.* at 203 (proposed Section 44 addresses “importation for distribution in the United States of foreign copies that were made under proper authority but that, if sold in the United States, *would be sold in contravention of the rights of the copyright owner* who holds the exclusive right to sell copies in the United States”) (emphasis added). Notably, each used the words “in the United States,” which Congress could have added in § 109(a) if that were the concept it had intended to express.

If it bears on the matter at all, § 602(a)(2) only confirms that the first-sale doctrine applies to goods made abroad by the U.S. copyright holder. The legislative history confirms that, as with the earlier subsections, Congress’s focus was on rights, not location. Section 602(a)(2) was added in 2008 as part of the Pro-IP Act because what was § 602(a) – and became § 602(a)(1) – “only address[ed] infringing *importations*.” The new subsection simply “specif[ies] that *exportation* of infringing copies is also prohibited and considered an infringement of the exclusive right to distribute copies or phonorecords to the public.” H.R. Rep. No. 617, 110th Cong., 2d Sess. 44 (2008) (emphasis added). Legislators explicitly noted that the new section was “not intended to alter, amend, or otherwise change current law, regulation, or practice relating to the manufacture, importation, exportation, or distribution of genuine products, *made under authority of the United States intellectual property rights holder or its designee*.” *Ibid.* (emphasis added). The hallmark of lawfulness is whether a good is made by someone with rights to do so according to the Copyright Act, and not where a good is made.

Nor is it true that, because § 602(b) and § 602(a)(2) use the phrase “if this title had been applicable” in the same sentence as the word “making,” “lawfully made under this title” must mean the same thing as “lawfully made in a place where this title is applicable.” The use of the word “making” merely reflects that the infringing activity that triggers § 602 (in contrast to, for example, § 106(3)) is *copying*, not distribution or any other activity. Moreover, although a legislator perhaps *could* use the phrases “where this title is applicable” and “under this title” synonymously, there is not a scintilla of support for the proposition that anyone involved in drafting the Copyright Act in 1976 – or even § 602(a)(2) in 2008 –

did use those phrases synonymously.²² Quite the contrary, there are numerous places in the Copyright Act where Congress used the phrase “under this title” in a manner that cannot possibly have meant “where this title is applicable.” *See supra* pp. 17-20 (discussing 17 U.S.C. § 110, § 1006(a)(1)(A), and former § 601). Other than the misconception of § 109 directly at issue in this case, there is not one example of a situation in which “under this title” could even plausibly mean “where this title is applicable,” let alone where “lawfully made under this title” could mean “lawfully made in the United States.”

Finally, any attempt to determine which goods are covered in one subsection by construing the others fails because the three subsections cover different, but overlapping, categories of goods and establish different remedies. Section 602(a)(1) governs all “work[s] that have been acquired outside the United States” (*i.e.*, whether genuine or piratical), subject of course to the first-sale doctrine. It provides for civil remedies under 17 U.S.C. § 501. Section 602(b) covers those goods that are “lawfully made” as well as those whose making “would have constituted an infringement of copyright if this title had been applicable” (*i.e.*, goods that may be lawful under foreign law but not U.S. law). There is no private right of action under § 602(b), which addresses which goods Customs may allow into the country. New § 602(a)(2) also covers piratical and counterfeit goods (whether or not those goods would be considered “lawful” un-

²² Statutory interpretation, after all, does not depend on construing individual words in isolation. Rather, the meaning of a phrase used in a statute “turns on ‘the language itself, the specific context in which that language is used, and the broader context of the statute as a whole.’” *Nken v. Holder*, 129 S. Ct. at 1756 (quoting *Robinson v. Shell Oil Co.*, 519 U.S. 337, 341 (1997)).

der foreign law). It expands the private right of action conferred by § 602(a)(1) to exportation as well as importation, and adds criminal penalties (including forfeiture) to the civil remedy in § 602(a)(1). There is overlap among these three subsections, but none bases liability on place of manufacture.

