

No. 11-697

IN THE
Supreme Court of the United States

SUPAP KIRTSANG, D/B/A BLUECHRISTINE99
Petitioner,

v.

JOHN WILEY & SONS, INC.,
Respondent.

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

**BRIEF OF LICENSELOGIC, LLC AS *AMICUS
CURIAE* IN SUPPORT OF RESPONDENT**

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BRIEF OF LICENSELOGIC, LLC AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

**STATEMENT OF INTEREST OF THE
*AMICUS CURIAE*¹**

Amicus Curiae LicenseLogic, LLC is the leading U.S. provider of software asset management (SAM), content licensing, and rights management services, seminars and related products. The company was founded in 2002 by a former compliance official at the U.S. trade association for the software and information industries. LicenseLogic is a leader in software and content auditing guidance, anti-piracy consulting and compliance education. It has trained thousands of corporate professionals worldwide. LicenseLogic's core products and services include the Certified Software Manager (CSM) and Advanced Software Manager (ASM), in addition to more specialized workshops and content, including books, software and videos. See <http://licenselogic.com>.

Amicus' interest is to ensure the proper application of §109 and §602 of the Copyright Act. Companies in the industries served by *Amicus* rely upon §602 in making and selling "market specific" (such as "country-specific" or "region-specific")

¹ No counsel for a party authored this brief in whole or in part, and no person other than *Amicus* and its counsel made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief.

versions of copyrighted products, with appropriate pricing and product features. Doing so provides substantial benefit to consumers, copyright owners, retailers, and others. So-called “grey market” copies, such as those sold by Petitioner, undermine these features and jeopardize copyright owners’ incentives to produce and distribute market-specific products.

SUMMARY OF THE ARGUMENT

Relying upon the plain statutory text, surrounding provisions of the Copyright Act, and legislative history that spoke directly to the issue in this case, the court of appeals correctly concluded that the first sale doctrine (§109) did not apply to foreign-made copies imported and then resold by Petitioner. “Made under this title” means that making the copy was governed by or subject to the U.S. Copyright Act (Title 17, U.S. Code), with Title 17, not the law of a foreign jurisdiction, determining whether making the copy was “lawful.”

Making a copy abroad presumptively is not governed by the U.S. Copyright Act. It is well established that the application of U.S. copyright law is territorial. While foreign *works* are eligible for a U.S. copyright, the *acts of making copies* (and exercising the other exclusive rights) generally are beyond the reach of Title 17 if they occur abroad. Petitioner and his *amici* repeatedly gloss over this critical point by conflating a “work” with a “copy,” and conflating the status of a copyright with the acts involved in exercising those rights.

General international choice of law conventions further confirm that the law governing the making of a copy presumptively is the site where that act is performed. There is nothing in the record of this case suggesting a departure from this presumption.² Indeed, the facts of this case are identical in all material respects to the hypothetical the Court described in *Quality King*, when it explained that the first sale doctrine does not negate the importation right when the copies at issue were made “under the laws of some other country.” *Quality King Distribs., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 147 (1998).

Moreover, interpreting “made under this title” to mean governed by or subject to the U.S. Copyright Act is the only way to preserve consistent meaning of the phrase “under this title” throughout the Act. It is also the only way to retain meaning in the importation exceptions in §602(a)(3), all of which would be mooted by §109 under Petitioner’s interpretation. Petitioner’s interpretation furthermore would eliminate one of the two primary rights granted in §602, namely, the right of copyright owners to enforce their division of international markets. In fact, the evolution of language in the draft copyright revision bills, and the Copyright Office’s report thereon, strongly suggest that the phrase “lawfully made under this title” was added to §109 for the purpose of avoiding conflict with the

² Whether other factors could overcome the presumption, such as a publishing contract’s choice of law provision, does not appear to be before the Court in this case. See, e.g., Joint Appendix at 65.

newly-expanded §602. Finally, presumptively limiting the first sale doctrine to domestic copies is most consistent with the carefully-crafted manufacturing clause (§601), which limited the number of foreign-printed books that could be imported for U.S. distribution (by the publisher or anyone else) prior to its sunset in 1986.

Petitioner and his *amici* speculate on the extent to which copyright owners *should* be entitled to exercise control over their works, and what is desirable for consumers. But such policy arguments already were considered by Congress during its many years of deliberations culminating in the 1976 Act, and §602 has worked as Congress intended. Moreover, it is Congress' role alone to reconsider competing policy views, and amend the statute if it deems appropriate or necessary.

Lastly, it bears emphasizing that this case involves the *sale* of copies, not the *license* of copies as is the predominant practice in some industries such as mass market software. It is well established that §109 does not apply to licensed copies, and unauthorized downstream distributors of such copies can be sued for copyright infringement. *See* 17 U.S.C. §109(a) (applying to the “owner” of a copy). Not surprisingly, some “reseller” industries desire a shift in the law, and appear to advocate this case as a vehicle to do so. The Court should reject that suggestion, and avoid the implication that this case affects licensed copies.

ARGUMENT**I. THE FIRST SALE DOCTRINE (§109)
PRESUMPTIVELY DOES NOT APPLY TO
COPIES MADE IN FOREIGN
JURISDICTIONS**

Established principles of statutory construction dictate that §109 does not apply when the making of the copies at issue was governed by the laws of a foreign country. Such copies are not “made under” the U.S. Copyright Act. Unauthorized importation of them triggers liability under §602 and unauthorized distribution within the U.S. triggers liability under §106(3).

**A. The Plain Language Of The
Contemporaneously-Drafted Sections 109
and 602, Surrounding Context In The
Copyright Act, and International Choice
of Law Conventions Support The Second
Circuit’s Holding**

Section 602(a)(1) of the Copyright Act states:

[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, actionable under section 501.

17 U.S.C. §602(a)(1). Various exceptions to this right are set forth in subsections (3)(A) to (C), specifically, importation for government use, the “personal baggage” exception, and importation for scholarly, religious or educational purposes. *See* 17 U.S.C. §§602(a)(3)(A)-(C).

