

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**

REPLY BRIEF FOR THE PETITIONER

NORMAN H. LEVINE
AARON J. MOSS
GREENBERG GLUSKER
FIELDS CLAMAN &
MACHTINGER LLP
1900 Ave. of the Stars
Los Angeles, CA 90067
(310) 553-3610

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL,
ENGLERT, ORSECK,
UNTEREINER & SAUBER
LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500
renglert@robbinsrussell.com

Counsel for Petitioner

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REPLY BRIEF FOR THE PETITIONER

In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the copyright owner and the United States urged this Court to hold the first-sale doctrine, 17 U.S.C. § 109(a), inapplicable to imported copies meant for sale abroad. They argued that Congress, in 17 U.S.C. § 602(a), provided copyright holders the right to divide geographic markets for their goods. This Court disagreed, emphasizing “the clarity of the [statutory] text.” 523 U.S. at 145. Read together with § 109(a), “the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L’anza’s products who decide to import them and resell them in the United States.” *Ibid.*

Now Omega and the United States again urge this Court to hold the first-sale doctrine inapplicable to imported copies meant for sale abroad. Repeating arguments about the supposed purpose of § 602(a), they contend that the first-sale doctrine, which applies to all copies “lawfully made under this title,” does not cover Omega watches made in Switzerland. Holding otherwise, they argue, would judicially repeal § 602(a)(1). Resp. Br. 47.

The language of the Copyright Act, however, does not support the outcome Omega and the United States urge. Each proffers its own, conflicting definition of the phrase “lawfully made under this title,” neither of which is tenable. The United States, following the court below in this aspect, believes that “lawfully made under this title” refers only to “copies created in the United States” (U.S. Br. 17), a construction that creates absurdity where the phrase “lawfully made under this title” is used elsewhere in the Copyright Act. Omega, in contrast, believes that the phrase includes copies that are “reproduced

abroad but nevertheless [are] ‘lawfully made’ because they carry authorization under U.S. law for lawful distribution in the United States.” Resp. Br. 16 n.4. The tortured nature of that construction is self-evident.

Besides being disconnected from the ordinary meaning of the operative phrase, neither construction finds any support in the legislative history of § 602(a), let alone the more important legislative history of § 109(a), which neither Omega nor the United States addresses. And both leave unanswered the most obvious question: Why would Congress allow restraints on alienation and territorial restrictions for goods made abroad but not U.S.-made goods?

Costco’s construction raises none of those problems. It gives meaning to the statutory text, is faithful to the history and purpose of the first-sale doctrine, and preserves for § 602(a) the purpose that Congress intended.

I. THE FIRST-SALE DOCTRINE DOES NOT TURN ON WHERE A COPY IS MADE

A. The Ninth Circuit’s Holding That “Lawfully Made Under This Title” Means “Made In The United States” Conflicts With The Text and History Of The First-Sale Doctrine

The Ninth Circuit’s “general rule” is that “§ 109(a) can provide a defense against §§ 106(3) and 602(a) claims only insofar as the claims involve domestically made copies of U.S.-copyrighted works.” Pet App. 7a; accord U.S. Br. 17. That construction introduces into the Copyright Act tensions with which the Ninth Circuit made no attempt to grapple.

See Pet. Br. 17-21. The United States makes no reasonable attempt either.

1. Equating “lawfully made under this title” with “made in the United States” renders absurd other sections of the Copyright Act that use that language. Costco’s opening brief offered two examples. See also AIPLA Br. 25 (additional example).

(i) Under the Ninth Circuit’s formulation, educators who knowingly use copies of genuine musical performances or instructional videos made abroad would be liable for copyright infringement because the safe harbor created by 17 U.S.C. § 110 applies only to the performance or display of copies “lawfully made under this title.” The United States claims that such a result – allowing a teacher to be liable for showing in class a *lawfully purchased* foreign-made film – “would not be irrational” and that the section’s “scienter requirement reduces the danger of over-expansive liability.” U.S. Br. 25. It is not rational, however, to hold a teacher liable for copyright infringement just because she *knows* the lawfully purchased film she shows in class was made abroad.