IV. DENYING APPLICATION OF THE FIRST-SALE DOCTRINE TO GOODS MADE ABROAD WOULD HAVE SERIOUS CONSEQUENCES, WHICH CONGRESS COULD NOT HAVE INTENDED, FOR AMERICAN BUSINESSES AND CONSUMERS

A. The Decision Below Has Troubling Implications

“[I]nterpretations of a statute which would produce absurd results are to be avoided if alternative interpretations consistent with the legislative purpose are available.” *Griffin v. Oceanic Contractors, Inc.*, 458 U.S. 564, 575 (1982); *see also Green v. Bock Laundry Machine Co.*, 490 U.S. 504, 527 (Scalia, J., concurring in the judgment). The lower court ignored that sensible principle, rejecting an interpretation of § 109(a) that reflects the text, history, and purpose of the first-sale doctrine in favor of one that has profound implications for both businesses and consumers.

Placing goods made abroad outside the scope of the first-sale doctrine makes it easier for copyright holders to eliminate secondary markets for those goods, thereby eliminating \$40 to \$60 billion annually in lawful U.S. sales, and the tax revenues that flow from them. *See, e.g., Romana Autrey & Francesco Bova, Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Accounting & Man-

agement Unit Working Paper No. 09-098, at 1 (Feb. 2009); KPMG LLP, *Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line* 30 (2008).

A similar threat would face the \$200 billion market for used goods. See Lyle E. Davis, *The Thrill of the Hunt!*, THE PAPER (San Diego, CA) (Jan. 8, 2009) (reporting market estimate from National Association of Resale & Thrift Shops). A copyright holder could choose to stay silent upon the first sale of a good made abroad but then bring an action for infringement if it disagreed with terms of the good's resale. See, e.g., *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008) (first-sale doctrine protects resale of lawfully obtained promotional items even over objection of copyright owner), appeal pending, No. 08-55998 (9th Cir.).²³

In addition, by producing goods abroad, copyright holders would suddenly gain the right to restrict rental-, lease- and other lending-based markets. That would be an exceptional development because, historically, such restrictions are tailored by Congress for only a few types of goods and only in very specific instances. See, e.g., Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, § 802, 104 Stat. 5089 (amending § 109 to prohibit the rental

²³ In the area of patent exhaustion, one court recently noted that “[d]rawing such a distinction between authorized domestic sales and authorized foreign sales would negate” this Court’s stated intent in *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008), “to eliminate the possibility of a patent holder doing an ‘end-run’ around the exhaustion doctrine by authorizing a sale, thereby reaping the benefit of its patent, then suing a downstream purchaser for patent infringement.” *LG Elecs.*, 655 F. Supp. 2d at 1046. Analogous concerns are present here.

of certain computer programs); Record Rental Amendment of 1984, Pub. L. No. 98-450, § 2, 98 Stat. 1727 (amending § 109 to prohibit the rental of phonograph records). The decision below disrupts all of these legitimate forms of commercial transaction.

At the same time, by granting greater protections against competition to goods made abroad than to those made at home, the Ninth Circuit's opinion creates perverse incentives for U.S. copyright owners to produce their copyrighted works outside the United States, thereby eliminating American jobs. *See, e.g.*, U.S. Inv. Br. 19 (conceding that the decision below could "provide an artificial incentive for outsourcing"); Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 142 n.380 (2001) ("A policy that allows exclusion of gray market goods that are manufactured abroad provides an inefficient incentive to shift domestic production abroad."). Even the court below acknowledged that its interpretation provided substantially greater copyright protection to foreign than to domestically made copies, and encouraged U.S. copyright owners to outsource manufacturing. Pet. App. 16a.

Such a result lacks any coherent policy rationale. *See* U.S. Inv. Br. 19 ("That differential treatment of domestic- and foreign-manufactured goods has no evident policy justification."); Meurer, *supra*, 23 CARDOZO L. REV. at 142 n.379 (it is "hard to find any policy basis for treating the two cases [*i.e.*, manufactured at home or abroad] differently"). This problem is exacerbated because of the ease with which manufacturers can apply a copyrighted symbol, label, or package to almost any good offered for sale in the United States and the liberality with which copyrights are dispensed.