The next subsection, §602(b), distinguishes between importation that can be enforced by U.S. Customs and importation that is simply “prohibited” and subject to civil suit:

[I]mportation is prohibited ... where the making of the copies would have constituted an infringement of copyright if this title had been applicable....[However,] the United States Customs Service has no authority [over] ... copies ... lawfully made.

17 U.S.C. §602(b) (emphasis added). Thus, while the plain language of §602 encompasses parallel imports, *i.e.*, authentic copies “acquired outside the United States” and imported “without authority” (§602(a)), it limits the remedy against such parallel imports to civil suit, not Customs enforcement (§602(b)). *See, e.g., Quality King*, 523 U.S. at 146-47; *accord* 2 GOLDSTEIN ON COPYRIGHT §7.5.2 (2007) at 7:130.1 (“Section 602(a) encompasses both piratical and gray market goods.”).

In *Quality King*, the Court held that the §602 parallel importation right nevertheless can be limited by the §109 first sale defense in some instances – namely, when the copy at issue was made in the U.S. (“made under this title”) with the copyright owner’s authorization. Section 109 states:

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. §109(a) (emphasis added); *cf. Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). The upshot of *Quality King* is that once the first sale doctrine attaches to a copy (by means of lawful making in the U.S., and ownership), the copyright owner cannot control subsequent distribution even if that distribution involves export and re-importation that otherwise would violate §602. But *Quality King* further suggested, and the plain language and legislative history of the statute require, the opposite result when the copy is made abroad.

1. ***Quality King* determined that a copy “made under the laws of a foreign jurisdiction,” as here, is not “lawfully made under this title.”**

In *Quality King*, the Court supported its application of the first sale doctrine by, among other things, reasoning that its decision would not moot §602(a). The Court explained that §602(a) would still “encompass[] 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. While some of Petitioner’s *amici* dismiss this description as *dicta*, it was at the very least significant in construing the statute to avoid violating the cardinal principle against superfluity. *See, e.g., TRW Inc. v. Andrews*, 534 U.S. 19, 31 (2001) (“statute ought ... to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void, or insignificant.”).

Moreover, the Court further explained the remaining applicability of §602 by citing an example that, with a couple of immaterial substitutions, precisely describes this case:

If [Wiley] gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of the United States edition and the exclusive [Asian] distribution rights to the publisher of the [Asian] 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 [Asian] edition who decided to sell in the American market with a defense to an action under §602(a) ... or, for that matter, [provide a defense] to an action under §106(3) if there was a distribution of the copies....”

Quality King, 523 U.S. at 148. The only difference here is that the owner asserting the first sale doctrine is not the “publisher of the [foreign] edition” (the first owner of that copy), but rather is a subsequent owner, the Petitioner. But the statute cannot reasonably be construed to treat them differently. Both were owners at one time of the same copy, and their transaction does not change whether that copy was “lawfully made under this title” or not. Moreover, if the statute were construed that way, it would be trivial for a foreign publisher simply to transfer title of a copy (*e.g.*, to a shell entity) before importing it.

Precedent and choice of law conventions both support distinction between domestic and foreign made copies. This Court has held that a copyright owner’s exclusive rights under Title 17, including the reproduction right and distribution right, do not apply to activities outside the United States. See *United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260 (1908); accord 4 NIMMER ON COPYRIGHT §17.02, at 17-19 (2009) (“[C]opyright laws do not have any extraterritorial operation.”); cf. *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007)

(same for U.S. patent law).³ International copyright treaties similarly treat the “lawfulness” of making a reproduction as the province of the nation in which it occurred. *Cf.* Berne Convention for the Protection of Literary and Artistic Works, art. V (Sept. 28, 1979). And more generally, international conventions look to the site where conduct occurred, an act was substantially performed, a contract was intended to be performed, or the residence of the party providing the service at issue, to determine choice of law. *See, e.g.*, The Convention on the Law Applicable to Contractual Obligations 1980 (the “Rome Convention”); The Rome I Regulation (Regulation (EC) No 593/2008 of the European Parliament (June 17, 2008); Restatement (Second) of Conflict of Laws, American Law Institute (2012) at §§145, 186-187. While these conventions provide for other factors to be taken into account where relevant, such as a contractual choice of law provision, none have been presented in this case. *See, e.g.*, Joint Appendix at 65. There is no reason to depart from the presumption here.

A contrary result would defy logic. If Wiley authorized a foreign printer to make 1,000 copies, and the printer instead made 5,000, its making of the

³ As Wiley’s brief aptly explains (at 26-28), a national statute can grant the *eligibility* and status of intellectual property protection in a *work* created abroad (or in the case of patent law, an *invention* conceived abroad and registered in the U.S. Patent & Trademark Office). Indeed, §104 specifies when a foreign work is “*subject to* protection under this title.” 17 U.S.C. §104 (emphasis added). But the rights and limitations accordant with that status, including *making copies* (or in the case of the Patent Act, making or selling the invention), only apply to acts occurring within the jurisdiction of the nation.

latter 4,000 copies presumptively would not be actionable as infringement under the U.S. Copyright Act even though they exceeded Wiley's authorization. Making them may well have been "unlawful," but if any copyright law was violated, it would be the copyright law of another jurisdiction, not Title 17. Conversely, if the foreign printer made only the 1,000 copies authorized, one still cannot say they were "made under this title." They may well have been "lawfully made," but the laws of the relevant jurisdiction (and perhaps the parties' contract) determine that, not Title 17 of the U.S. Act.

2. Plain meaning and context demonstrate that "made under this title" means making the copy was governed by the U.S. Copyright Act.

The Court has held, in another case of statutory construction, that the word "under" followed by citation of a statute means "subject to or governed by" the cited statute. *See Ardestani v. INS*, 502 U.S. 129, 135 (1991). Petitioner nevertheless argues that "lawfully made under this title" in this case means only that the copy *would have* been lawful *if* U.S. copyright law applied. But several principles of statutory construction refute that argument.