The United States retreats to arguing that “the phrase ‘lawfully made under this title’ need not have the same meaning throughout Title 17.” U.S. Br. 23. It is true that the “presumption that the same * * * term in different provisions of the same statute must ‘be interpreted identically’” is rebuttable, *Environmental Defense v. Duke Energy Corp.*, 549 U.S. 561, 575-576 (2007), but the United States offers no convincing rebuttal here, where the phrase is used in adjoining sections enacted contemporaneously. “Context counts.” *Id.* at 576.

The United States claims that the need to read the phrase differently in § 109 and § 110 is “strongly indicate[d]” by § 602(a), though it does not elaborate on that assertion. U.S. Br. 23. This is a notable flaw because, as explained previously (Pet. Br. 33-40) and further below (*infra* pp. 16-19), Costco’s construction of § 109 and § 602(a) gives each provision significant effect without any need to read “lawfully made under this title” differently in § 109 and § 110.¹

(ii) Section 1006(a)(1) of the Audio Home Recording Act (“AHRA”) provides for the payment of royalties by blank-media manufacturers to “any interested copyright party whose musical work or sound recording has been embodied in a * * * musical recording lawfully made under this title that has been distributed.” The Ninth Circuit’s interpretation would compensate U.S. copyright owners *only* if their work was first recorded in the United States. The United States professes to see no absurdity in that result (U.S. Br. 25), apparently believing (the works of the London Symphony Orchestra or The Rolling Stones notwithstanding) that consumers use blank media only to duplicate U.S.-copyrighted music that happened to be first recorded in the United States.² But the Copyright Office takes the position that U.S.

¹ Omega takes a different approach, denying the absurdity of the Ninth Circuit’s construction by claiming that educators would be liable only for using copies “imported in violation of § 602(a)(1).” Resp. Br. 17. But that is not what § 110 provides; it neither contains a cross-reference to § 602(a) nor otherwise mentions importation.

² Omega again differs with the United States, asserting instead that the AHRA mandates payment only “where domestic distribution [of the copy at issue] is authorized by the copyright owner.” Resp. Br. 18. As with § 110, however, Omega’s proposed construction of § 1006 has no textual basis.

copyright holders are entitled to royalties for any work “lawfully made and distributed” (<http://www.copyright.gov/carp/dartfact.html>), whether or not that work was first recorded in the United States, a point the United States declines to acknowledge.

Costco’s reading of “lawfully made under this title,” in contrast, creates no absurdity in these sections of the Copyright Act (or any other). If the copies at issue are lawfully made according to Title 17, educators can use them and AHRA claimants will be compensated for them, wherever those copies were made.

2. The Ninth Circuit’s construction also fails to recognize that, as the United States argued in *Quality King*, “[w]hen * * * Congress wishes to make the location of manufacture relevant to Copyright Act protection, it does so expressly” – as it did in § 601 and § 1004, for example. U.S. *Quality King* Br. 30; see also Pet. Br. 18-19. Omega ignores this argument, and the United States tries to change the subject. The United States argues that, if Congress had *Costco*’s construction in mind, “it could have used the same counterfactual formulation that it used in Section 602(a)(2) and (b),” *i.e.*, “if this title had been applicable.” U.S. Br. 26. Given the clear use of “lawfully made under this title” to cover foreign-made goods in § 110 and § 1006, and the use of a *different* phrase to make location of manufacture relevant, it is of no moment that Congress did not repeat in § 109 another formulation employed elsewhere in the Copyright Act for a different purpose.

3. The flaws in the Ninth Circuit’s holding that “lawfully made under this title” means “made in the United States” extend beyond statutory text. That

construction is mentioned nowhere in the voluminous legislative history of the Copyright Act of 1976. See Pet. Br. 20-23; see also *Harrison v. PPG Indus., Inc.*, 446 U.S. 578, 596, 602 (1980) (Rehnquist, J., dissenting) (discussing Arthur Conan Doyle, *The Silver Blaze*, in THE COMPLETE SHERLOCK HOLMES 397, 400 (1936)). The Ninth Circuit’s construction also is notably inconsistent with earlier codifications of the doctrine, which characterized the relevant inquiry as whether the copy at issue “has been lawfully obtained,” without regard to location. 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). See also EMA Br. 20-25 (further discussing evolution of doctrine from former Section 41). The first-sale doctrine continues to reflect the common law’s aversion to restraints on alienation. If Congress intended an exception for goods made abroad, it would not have codified that exception by adding the words “lawfully made under this title” to § 109 without any comment in the legislative history.