As the United States concedes, “[t]here is no reason to suppose that Congress anticipated and intended [such] result[s].” U.S. Inv. Br. 19. Indeed, the decision below even “may be inconsistent with Congress’s intent in enacting other provisions of the Copyright Act” (*id.* at 14), most obviously the now-expired manufacturing provision, whose very purpose was to ensure that production remained *in* the United States. See U.S. *Quality King* Br. 30 (“Indeed, it is distinctly unlikely that Congress would have provided such an incentive to manufacture abroad at the same time it was shielding the domestic printing industry under Section 601.”).

In fact, the logic of the decision below conflicts with *both* the rationale for the manufacturing provision *and* the rationale for its repeal. In support of the provision, legislators noted that Congress did not want the Copyright Act to “create a condition whereby work can be done under the most degraded working conditions in the world * * * and thus exclude American manufacturers from the market. * * * [That] could destroy small businesses, bring chaos to the industry, and catch manufacturers, whose labor costs and break-even points are extremely high, in a cost-price squeeze at a time when expenditures for new equipment have reduced profits to a minimum.” House Report, *supra*, at 165-166. Ultimately, Congress chose to let the provision expire because legislators concluded that the provision “violate[d] the basic principle that an author’s rights should not be dependent on the circumstances of manufacture,” and specifically *where* an author happens to create a work; “there is no justification on principle for a manufacturing requirement in the copyright statute.” *Id.* at 166. The decision below is at odds with both concerns: It makes rights turn on the place of

manufacturing, but in a way that affirmatively hurts American business interests.

The Ninth Circuit's decision distorts incentives for downstream retailers as well as for manufacturers. Neither the large retailer that imports billions of dollars of goods for resale each year, nor the small local shop that purchases its inventory from middleman exporters and distributors, can always know the provenance of lawfully made goods first sold abroad and imported for sale in the United States. Where (as here) the copyright owner places no copyright notice on the goods, retailers have no reasonable way to ascertain whether anything about the goods is protected by copyright. This is particularly true in cases in which the copyrighted work is at best ancillary to the goods consumers purchase. If copyright owners had the right to prevent importation of lawfully made goods, the retail industry would have less confidence to sell non-piratical goods acquired from an independent exporter or importer. *See Disenos Artisticos e Industriales*, 97 F.3d at 380 (noting that, if the first-sale doctrine were not applicable to imported goods then "every little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back").

Despite *Quality King*, given the practical difficulties in assuring the provenance of imported goods, retailers would be loath even to re-import goods produced in the United States, forgoing the opportunity to purchase and sell those goods at all rather than risk the expense of litigation, potential injunctive relief, seizure and loss of inventory, and/or statutory

damages. Ensuring that the first-sale doctrine is applied to lawfully made goods, regardless of where they are manufactured, thus secures the rights of everyone along the chain of commerce – the first foreign purchaser, the exporter, the importer, the domestic distributor, and/or the retailer – to sell at retail in the United States lawfully made goods legally acquired here or abroad.

The damage caused by the decision below is not limited to industry. It causes substantial harm and confusion for everyday consumers as well. The lower court’s decision subjugates retailer competition to copyright owner price controls, resulting in fewer goods offered at retail, in fewer retail outlets, and at higher prices. At the same time, restrictions on the sale of used goods threaten the classic “garage sale.” See, e.g., *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008) (first-sale doctrine protects resale on eBay of genuine used product first purchased at a garage sale), appeal pending, No. 09-35969 (9th Cir.). The decision below also potentially prohibits libraries from lending foreign-language texts made abroad, and prohibits individual travelers permitted to bring certain works into the country pursuant to the “suitcase exemption”²⁴ – a British version of a Harry Potter book or a Picasso fine art print purchased from a foreign art dealer, for exam-

²⁴ Congress has exempted from infringement under 17 U.S.C. § 602(a)(3)(B) the “importation or exportation, for the private use of the importer or exporter and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States or departing from the United States with respect to copies or phonorecords forming part of such person’s personal baggage.”

ple – from even giving those goods away as gifts without committing copyright infringement.