First, language elsewhere in the Copyright Act demonstrates that Congress actually *uses* the phrase "would have ... applied" when that is what it means. Section 602(b) prohibits importing piratical copies when the making of the copies "*would have* constituted an infringement of copyright *if* this title

had been applicable.” 17 U.S.C. §602(b) (1997) (emphasis added). One must presume that Congress’ decision to use different language in §109 was purposeful, and thus that “lawfully made under this title” does not mean “would have been lawful ... if this title applied.” See, e.g., *Russello v. United States*, 464 U.S. 16, 23 (1983) (“[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 act[ed] intentionally and purposely.... We refrain from concluding here that the differing language in the two subsections has the same meaning in each.”).

Second, Congress’ use of the phrase “under this title” elsewhere in the Copyright Act confirms that it refers to activity that is actually governed by the U.S. Copyright Act. For example, §601 imposed the U.S. manufacturing requirement upon works “protected under this title.” There is no dispute that this clause referred to works *actually* protected by the U.S. Copyright Act, not works that could be or would have been protected if this section had applied. Indeed, the Copyright Register suggested that publishers could avoid the manufacturing requirement for a work simply by abandoning claim to U.S. Copyright.⁴ Doing so would remove the work from protection “under this title.” See also 17 U.S.C. §602(a) (conferring importation right upon the “owner of copyright *under this title*,” meaning the owner of an existing United States copyright); cf. 17

⁴ See Hearing on H.R. 2223 (Oct. 2, 1975) (Statement of Barbara Ringer, Register of Copyrights) at 383-84 (citing letter from Dan Lacy, Senior Director of Government Affairs, McGraw-Hill, Inc.); *infra* n. 6 (sunset).

U.S.C. §104A (any “work that is restored *under this section* shall subsist for the remainder of the term of copyright...” meaning that the section actually did apply and the rights in the work were actually restored). *Compare* 17 U.S.C. §104, *supra* n. 3.

And third, the other appearances of the complete phrase “lawfully made under this title” in the Copyright Act also are reasonably read as referring to activities governed by Title 17. *See* 17 U.S.C. §109(c) (public display right), §110 (classroom exception), §1001(7) and §1006(a) (Audio Home Recording Act).⁵ Wiley’s thorough analysis of these provisions (Wiley Br. at 28-34) need not be repeated here.

3. Applying the first sale doctrine to foreign made copies would effectively moot §602(a)(3).

Interpreting “lawfully made under this title” presumptively to mean made in the U.S. not only is necessary to reconcile the first sale doctrine with the expanded rights under §602, it also is necessary to reconcile it with §602’s exceptions. A statute must be construed so that “no clause, sentence, or word shall be superfluous, void, or insignificant.” *TRW*, 534 U.S. at 31; *see also Ratzlaf v. United States*, 510

⁵ In some instances, copyright provisions other than the first sale doctrine, and/or provisions outside the Copyright Act, may operate to prevent what Petitioner has called “absurd” results (results that, in any event, are not “absurd” but may be at odds with the desires of copyright users). *See infra* at 34, n. 12.

U.S. 135, 140-41 (1994) (courts should avoid interpreting statutory terms as “surplusage” or “superfluous” to other terms in the same statute).

Section 602(a)(3) recites three exceptions to the prohibition against importing copies acquired outside of the United States: (A) importation “for the use of the Government;” (B) importation of “no more than one copy” for “private use” that arrive as part of a traveler’s “personal baggage;” and (C) importation for “scholarly, educational, or religious purposes and not for private gain.” Petitioner’s proposed application of the first sale doctrine to foreign-made copies would essentially make these exceptions superfluous. The first sale doctrine would make them freely alienable even before any importation occurred, so no other exception would be needed.

Indeed, if the first sale doctrine applied upon the authorized making and sale of a copy abroad, a traveler could bring home 10 copies or 100 copies or any number of copies. But it does not. As the Court explained in *Quality King*, it is the §602(a) exceptions, not the first sale doctrine, that “protect the traveler who may have made an isolated purchase of a copy of a work that *could not be imported in bulk for purposes of resale.*” 523 U.S. at 148 (emphasis added).

4. Applying the first sale doctrine only to domestic copies is most consistent with the Manufacturing Clause (§601).

In addition to mooted the exceptions of §602(a), Petitioner's interpretation cannot reasonably be squared with one of the most substantial compromises of the 1976 Act – the temporary retention of a U.S. manufacturing clause (§601), which expressly limited the number of foreign-made copies anyone (including the copyright owner) could import. *See* 17 U.S.C. §601.

The 1961 Register's Report explained the genesis of the manufacturing clause, enacted in 1891 and requiring U.S. manufacture of books and other works in order to secure a U.S. copyright:

[In the 19th century], piratical printing of foreign works had become such a large part of the domestic printing industry that the printers opposed any extension of copyright to foreign works unless their interests were protected. They insisted upon requiring printing in the United States as a condition of U.S. copyright, not only for foreign works but for the works of U.S. authors as well.

Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (Comm. Print 1961) at 119-20 (hereinafter "*Copyright Law Revision*," Pts. 1-6).

To the delight of foreign authors and the U.S. publishing industry (whose printing options were severely curtailed by the manufacturing clause), the Copyright Office initially recommended eliminating

the manufacturing clause. Accordingly, the Office excluded it from the preliminary draft bill. But after sustained and vigorous advocacy from the U.S. printing trade, a compromise was reached: the clause would remain, but would provide exceptions for fewer than 2,000 copies, and have a sunset date of 1982 (subsequently revised to 1986).⁶ This compromise was adopted in relevant part, and the statute as enacted stated:

Importation into *or public distribution in* the United States of copies ... of nondramatic literary material that is ... protected under this title is prohibited unless ... manufactured in the United States or Canada.... The provisions [herein] ... do not apply ... where the United States Customs Service is presented with an import statement ... in which case a total of *no more than two thousand copies* of any one such work shall be allowed entry.