B. Omega’s Assertion That A Copy Made Overseas Can Be Rendered “Lawfully Made Under This Title” Through Distribution Rights Later Associated With The Copy Is Untenable

Omega seeks shelter in what the Ninth Circuit has consistently characterized as “an exception” to its general rule whereby “§ 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here.” Pet. App. 9a; see also *id.* at 17a (“We need not decide whether *Drug Emporium’s* and *Denbicare’s* exception to the rule in *BMG Music* also survives *Quality King*.”). Omega transforms that exception into a new rule of its own

whereby “copies may be reproduced abroad but nevertheless be ‘lawfully made’ because they carry authorization under U.S. law for lawful distribution in the United States.” Resp. Br. 16 n.4.

That rule lacks any relation to the text of the codified first-sale doctrine. On their face, the words “lawfully *made* under this title” have nothing to do with *distribution or importation*, authorized or not. Undaunted, Omega argues that, because “[t]he term ‘made’ does not correspond to any of the specific rights enumerated under § 106,” there “is no reason to understand ‘lawfully made under this title’ as being limited to ‘lawfully *reproduced* under this title.” Resp. Br. 35. “Rather,” Omega asserts, “a copy can be ‘lawfully *made* under this title’ for purposes of the first-sale doctrine because it carries with it * * * a license under the Copyright Act to be *distributed* in the United States.” *Ibid.* (emphasis added). According to Omega, the necessary authorization can be granted at any time, even years after the copy has been transferred to other parties. Resp. Br. 37.

The word “made,” however, has a commonly accepted, ordinary meaning that has nothing to do with distribution. The word connotes the act of “caus[ing] (something) to exist.” BLACK’S LAW DICTIONARY 975 (8th ed. 2004) (defining “make”). See also OXFORD ENGLISH DICTIONARY 1700 (“To produce (a material thing) by combination of parts, or by giving a certain form to a portion of matter; to construct, frame, fashion”) (compact ed. 1971); MERRIAM-WEBSTER’S DICTIONARY (“to bring into being by forming, shaping, or altering material”) (online ed. 2010). Consistent with that ordinary meaning, Costco’s construction of “lawfully made under this title” turns on *who* brings the copy at issue into existence, and that of the Ninth Circuit and the United States, though erroneous, at

least turns on *where* that copy is brought into existence. Omega’s novel construction, in contrast, turns on matters *other than* the circumstances in which the copy was created.

Moreover, by interpreting “made” to incorporate concepts of authorization to distribute, Omega’s construction would make mincemeat of numerous provisions of the Copyright Act in which the words “make” or “made” and “distribute” or “distribution” carry their ordinary meanings. *E.g.*, 17 U.S.C. § 115(a)(1) (setting out conditions by which one may “obtain a compulsory license to make and distribute phonorecords of [a] work”); *id.* § 1308 (with respect to specified original designs, granting owner exclusive rights to “(1) make, have made, or import * * * any useful article embodying that design” and “(2) sell or distribute for sale” such an article).

Relatedly, Omega’s conception of how a good is “made” suffers from fatal problems of practicability. How does a copy itself come to “carr[y]” the requisite “license under the Copyright Act to be distributed in the United States”? Resp. Br. 35. If a U.S. copyright holder manufactures copies abroad, are those copies assumed to be licensed for distribution in the United States or not? Is that question to be answered based on the rights-holder’s intent? Intent at the time of manufacture, or at any time? How is the license supposedly attached to certain copies manifested, particularly if the copyright holder retains all rights (*i.e.*, there are no licensees)? Can the authorization be implied? If so, does affixing a U.S.-copyrighted design to the back of a watch imply authorization, or its absence? It stretches credulity to believe that Congress intended to create such a complicated scheme for determining whether a good is “lawfully made” without providing any guidance on those cen-

tral questions, or even a single mention of the matter in the legislative history. These questions do not arise if the word “made” is given its ordinary meaning.