The deleterious consequences of making the first-sale doctrine turn on the place of manufacture are practically undisputed. Indeed, the Ninth Circuit itself recognizes that the holding below “lead[s] to absurd and unintended results,” *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994), an opinion shared by the United States. See U.S. Inv. Br. 18 (acknowledging that “[t]he potential implications of excluding foreign-made copies of a copyrighted work from Section 109(a)’s coverage are * * * troubling”). Those realizations (along with the numerous other indicia of statutory meaning discussed above) should lead this Court to reject the Ninth Circuit’s flawed reading of the statute.

B. The “Solution” Crafted By The Ninth Circuit Has No Textual Basis

The Ninth Circuit took shelter in an exception that eliminates some of the recognized problems: A good made abroad is not “lawfully made under this title,” held the lower court, but if “an authorized first sale” occurs in the United States then that good is susceptible to the first-sale doctrine anyway. Pet. App. 8a-9a.

That exception was created in a footnote of one pre-*Quality King* Ninth Circuit opinion. *Drug Emporium*, 38 F.3d at 482 n.8. It is based on neither the text of the Copyright Act nor its legislative history. Indeed, the *Drug Emporium* panel emphasized that the exception “should not be read as an endorsement” of the rule that goods made abroad are not subject to the first-sale doctrine, but simply a reflection of the fact that the panel could not overrule *BMG Music v. Perez*. *Ibid.* Although the logic of *BMG* was overruled in *Quality King*, the lower court

did not reexamine whether *Drug Emporium's* exception was foreclosed as well.

Whatever the policy merits of a rule that would deny first-sale protection to goods made abroad but then re-apply the doctrine if those goods are later authorized for domestic sale, such a rule has no basis in the text of the Copyright Act. As one court recently observed (*Pearson Educ.*, 656 F. Supp. 2d at 414 (citation omitted)):

[T]he [Ninth Circuit] has never explained how § 109(a)'s text supports a distinction based on where a first sale occurred. And the distinction it has drawn conflicts directly with *Quality King's* holding that place of sale is irrelevant for first-sale purposes. Thus even if this Court were tempted to follow the Ninth Circuit's interpretation of § 109(a) as a way of giving effect to the supposedly conflicting policies of §§ 109(a) and 602(a), it could not do so without disregarding an express holding of the Supreme Court.

Rather than defend the Ninth's Circuit's atextual exception, however, Omega changes the subject. It argues that one implication of petitioner's reading of § 109(a) is that a copyright holder might try to assign its U.S. and foreign copyrights as between two distinct entities so that the former might try to prevent importation of the latter's goods into the United States. Br. in Opp. 10-12. That is entirely speculative: Such reorganization is not without cost, and it is not clear why any company would engage in such restructuring when the cheaper and more expedient path is to enter into contracts that bar certain redistributions and pursue companies that violate those terms. Moreover, this is not an issue without precedent in the intellectual-property laws: The trademark laws, for example, extend the first-sale doc-

trine to goods made by a separate subsidiary when the mark holder has no “real independence from the foreign manufacturer.”²⁵

Particularly in light of the concerns of the drafters of the 1976 Copyright Act, which as previously noted (*supra* pp. 38-40) were directed toward *unrelated* foreign copyright holders, a later court might or might not hold that such a division of rights forecloses application of the first-sale doctrine. But that is no reason to adopt the lower court’s flawed reading of the statute’s clear text, let alone to put an imprimatur of legitimacy on the “exception” backstopping the lower court’s decision.

Speculation about loopholes aside, Costco’s interpretation – that “lawfully made under this title” encompasses both goods made by the U.S. copyright holder and those made pursuant to other Title 17 licensing schemes – needs no judicially created “exception” to save its logic. It is true to the text and history of § 109(a), the lessons of *Quality King*, and the rationale for the first-sale doctrine. As this Court observed, “[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” *Quality King*, 523 U.S. at 152. The matter is as simple as that.

CONCLUSION

The judgment of the court of appeals should be reversed.

²⁵ See, e.g., *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987). See also 19 C.F.R. § 133.23(a)(2) (doctrine extends to goods made by “a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control”).

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