17 U.S.C. §601 (emphasis added).

The manufacturing clause and its purpose further illustrate that the first sale doctrine (§109) could not be read to apply to foreign manufactured copies. If it did, the manufacturing clause would be moot because *any number* of authorized copies printed by the foreign printer would be covered by the first sale doctrine, and could be imported at will

⁶ See Pub. L. 97-215 (July 13, 1982); Pub. L. 111-295 (Dec. 9, 2010). The statute's sunset does not remove its relevance for statutory construction purposes, since it still must be squared with the other provisions of the Act at the time of enactment.

by the copyright owner or any other subsequent owner. No one involved in the copyright revision efforts understood §601 to contain such a loophole. *See, e.g.*, Statement of Barbara Ringer, *supra* n. 4. The more plausible view simply is that §109 does not conflict with §601 for the same reason it does not conflict with §602 – it does not cover copies made under the laws of foreign jurisdictions.⁷

B. Legislative History Confirms That Section 602 Prohibits Unauthorized Parallel Importation, As In This Case

If the Court remains uncertain how to reconcile §109 and §602, it may look to legislative history, including “statements by those in charge of [the bill] during its consideration by Congress.” *United States v. Great Northern Ry.*, 287 U.S. 144, 154-55 (1932). The Congressional Committee Reports and Copyright Office revision reports address the very activity that Petitioner performed, and confirm that it is infringing.

⁷ Section 109(a) includes the introductory clause “[n]otwithstanding the provisions of §106(3),” which some might argue avoids conflict with §601 by tying the §109(a) defense *solely* to violations of §106(3) (including §602 by extension). Courts, however, have not unanimously endorsed that meaning of “notwithstanding” in the Act, and some dictionaries differ on the plain meaning. *Cf., Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178, 1199 n.14 (Fed. Cir. 2004) (“We leave open the question as to when § 107 [which begins, “Notwithstanding the provisions of §106 and §106A...”] might serve as an affirmative defense to a prima facie violation of §1201 [or other sections besides §106 and §106A].”).

1. Congress and the Copyright Office drafting committee expressly stated that the importation right was expanded to cover unauthorized parallel importation.

In the last of the six committee prints ordered by Congress to summarize the copyright revision proceedings, the Copyright Office explained the scope of the newly revised importation right as follows:

In the second situation covered by section 602, the copies ... were lawfully made but their distribution in the United States would violate the exclusive rights of the U.S. copyright owner. *This would occur, for example, where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country.* [It would] not be practicable for the Bureau of Customs to enforce a prohibition [at the border] against importation in this situation.... On the other hand, as noted above, unauthorized importation in this situation for the purpose of public distribution in the United States *would be an infringement and could be enjoined.*

Copyright Law Revision Pt. 6 at 149-50 (emphasis added).⁸ Petitioner's copies were not piratical, so could not be stopped by customs. Their distribution

⁸ The bill being described (H.R. 4347) contained the pertinent importation and first sale language that was eventually enacted and is at issue in this case.

is, however, “an infringement and could be enjoined.”
Id.

In the House Report accompanying the 1976 Act, Congress echoed this view. *See* H.R. Rep. No. 94-1476, at 169-170 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5785. Petitioner argues (at 45) that §602’s “non-piratical” clauses were meant to apply to a copy that was legal where made but would have been illegal to make in the U.S. But Congress indicated that in Petitioner’s hypothetical, the copies actually would be treated as “piratical” and subject to *exclusion and seizure* by U.S. Customs. Petitioner’s actual conduct only is subject to a civil injunction and other civil remedies. *See* 4 William F. Patry, PATRY ON COPYRIGHT §13:42 (2010) at 13-89.

The Senate Report contained a nearly identical explanation, stating:

IMPORTATION OF ‘PIRITICAL’ COPIES

...Customs Service could exclude copies ... that were unlawful in the country where they were made; it could also exclude copies ... which, although made lawfully under the domestic law of that country, *would have been* unlawful if the U.S. copyright law ... applied. A typical example would be a work by an American author which is in the public domain in a foreign country because that country does not have copyright relations with the United States. The making and publication of an authorized edition would be lawful in that country, but the Customs Service could prevent the importation of any

copies of that edition. [*Compare* Petitioner’s Br. at 45-46].

IMPORTATION FOR INFRINGING DISTRIBUTION

The second situation covered by section 602 is that where the copies ... were lawfully made but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights [*i.e.*, Petitioner’s actual conduct]. As already said, the mere act of importation in this situation would constitute an act of infringement and could be enjoined.

S. Rep. No. 93-983 (1974) (emphasis added).

These explanations by Congress become even more meaningful when read in the overall context of the revision efforts. The Copyright Register’s original revision report to Congress in 1961 recommended leaving parallel import enforcement *out* of the Copyright Act altogether, instead viewing it as a private contract matter. *See Copyright Law Revision Pt. 1* at 125-26. But the revision panel persuaded the Office to change its position, arguing, for example, that enforcement merely by contract is “expensive, burdensome, and, for the most part, ineffective.” *Copyright Revision Pt. 2* at 212 (statement of Horace Manges); *see also id.* at 213 (statement of Sidney Diamond) (“no possibility” of contract remedy in many situations); *Copyright Law Revision Pt. 4* at 209 (statement of Horace Manges) (“it is extremely difficult and sometimes impossible to find out who is the person that should be sued” for breach).

Subsequent bills all included a prohibition on unauthorized parallel importation.

2. “Lawfully made under this title” appears to have been added to §109 to avoid conflict with the newly expanded importation right.