II. OMEGA FAILS TO EXPLAIN WHY CONGRESS WOULD PERMIT THE DIVISION OF MARKETS FOR COPIES MADE ABROAD WHEN IT DOES NOT PERMIT SUCH A DIVISION FOR COPIES MADE HERE

Relying on the legislative history of § 602(a)(1), Omega asserts that “Congress *intended* to permit the use of copyright to enforce the allocation of national markets among various rights holders.” Resp. Br. 29; accord U.S. Br. 8 (asserting that Congress, in 1976, meant to give “copyright owners * * * the ability under the copyright laws to control ‘gray-market’ imports”).

That argument has been foreclosed. In *Quality King* this Court held that, with respect to copies made by a U.S. copyright holder in the United States, Congress did not intend to permit the use of copyright to enforce the allocation of national markets. The United States argued that the legislative history of § 602(a) showed that Congress “hinged its application solely on whether the copyright owner authorized the importation, paying no heed to whether the copyright owner had first sold the copy abroad.” U.S. *Quality King* Br. 13. This Court disagreed. Accordingly, at least with respect to that large class of copies made in the United States, it was *not* “Congress’s unambiguous intent in enacting Section 602(a)(1) * * * to afford copyright owners an

effective means of segmenting international markets.” U.S. Br 14 n.2.

Also foreclosed by *Quality King* is Omega’s argument that its position is “consistent with the history and policy underlying the first-sale doctrine.” Resp. Br. 30. According to Omega, that policy makes central whether the rights-holder has exhausted its U.S. distribution right because, “when a copy is sold subject to the restriction that it is not authorized for importation and distribution in the United States, the copyright owner has not bargained for or received compensation for the value of U.S. rights.” Resp. Br. 32; see also Resp. Br. 42-44 (identifying “many legitimate reasons that the owner of a copyright may wish to prevent copies made for sale in one country * * * with copies made for domestic distribution”).

Because it follows from *Quality King* that the copyright holder *has* bargained for and received all the compensation it is entitled to for its U.S. rights, at least if it made the copy in the United States, it is incumbent on Omega and the United States to explain what history or policy supports a *different* result when the U.S. copyright holder makes the same good overseas. Yet both fail to explain why Congress would have intended to give U.S. copyright holders significantly more control over copies they manufacture abroad than over those they make in the United States. Omega does not even acknowledge this dichotomy, let alone explain it. That flaw runs throughout Omega’s brief, raising far more questions than Omega cares to answer. Omega argues, for example, that “[t]he central purpose of § 602(a)(1) is to preserve the right of copyright owners to authorize foreign distribution * * * without simultaneously authorizing importation into the United States,” because “[t]his construction protects the U.S. copyright

owner’s exclusive right to distribute copies domestically.” Resp. Br. 9-10. Left unexplained is why, if Congress were concerned with those U.S. distribution rights, it would protect them only, as Omega qualifies, for “*copies made outside the United States.*” Resp. Br. 9 (emphasis added).³

Similarly, Omega argues that “market segmentation allows for more efficient exploitation of intellectual property rights” through “price discrimination [that] enhances the value of a creator’s U.S. copyright.” Resp. Br. 43-44. Had that belief animated Congress, such segmentation would presumably be permitted for copies made domestically, but *Quality King* holds that it is not.

As the United States conceded at the certiorari stage, “[t]here is no reason to suppose that Congress anticipated and intended [the] result” demanded by Omega’s construction. U.S. Inv. Br. 19. Indeed, that result “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 (enacted, like § 109 and § 602, in 1976). The purpose of that provision was to ensure that production remained *in* the United States. The United States got it right 12 years ago: “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.” U.S. *Quality King* Br. 30.

The United States now tries to distance itself from those admissions by characterizing this effect of

³ It is safe to assume that a much greater percentage of copyrighted goods in commerce in the United States were domestically manufactured in 1976 than today.

Quality King as a mere “anomaly.” U.S. Br. 28. To do so, it repeatedly asserts that the Court in *Quality King* “emphasized that Section 602(a)(1) will have [a] significant practical effect” on gray-market copies. U.S. Br. 7; see also U.S. Br. 8, 30-31 n.6. But the Court did no such thing. It did enough to make clear that the category of non-piratical goods covered by Section 602(a)(1) was “not a merely hypothetical one.” 523 U.S. at 147. Beyond that, the Court explicitly stated that its only “duty [was] to interpret the text of the Copyright Act” (*id.* at 153), and that “the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L’anza’s products who decide to import them and resell them in the United States” (*id.* at 145). Far from believing that the legislative history of § 602 required “statutory protection for * * * price discrimination” (*id.* at 153), the Court suggested that, if manufacturers were displeased with gray-market competition, they “[p]resumably” could “avoid[] the consequences of that competition” in a number of ways (*id.* at 153 n.29 (describing options available to manufacturers)).

Omega argues that “[t]he long period of congressional inaction in the face of effectively unanimous judicial interpretation argues strongly against the adoption of the conflicting interpretation that Costco advocates.” Resp. Br. 23. But that argument cuts the other way: the relevant holding of *this* Court is *Quality King*’s rejection of the notion that the first-sale doctrine does not apply to “imported copies.” 523 U.S. at 138. In the intervening 12 years, Congress has not acted to reverse or limit *Quality King*. Congress may perhaps be presumed to pay attention to the holdings of this Court, but it carries legal fiction to the point of absurdity to say that Congress

acquiesces in holdings reached by *the Ninth Circuit and no other court of appeals*.

III. COSTCO'S CONSTRUCTION IS FAITHFUL TO THE COPYRIGHT ACT AND *QUALITY KING*

Costco's construction of § 109(a) is straightforward: because the first-sale doctrine applies to any copy "lawfully made under this title," it reaches any copy made anywhere in accordance with standards enumerated in the Copyright Act. That construction is faithful to the text and structure of the Act and preserves for § 602(a)(1) a significant purpose that reflects the particular concerns raised in the legislative history of that provision. And it does so in a manner that draws none of the distinctions between "doing" and "authorizing" that Omega and the United States assert.

A. The First-Sale Doctrine Does Not Turn On The Exercise Of An Exclusive Right

The United States concedes "the phrase 'lawfully made under this title' could bear th[e] meaning" advanced by Costco. U.S. Br. 5. Indeed, "in *Quality King*," it "advocated essentially that reading." U.S. Br. 17. The United States now claims that its previous construction "is no longer tenable" because "the Court in *Quality King* drew a sharp distinction between copies 'made under' Title 17 and copies 'made under' foreign law, and it *assumed* that any particular copy would be 'made under' only one legal regime." *Ibid.* (emphasis added). The United States, not this Court, made that assumption, arguing without basis that, because this Court referred to goods made under the law of one country but not another,

goods could never be made under both. U.S. Br. 15.⁴ *As even Omega concedes*, “the concepts of being lawfully made ‘under the law of some other country’ and being ‘lawfully made under this title’ are [not] mutually exclusive,” as evidenced by the quite common occurrence of an author “grant[ing] a single manufacturer worldwide distribution rights under the copyright laws of various countries.” Resp. Br. 35-36 n.13 (internal quotation marks and alteration omitted).⁵

⁴ Moreover, as Costco has explained (Pet. Br. 35-40), in the briefs and argument in *Quality King*, no party or *amicus* disputed that whatever result the Court reached in that case should apply to foreign-manufactured as well as U.S.-manufactured goods. There is no basis for the notion that the Court, in a dictum that does not mention place of manufacture, nevertheless drew a distinction based on place of manufacture. Omega and its *amici* are noticeably silent about the briefs and argument in *Quality King*.