The evolution of language in the bills leading to the 1976 Act provides yet further support for Wiley’s position. In 1963, following the Copyright Office’s publication of thirty-four Congressionally commissioned studies and the Register’s Report, Congress directed the Copyright Office to prepare a “Preliminary Discussion Draft” bill to revise the copyright laws. The Copyright Office’s Preliminary Discussion Draft was published in a House committee print in 1964, and discussed throughout 1964 “at a series of eight meetings of an advisory group of specialists convened by the Register, and in letters of comment.” *Copyright Law Revision Pt. 3* (Forward). Three features of the Preliminary Discussion Draft bill are significant to this case:

- (at §43) it proposed eliminating the manufacturing clause, the provision that essentially forced a publisher to print in the U.S. in order to sell here unless it abandoned U.S. copyright protection.
- (at §44) it expanded the importation right from “piratical copies” to all copies “imported without the authority of the owner of the

exclusive right to distribute” [unauthorized parallel imports].

- (at §5) it retained the first sale defense (§27 of the 1909 Act), but changed the triggering act from “lawful possession” to “first sale or other transfer of ownership.”

While the newly expanded parallel importation right was met with significant support, the advisory panel recognized a possible conflict with the first sale doctrine as then written:

[IRWIN] KARP: Under [the preliminary draft bill], importation of copies that were legally made in the first place becomes infringement if the copies are imported without the authority of the owner of the exclusive right to distribute copies. How far down the line of distribution will this extend? If a bookseller buys copies from a jobber who legally bought them from a German publisher, would he be guilty of infringement? ... [ABE] GOLDMAN [Copyright Office General Counsel]: I should think the result of this section would be that anybody who imports without authority into the United States for the purposes of distribution to the public would be an infringer....

KARP: ...What about the bookseller's sale? ... [T]here is a section [in the Preliminary Draft Bill] now somewhat similar to old section 27 [the first sale doctrine] ... If a German jobber lawfully buys copies from a German publisher, are we not running into the problem of restricting his transfer of his lawfully obtained copies?

GOLDMAN: ...Your question would be whether this represents a sale of the copy that does exhaust the right...

KARP: You are right, Abe ...

[JULIAN] ABELES: Well, everybody down the line is selling without authority, regardless of whether it is imported or not. If he sells it, he is liable...

Copyright Law Revision Pt. 4 at 210-11; *see also id.* at 119 (Statement of Harriet Pilpel) (noting “at the present time ambiguity and vagueness in the law”).

In direct response to these meetings and at the direction of Congress, the Copyright Office redrafted the bill. The revised first sale provision included, for the first time, the phrase “lawfully made under this title.” Congress introduced this bill verbatim, as S. 3008 and H.R. 11947 (the “1964 Revision Bill”) and then directed the Copyright Office to solicit further public comment and discussion. The Copyright Office (future Register of Copyrights Barbara Ringer) explained the change in first sale language (now §7) from the prior bill to this one as “an effort to meet [the] objections that were raised, quite properly.” *Copyright Law Revision Pt. 5* at 66.

Ms. Ringer went on to note, however, that advisory committee panelists recently had raised concerns that the new formulation of the first sale doctrine may permit abuse of the Act’s compulsory license provisions. *Id.* at 66-67. Specifically, a copy made under compulsory license for a particular purpose (such as the mechanical license or ephemeral license) would also qualify as “lawfully

made under this title” and thus would be freely alienable under the first sale doctrine – including for commercial distribution by the user. This was not the intent of the compulsory license provisions. *Id.* Ms. Ringer observed that this problem may be solved by “changing ‘lawfully made under this title’ to ‘made under the authority of the copyright owner,’” but warned, “I think this raises a substantive question and probably deserves some discussion.” *Id.* at 67. The change, of course, would have expanded the first sale doctrine to cover foreign-made copies like Petitioner’s. But after further consideration, this was not the approach the Office and Congress took. Instead, the relevant compulsory license provisions themselves were amended to “prevent possible abuse,” leaving the “lawfully made under this title” clause in the first sale doctrine unchanged. *See Copyright Law Rev. Pt. 6* at 29.

The operative phrase “lawfully made under this title” remained unchanged throughout subsequent revision bills, and resolves the perceived tension between §109 and §602. *Cf.* William Patry, COPYRIGHT LAW AND PRACTICE 166-170 (1997 Supp.) (since the provisions of Title 17 do not apply extraterritorially unless expressly so stated, the words “lawfully made under this title” in §109 must mean “lawfully made in the United States”); *accord* 1 GOLDSTEIN ON COPYRIGHT § 5.6.1, at 604; *accord* Nimmer & D. Nimmer, NIMMER ON COPYRIGHT §8.12[B], at 8-143 (1991).

* * *

For all of the foregoing reasons, §109 is not a defense to Petitioner’s importation and public

distribution of copies that were made under the laws of foreign countries.

II. CONGRESS HAD SOUND POLICY BASES FOR GRANTING COPYRIGHT OWNERS PROTECTION AGAINST UNAUTHORIZED PARALLEL IMPORTS

It cannot be disputed that the 1976 Copyright Act involved normative economic judgments that would impact the creators, owners, distributors, broadcasters, lenders and users of copyrighted works. In the course of over twenty years of deliberations, hearings, and public comment periods, Congress considered countless pages of testimony and written comments from lawyers, business leaders, economists, and others regarding the needs and concerns of the various groups and industries. Congress' judgment on these issues should not lightly be second-guessed. See *Eldred v. Ashcroft*, 537 U.S. 186, 204 (2003) (“[W]e turn now to whether [the statute] is a rational exercise of the legislative authority conferred by the Copyright Clause. On that point, we defer substantially to Congress.”).

Nevertheless, with the statutory text and legislative history contradicting their desired reading of the statute, Petitioner and his *amici's* arguments essentially boil down to a request to change the law for policy reasons. Even if this Court were the proper forum for doing so, the arguments are refuted by a significant body of literature, data, and experience.

A. Market Segmentation is an Economically Sound, Socially Beneficial, and Long Accepted Practice in the Copyright Industries and Throughout Our Economy.