⁵ Treatise-writers, the United States says, have understood *Quality King* the same way the United States now does. U.S. Br. 16 n.3. But *this Court*, not treatise-writers or the Acting Solicitor General, is the authoritative expositor of *Quality King*. Furthermore, the treatise-writers are demonstrably confused about the issue presented in this case. For example, Professor Goldstein’s major argument against Costco’s position is that it would require extraterritorial application of domestic law, but even the United States recognizes that Costco’s position requires no such thing. Compare 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 7.6.1.2(a) (3d ed. 2005 & Supps.), with U.S. Br. 22. Mr. Patry, though portions of his books argue against Costco’s position, has elsewhere correctly noted that “the term ‘lawfully made under this title’ means a copy that is made either with the permission of the copyright owner or pursuant to a compulsory license, i.e., lawfully made by virtue of the compulsory license. * * * Contrary to later courts’ addressing of parallel importation issues, the term ‘lawfully made under this title’ has nothing to do with extraterritoriality.” WILLIAM F. PATRY & REBECCA F. MARTIN, COPYRIGHT LAW AND PRACTICE 180 (Cum. Supp. 2000) (footnote omitted).

In a variation on that argument, Omega argues that the first-sale doctrine can be triggered only by the exercise of an exclusive right under § 106 (see Resp. Br. 8), and that “those exclusive rights do not apply to conduct that takes place exclusively outside the United States” (Resp. Br. 13). The second proposition is undisputed; indeed, it is *because* this is a U.S. lawsuit by Omega asserting that Costco has infringed Omega’s exclusive rights under § 106(3) that this case does not raise concerns about extraterritoriality. Pet. Br. 28-33; accord U.S. Br. 22. The first proposition, however, is unsupported: the first-sale doctrine never has turned on the exercise of an exclusive right.⁶

As Omega recognizes, “[t]he term ‘made’ does not correspond to any of the specific rights enumerated under § 106.” Resp. Br. 35. Omega inexplicably concludes that the first-sale doctrine should therefore apply only to copies that are reproduced pursuant to § 106(1) or distributed pursuant to § 106(3). But the more logical conclusion is that, precisely *because* the word “made” does not correspond to an exclusive right, the doctrine’s applicability simply does not turn on the exercise of such a right. Had Congress wanted it otherwise, it presumably would have said so, either through use of the words “reproduced” or “distributed” or through cross-reference to the exclusive rights enumerated in § 106. Cross-references occur frequently in the Copyright Act, including

⁶ Nor does Costco assert, as Omega incorrectly claims, “that § 106(1) gives Omega any right to make or to exclude others from making copies *in Switzerland*.” Resp. Br. 14. To the contrary, Costco merely contends that copies manufactured in Switzerland may be made *according* to the Copyright Act, not that the Act *governs* such copies. See Pet. Br. 35 n.16.

§ 109(a) itself, which applies “[n]otwithstanding the provisions of section 106(3).” Had Congress wanted the first-sale doctrine to turn on the exercise of an exclusive right, it would not have used a word – “made” – that does not correspond to such a right.

Nor does the notion that the first-sale doctrine turns on an exclusive right have any historical pedigree. As noted earlier, in its previous codification, the doctrine applied to any copy that “the possession of which has been lawfully *obtained*.” 61 Stat. 652, 660 (emphasis added). Like the term “made” in the 1976 Copyright Act, the word “obtained” did not correspond to any of the exclusive rights enumerated in the 1909 or 1947 Copyright Acts.

B. Costco’s Construction Provides Section 602(a)(1) With Significant Effect

Omega and the United States insist that Costco’s construction of the first-sale doctrine would render the importation restrictions in § 602(a)(1) “insignificant or superfluous.” Resp. Br. 24; accord U.S. Br. 17-18; see also U.S. *Quality King* Br. 16 (unsuccessfully arguing that “the few remote and random factual scenarios that petitioner is willing to concede would still fall within Section 602(a) reveal how cramped and circumscribed petitioner’s proposed statutory construction is”). But that argument is flawed; in at least two respects, Costco’s construction gives § 602(a)(1) not only significant effect, but precisely the effect supported by the legislative history.

First, as the Court recognized in *Quality King*, however the phrase “lawfully made under this title” is defined, the first-sale doctrine applies only to “the *owner* of a particular copy or phonorecord.” 17 U.S.C. § 109(a) (emphasis added). As a result, “the

first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.” *Quality King*, 523 U.S. at 146-147. Omega tries to downplay that class as “small” or “theoretical.” Resp. Br. 25, 27; see also U.S. Br. 14-15 n.2 (same). But, as this Court recognized, when §§ 109(a) and 602(a) were being considered, much concern was expressed about non-piratical copies that “get into illicit hands.” *Quality King*, 523 U.S. at 147 n.19. To the extent intellectual property is licensed, instead of being sold outright, this prohibition on “non-owner” importation retains significant effect. See, e.g., *Vernor v. Autodesk, Inc.*, No. 09-35969 (9th Cir. Sept. 10, 2010) (holding that first-sale doctrine does not apply because purchaser of software is a licensee and not an “owner”).

Second, because Costco’s construction of the first-sale doctrine makes it applicable only to copies lawfully made according to the Copyright Act, it still permits a U.S. copyright holder to use § 602(a)(1) to bar the importation of copies made solely under foreign law. This class of copies includes both those made pursuant to a foreign law, such as one for compulsory licensing,⁷ and those made by foreign copyright holders who hold no rights under U.S. law. See Pet. Br. 35-36 & n.17.

⁷ See, e.g., James Chapman, *Russian Web Sites Jeopardize U.S. Users: The Dangers of Importing Copyrighted Material over the Internet*, 29 HASTINGS INT’L & COMP. L. REV. 267, 289 (2006) (describing attempts to undercut the rights of U.S. copyright holders by parties who reproduce and export material solely pursuant to foreign law). Contrary to the assertion of *amicus* AAP (Br. 19-20), even under Costco’s construction, the suitcase exception created by § 602(a)(3) retains a purpose with respect to this category of copy.

The United States asserts that “Congress’s unambiguous intent in enacting Section 602(a)(1) was to afford copyright owners an effective means of segmenting international markets.” U.S. Br. 14 n.2. But not a single piece of legislative history produced in support of that claim speaks to the facts presented here, where a copyright holder seeks to use § 602(a)(1) to restrict the importation of *copies made by the U.S. copyright owner itself*. The cited legislative history speaks instead to the danger faced by parties who hold *only* U.S. rights, and who otherwise might have the value of those rights entirely eliminated through competition from copies made abroad by foreign copyright holders unrelated to them. See Pet. Br. 38-40; U.S. Br. 9-10 (citing history that distinguishes between rights given to U.S. and foreign publishers); AAP Br. 23-35 (same).⁸ In *that* context, the Court in *Quality King* noted, “*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).” 523 U.S. at 148 (emphasis added). Contrary to claims that Costco ignores Congress’s intent in enacting § 602(a)(1), the construction it proposes sensibly excludes from the first-sale

⁸ The United States argues that Congress was concerned about “competition from copies imported by downstream wholesalers and jobbers * * * not about unauthorized importation by the ‘foreign copyright holders’ themselves.” U.S. Br. 20-21. This is a distinction without consequence: all parties agree that Congress was concerned about the competition that U.S. copyright holders faced from works made abroad under foreign copyright, regardless of how those copies made it to the United States. The disagreement between the parties concerns whether Congress *also* meant to protect U.S. copyright holders from competition caused by copies they *themselves* made abroad, a matter on which the legislative history is silent.

doctrine those copies made abroad *not* by the holder of the U.S. copyright, but by foreign copyright holders that have no rights under U.S. law. This construction is faithful to the text, history, and purposes of both § 109(a) and § 602(a)(1).⁹

C. Costco’s Construction Of The *Quality King* Dictum Is Consistent And Sensible

1. Costco’s certiorari petition explained that this Court’s key dictum in *Quality King*, 523 U.S. at 148, involving publishers of British and U.S. editions, turned on *rights* granted, not on place of manufacture. Pet. 14. According to the United States, Costco’s petition “appeared to draw a sharp distinction between copies produced abroad by the United States copyright owner itself and copies made abroad by another entity with the copyright.” U.S. Br. 18. In its invitation brief, the United States mis-