Both anecdotal history and economic studies have shown Congress' judgment to be sound with respect to the benefits and increased overall social welfare produced by §602 – including what Petitioner calls “price discrimination” (also known as market segmentation). There are a variety of rational and widely beneficial reasons for a copyright owner to prevent copies made for sale abroad from entering the United States. Some *Amici*, for example, introduce variations in product presentation or quality to conform to the demand in various regional markets. Price in each market may be driven by multiple factors, including distribution channels and differing characteristics of regional demand curves. *See generally* William J. Baumol & Daniel G. Swanson, *The New Economy and Ubiquitous Competitive Price Discrimination: Identifying Defensible Criteria of Market Power*, 70 ANTITRUST L. J. 661, 665 (2003). Examples include region-specific textbooks (as in this case), test preparation materials, software, and other copyrighted works.⁹

⁹ Price discrimination has long existed even within domestic markets, with little or no controversy. *See, e.g.*, Sofronis Clerides, *Product Selection as Price Discrimination in the Market for Books*, NATIONAL BUREAU OF ECONOMIC RESEARCH (September 1999), http://www.nber.org/Franco_American/clerides.pdf (describing as “realistic” and “intuitive” the economic rationale of book publishers’ varying domestic versions and distribution agreements, such as releasing higher-priced hard cover formats before paperback).

While these practices often benefit consumers around the world by increasing access to otherwise-unaffordable or unobtainable works, differentiated pricing is not simply a matter of United States consumers subsidizing foreign markets. It benefits U.S. consumers in the form of newly created copyrighted works (made possible by foreign exploitation), lower domestic prices, expansion and investment in U.S. companies, and employment. *See, e.g.,* Robert D. Anderson, et al., *Intellectual Property Rights and International Market Segmentation in the North American Free Trade Area*, in COMPETITION POLICY AND INTELLECTUAL PROPERTY RIGHTS IN THE KNOWLEDGE BASED ECONOMY 397, 402 (2007). Indeed, “[w]ithout market segmentation ... the domestic consumer would not receive the same level of product quality and variety, service, and information that would prevail under market segmentation.” *Id.* Market segmentation permits the producer to capture a larger portion of the demand curve for the product. It also results in an increase in output, allowing company-wide fixed costs to be spread over a wider base, and economies of scale to lower production cost and thus prices. *See, e.g.,* Gene M. Grossman, *Promoting New Economic Activities: A Survey of Recent Arguments and Evidence*, OECD Economic Studies (1990), <http://www.oecd.org/economy/productivityandlongtermgrowth/34306065.pdf>, at 88, 96-98.

Thus, leading economists and legal scholars repeatedly have concluded that “most price discrimination is socially beneficial in that it produces higher output and thus yields greater

consumer benefits than forced nondiscriminatory pricing.” 14 Herbert Hovenkamp, *Antitrust Law* P 2419 (2d ed. 2006) 2340c, at 139; *see also* J.H. Reichman & Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 VAND. L. REV. 51, 116 (1997) (a new intellectual property right in databases could give “data suppliers ... more incentives to favor academic users through product differentiation and price discrimination,” leading to “more and better products[,] lower prices for the use of such data, or both.”).

Given the economic and social benefits of price discrimination, the practice is reflected not just in copyright law, but throughout the U.S. and foreign intellectual property laws.¹⁰ The pharmaceutical industry is a prime example. United States and foreign patent laws permit pharmaceutical companies to introduce life-saving drugs to third world countries at a fraction of the price charged in the United States. *See, e.g.*, Kevin Outterson, *Pharmaceutical Arbitrage: Balancing Access and Innovation In International Prescription Drug Markets*, 5 YALE HEALTH POL’Y L. & ETHICS 193 (2005) (describing how differential pricing, and

¹⁰ Price discrimination also is deeply ingrained in consumers’ everyday economic life. *See, e.g.*, Glen O. Robinson, *Personal Property Servitudes*, 71 U. CHI. L. REV. 1449, 1505-506 (2004) (“Price discrimination is an accepted feature of modern markets, as anyone knows if she has bought an airline ticket, used a special discount card at the grocery store, or negotiated a price for a new car.”); Mark Klock, *Unconscionability and Price Discrimination*, 69 TENN. L. REV. 317, 331 (2002) (“Senior citizens and college students, who are often less willing or able to pay as much for goods and services, commonly receive discriminatory discounts.”).

intellectual property-based enforcement thereof, is helping to fight the AIDS epidemic). As long as companies do not collude with one another, federal law supports this practice. *See In re Brand Name Prescription Drugs Antitrust Litig.*, 186 F.3d 781, 787 (7th Cir. 1999) (Posner, J.) (the question is not whether “the manufacturers of brand name prescription drugs engage in price discrimination, showing that they have market power. Everyone knows this. The question is whether that market power owes anything to collusion.”). Market segmentation not only enables access to a drug to millions of people who would not otherwise have access, but also fuels further research and development of new drugs by the pharmaceutical companies, which can then introduce the new drugs in the United States as well as other markets. *See* Outterson, 5 YALE HEALTH POL’Y L. & ETHICS at 195-96. The overall effect is to provide enormous benefits to society, and improved quality of life. This Court’s decision in the present case could have profound implications on these practices.

Market segmentation also provides enhanced investment opportunities in and for U.S. copyright owners, and allows U.S. copyright owners to more efficiently utilize the exclusive rights granted to them under the Copyright Act.¹¹ It enhances the

¹¹ The use of price discrimination to make more efficient use of an intellectual property right is a time tested practice. *See, e.g.*, Robert P. Merges, *The Concept of Property in the Digital Era*, 45 HOU. L. REV. 1249, 1265 (2008) n. 65 (in the 1840’s, opera composer Giuseppe Verdi adopted “what economists now call second degree price discrimination” in response to small theaters ignoring his copyrights and balking at his fixed prices, which they deemed too high).

value of a U.S. copyright. Congress considered and gave weight to this factor throughout the debates regarding the 1976 Act, as illustrated by the intense study of the manufacturing clause, the debates regarding term of copyright, the revisions to protection of foreign works, and other provisions affecting the value of a U.S. copyright.