⁹ The United States also argues that Costco’s construction would render § 602(a)(1) superfluous in light the recently enacted § 602(a)(2). U.S. Br. 14 n.2; see also Resp. Br. 26. But neither the United States nor Omega responds persuasively to Costco’s demonstration (Pet. Br. 45-46) of the distinct role each relevant subsection of § 602 serves. Furthermore, as the United States recently advised the Court in a different matter, arguments of this nature “ignore[] the timing of the respective [sections’] enactment.” Brief for the United States as *Amicus Curiae* at 19, *Kasten v. Saint-Gobain Performance Plastics Corp.* (No. 09-834). Section 602(a)(1) was enacted in 1976. Section 602(a)(2), which while similar to § 602(a)(1) also adds a new private right of action against exporters, was enacted in 2008. The fact that Congress included “a more detailed * * * provision more than a generation later, when it drafted [§ 602(a)(2)], tells us little about what Congress meant at the time it drafted the comparable provision of [§ 602(a)(1)],” let alone § 109(a). *Lambert v. Ackerley*, 180 F.3d 997, 1005 (9th Cir. 1999).

understood Costco's position in the same way – indeed, *in the same words* – and Costco made it clear that the United States was mistaken: “Petitioner draws no such distinction.” Supp. Br. 9 (filed March 29, 2010). Rather, Costco continued, “consistent with the ‘basic principle of copyright law’ cited by the United States * * *, copies made abroad by *either* the U.S. copyright holder *or* a separate entity authorized by that holder to make copies are subject to the first-sale doctrine.” *Ibid.*

Omega asserts that “Costco initially conceded” that equating the acts of “doing” and “authorizing” is foreclosed by the *Quality King* dictum. Resp. Br. 20. Relatedly, the United States asserts that, under Costco's construction, if an author licensed “United States and foreign publishers to reproduce [his] work in their respective countries, the copies created abroad would be ‘lawfully made under [Title 17]’ as petitioner construes that phrase because they would be made with the authorization of the United States copyright owner.” U.S. Br. 19. But that is not Costco's position. Discussing the Court's *Quality King* dictum, Costco observed that, “if a copyright owner gives exclusive American publishing rights to Person A, and exclusive British publishing rights to Person B, * * * B's books are not lawfully made under the Copyright Act * * * because B did not receive U.S. rights from the copyright owner.” Pet. 14. That remains Costco's construction: the authorization given to *Person A* to exploit the U.S. copyright cannot be construed to render a copy made by *Person B* “lawfully made under this title” because *Person B*'s copies were neither *made* under U.S. law, nor *authorized* to be made under U.S. law.

2. Under Costco's construction, if copyright owner *O* were to license the production and distribution of its watches to two unrelated parties, *U* and *F*,

with *U* given only the U.S. copyright and *F* given only foreign copyrights, *U* would be able to prevent the importation of *F*'s copies because those copies would not have been made *according to the Copyright Act*. See Resp. Br. 40-41.

Omega suggests that Costco's construction gives licensee *U* a right to prevent the importation of certain copies made abroad that is not available to copyright owner *O*. But that is not true: if *O* were to license only its foreign rights and retain its U.S. rights, it too would have the right to prevent the importation of *F*'s copies for the very same reason. In each scenario, in the absence of § 602, the entity holding U.S. rights would not have any means to ensure that it enjoys the exclusive right of first distribution afforded to it under the Copyright Act.

But this case is different. Here, Omega, as the owner of both U.S. and foreign rights, was free to determine when, where, and to whom to make the "first sale" of the copies at issue. The same would be true if Omega had licensed or assigned exclusive foreign distribution rights to a related entity. In such a case, Omega presumably could control the terms of the first sale and prohibit that entity from selling into the U.S. market.

There is no justification, however, for permitting Omega to control the sale of the *same* copies in two *different* markets. As the Court held in *Quality King*, "[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." 523 U.S. at 152.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

NORMAN H. LEVINE
AARON J. MOSS
GREENBERG GLUSKER
FIELDS CLAMAN &
MACHTINGER LLP
1900 Ave. of the Stars
Los Angeles, CA 90067
(310) 553-3610

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL,
ENGLERT, ORSECK,
UNTEREINER & SAUBER
LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

Counsel for Petitioner

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