Finally, market segmentation sometimes is legally *necessary* in order for U.S. companies to comply with the regulations of foreign countries or to reduce legal risk in such countries. For example, in the publishing industry, privacy and defamation laws can vary substantially from country to country. *See, e.g., Ehrenfeld v. Bin Mahfouz*, 518 F.3d 102, 104 (2d Cir. 2008). In the software industry, data protection and security laws vary. *See, e.g., McAfee, Inc., U.S. and Global Data Protection Laws*, <http://www.mcafee.com/us/regulations/index.aspx> (last visited August 21, 2012). Companies that do business internationally must craft their product versions and distribution channels in order to comply with these laws. If the law freely permitted consumers to engage in arbitrage, it is conceivable that companies could unwittingly be subject to noncompliance claims in far-flung, unintended jurisdictions.

B. The Long-Prevailing Interpretation of Sections 602 and 109, and the Second Circuit's Decision Here, Are Economically and Legally Sensible.

The ability of copyright owners to continue selling market-specific copies of works significantly depends upon maintaining the interpretation of §109 and §602 that have prevailed for the past quarter century, and which Congress intended. Without protection against “free riding” by unauthorized distributors, the copyright owner’s predominant “standard” market (*e.g.*, the U.S. market) could easily be undercut by an influx of the copyright owner’s own competing goods that were made for another market. *See, e.g., Pearson Educ., Inc., et al. v. Arora, et al.*, 717 F. Supp.2d 374 (S.D.N.Y. 2010) (distributor imported without authorization sixty-seven different foreign titles from four major publishers, and resold them online to U.S. customers). The long-term result likely would be detrimental to everyone except the importer/reseller: an increase in textbook prices (or other copyrighted product, as the case may be), a decrease in new product investment, and a decrease in innovation and product choice. *See, e.g.,* U.S. Gov. Accountability Office, REPORT TO CONGRESSIONAL REQUESTERS, COLLEGE TEXTBOOKS: ENHANCED OFFERINGS APPEAR TO DRIVE RECENT PRICE INCREASES (July 2005), <http://www.gao.gov/new.items/d05806.pdf>, at 24.

Petitioner and his *amici* nevertheless predict dire consequences if this Court does not expand the first sale doctrine to include foreign-made copies. Indeed, they appear to suggest that secondary markets for copyrighted works will virtually disappear. There is no tangible basis for this suggestion. To begin with, the law Petitioner seeks to overturn has been in effect for more than a quarter

century, through both economic booms and recessions. *See* Wiley Br. at 54-55. The copyright industries as well as secondary markets for copies continue to exist and profit, including the markets for textbooks. *See, e.g.*, College Store Industry Financial Report, 2012 ed. (National Association of College Stores), <http://www.nacs.org/research/industrystatistics/higheredfactsfigures.aspx> (estimated new books sales in U.S. colleges of over \$10 billion, with used book sales approximately half that). No examples have been cited of U.S. companies moving their manufacturing operations abroad in order to circumvent the first sale doctrine. And *Amicus*, for its part, is not aware of any such examples.

Petitioner also suggests that it is unfair and unworkable, once a foreign-made copy arrives in the United States, for subsequent purchasers to unwittingly have no rights of alienation. Petitioner implies that any bona fide purchaser in the U.S. should receive the first sale right, in order to (among other things) avoid imposing upon the consumer the need to determine where a copy was manufactured or anything else that could limit alienability. But existing statutory exceptions within the first sale statute already substantially prevent the perfect certainty that Petitioner desires. Not all copies are freely alienable under the statute, and the “status” of a copy is not always easily determinable.

For example, §109 recites express limitations to the first sale right that apply to works manufactured before copyright restoration, and further limitations and exceptions for computer programs, musical

works and sound recordings. *See* 17 U.S.C. §109(a) (limitations with respect to works manufactured before copyright restoration); *id.* at §109(b) (limitations applying to computer programs, musical works and sound recordings). Moreover, counterfeit copies – regardless of the quality of counterfeit and whether they are distinguishable by the naked eye – expressly are not covered by §109. They are indisputably not “lawfully made under this title.” *Id.* With ever-improving counterfeiting technology, at any given time there are undoubtedly many counterfeit copies owned by domestic consumers that, whether they know it or not, are not entitled to redistribute their copy. The present statute accepts this uncertainty.

In short, the holding urged by Petitioner will not create the consumer certainty Petitioner seeks. Such certainty, if possible at all (to say nothing of its wisdom), would require statutory amendment.

Moreover, Petitioner and his *amici* wrongly suggest that the first sale doctrine alone protects them from a variety of hypothetical problems, which they argue will become real if the Court affirms the Second Circuit’s ruling. For example, they speculate that copyright owners will abuse downstream control of foreign-made copies, suing downstream resellers even *after* the U.S. copyright owner authorized importation and domestic sale of copies. Petitioner presents no examples of such suits occurring. Moreover, the hypotheticals described by Petitioner

and his *amici* may be subject to other legal scrutiny both within and outside the Copyright Act.¹²

In sum, there simply is no sound reason to change the rules that have been in effect for more than a quarter century. *See, e.g., CBS, Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984) (first sale doctrine does not protect unauthorized import of foreign made copies). The Internet has brought about a monumental change in the avenues of doing business, and lowered or virtually eliminated distance-related barriers to regional market entry. Petitioner argues that these developments merit a change in the way §109 and §602 are interpreted. But as this Court has observed,

[f]rom its beginning, the law of copyright has developed in response to significant changes in technology.... As new developments have occurred[,] it has been the *Congress* that has fashioned the new rules that new technology made necessary.

¹² *See, e.g., Omega S.A. v. Costco Wholesale Corp.*, No. CV 04–05443 TJH, 2011 WL 8492716 (C.D. Cal. Nov. 9, 2011) (district court holds, following remand from this Court, that the copyright misuse doctrine precludes Omega from using copyrighted designs on the backside of its Swiss-made watches in order to control distribution in the United States); *see also Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990) (applying copyright misuse defense); *cf.* Robert P. Merges, *An Estoppel Doctrine for Patented Standards*, 97 CAL. L. REV. 1 (2009) at 3-4 (comparing common law estoppel to waiver, implied license, misuse, and antitrust as limitations on intellectual property enforcement.).

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 430 (1984) (emphasis added); *see also Quality King*, 523 U.S. at 153 (“the wisdom or unwisdom of governmental restraints on ‘gray market’ or the practice of ‘parallel importation’ ... is not a matter that is relevant to our duty to interpret the text of the Copyright Act”).

III. THE FIRST SALE DOCTRINE DOES NOT IMPACT, AND SHOULD NOT IMPACT, LICENSED COPIES OF WORKS

For the reasons described in the preceding Parts I and II, *Amici* maintain that Petitioner’s activities were not covered by the first sale doctrine and that the decision below should be affirmed. But if the Court were to rule otherwise, then it should do so in a manner that avoids jeopardizing the integrity of countless thousands of existing *licenses* that cover copies of works (or, for that matter, licenses covering patented articles). Segmenting markets is but one effect of some licenses. More importantly, the varied and many ongoing rights and responsibilities that are typically specified in licenses provide a critical level of clarity and ongoing expectations to licensors and licensees in the software, information publishing, and other content-based industries.

Software companies, for example, realized long ago that the nature of mass market (as opposed to custom built) software does not typically lend itself to sale. Constantly evolving and changing desktop environments, and many concurrently operating software programs, made technical support and

regular bug fixes desirable features for consumers. Software companies also learned that providing upgraded software periodically, often at a discounted price, helped retain their customers. The initial payment for the first version of the software often is only the beginning of the relationship between the publisher and customer. Thus, the software creators “who own the software copyrights have routinely used licenses as the primary vehicle for distributing [mass market] software to consumers. After many years of this practice, consumers now recognize that when they purchase a copy of a software program, they are buying a license to use it and not actually buying the software itself.” Keith Kupferschmid & Scott Bain, *Software Licenses: The Battle Continues*, INFORMATION TODAY 25:10 (2008) 1, 2008 WLNR 22086885.

While licenses provide to the copyright owner the certainty and uniformity necessary to make mass software distribution economically feasible, customers also typically benefit by acquiring rights not provided by copyright law. Examples may include permitting (i) multiple backup and archival copies stored on various media or locations; (ii) multiple log-ins or connections, creating multiple copies; (iii) modification and adaption of the code; (iv) copying and distribution of the software documentation; (v) sublicensing for purposes of outsourcing; (vi) access to upgrades, bug fixes, technical support, and (vii) other rights. See LicenseLogic LLC & Software & Information Industry Association, CERTIFIED SOFTWARE MANAGER STUDENT MANUAL (2004) at Section 4: Understanding

License Agreements 4:1–4:62, http://licenselogic.com/BrowseProducts/Course_Manuals.

Similarly, additional and different rights often are provided in licenses for other copyrighted products such as test banks, research databases, or enhanced electronic versions of academic or scientific texts. *See, e.g.*, Oracle Certification Program Candidate Agreement, http://education.oracle.com/education/pdf/ocp_candidate_agreement.pdf (visited August 21, 2012); *see also ProCD, Inc., v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996) (Easterbrook, J.) (“a law student uses the LEXIS database [for free] under a contract limiting the results to educational endeavors,” but presumably may not “resell his access to this database to a law firm from which LEXIS seeks to collect a much higher hourly rate.”).

By varying some or all of the foregoing terms, and/or other terms, the copyright owner can provide a price-appropriate product tailored to the varying needs of different markets. *See, e.g., ProCD*, 86 F.3d at 1454 (“Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets.”); *id* at 1450 (“Instead of tinkering with the product ... ProCD turned to the institution of contract.”).

Like Wiley’s *sale* of regional textbooks in the present case, copyright owners’ *licensing* of market-specific products is dependent upon an effective legal regime. Decisions that “undermine software companies’ ability to rely upon their licenses ... would instead force them to assume that courts could

treat subsequent possessors as ‘owners,’ which logically would lead to software companies needing to charge higher prices.” Kupferschmid & Bain, *Software Licenses: The Battle Continues* at 51. As it stands, §109’s requirement of “owner[ship] of a particular copy” long has been understood to exclude from the first sale doctrine copies obtained by other means, particularly by a software license. *See, e.g., DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1362 (Fed. Cir. 1999); *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009); *cf. Quality King*, 523 U.S. at 146-47. Nevertheless, some parties continue to urge courts to adopt a more expansive application of §109, such as by conflating a license with a sale, and occasionally succeed in doing so at least temporarily. *See, e.g., Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008) (Court treating software transaction as a “sale” simply because there was (i) a single payment and (ii) no return of the disc was required), *rev’d Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (reservation of title, along with restrictions on copying and use, confirm that transaction is a license and not a sale).

The unauthorized online “resale” of licensed versions of software (such as academic, OEM, and regional software), of licensed information products (such as test preparation and certification materials), and of other copyrighted works jeopardize the continued availability of these products and the discounts and customization they offer. *See, e.g., OnlySoftwareBlog*, April 25, 2011), <http://onlysoftwareblog.com/tag/siia/> (last visited August 22, 2012); *Adobe Systems Incorporated v. Hoops*

Enterprise LLC, No. C 10-2769 (N.D. Cal. Feb. 1, 2012) (infringing resale of OEM software). A shift in the law that suggests such licenses may be treated as “sales” and subject to the first sale doctrine, may well cause some copyright owners simply to abandon this practice and return to a single, almost certainly higher price with little or no product differentiation. *See infra* Part II at 28-30. It would also cause mass confusion and upheaval in critical United States industries for copyright owners to learn that their existing licenses are “sales.”

In sum, even if the Court rules that the manufacture and sales of Wiley’s foreign textbooks is covered by the first sale doctrine, the Court should avoid any implication that such holding affects any copies of works that are licensed.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

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