

No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA S.A.,
Respondent.

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

**BRIEF OF SOFTWARE & INFORMATION INDUSTRY
ASSOCIATION (SIIA) AS AMICUS CURIAE IN
SUPPORT OF RESPONDENT**

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September 7, 2010

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**BRIEF OF SOFTWARE & INFORMATION
INDUSTRY ASSOCIATION AS AMICUS CURIAE
IN SUPPORT OF RESPONDENT**

**STATEMENT OF INTEREST OF THE
AMICUS CURIAE¹**

Amicus, the Software & Information Industry Association (“SIIA”), is the principal U.S. trade association of the software and digital content industries. SIIA is the nation’s oldest and largest association representing software and content companies.² Its members range from start-up firms to some of the largest and most recognizable corporations in the world. SIIA member companies are leading providers of, among other things:

- software publishing, graphics, and photo editing tools
- corporate database and data processing software

¹ Pursuant to this Court’s Rule 37.6, amicus affirms that no counsel for a party authored this brief in whole or in part and that no person other than amicus and its counsel made a monetary contribution to its preparation or submission. The parties’ letters consenting to the filing of this brief have been filed with the Clerk’s office.

² The Software Publishers Association (“SPA”) was founded in 1984. The increasing convergence of the software and information services industries led to a 1999 merger between SPA and the Information Industry Association (“IIA”), creating the SIIA.

- financial trading and investing services, news, and commodities exchanges
- online legal information and legal research tools
- textbooks and research periodicals
- protection against software viruses and other threats
- education software and online education services
- open source software
- and many other products and services in the digital content industries.

A list of the more than 500 SIIA member companies may be found at http://joomlatest.siiia.net/index.php?option=com_wrapper&view=wrapper&Itemid=43.

SIIA has been an industry leader in addressing intellectual property issues in the software and information industries for many years. It has long been an active participant in legislative debate and revisions relating to copyright. Moreover, SIIA's members have extensive, real-world experience as: (1) both "buyers" and "sellers" in various kinds of market transactions that may be affected by this case, (2) licensors and licensees in transactions that, as SIIA urges, are *not* affected by the first sale doctrine, such as mass market software licensing, and (3) copyright owners attempting to protect their rights and sustain their business in an increasingly challenging global electronic marketplace, where copies are effortlessly made and distributed anywhere in an instant.

SIIA's interest in this case is to ensure the proper application of sections 109 and 602 of the Copyright Act, both of which have been interpreted uniformly by courts for many years. Multi-billion dollar industries have long relied upon these consistent interpretations, and the Ninth Circuit's holding in this case is consistent with these settled expectations. *See Omega Br.* at 12, 44 (explaining that the Ninth Circuit's analysis effectively has been settled law for a quarter century). Significant segments of the content industries rely upon section 602 to make and sell "country-specific" or "region-specific" versions of their products. For example, a textbook publisher may find it impractical and uneconomical to provide its "standard" product in third world countries, but can establish a plant overseas to produce a slightly modified, lower-priced version to sell there.³ It is well understood that section 602 maintains the incentive for the copyright owner to engage in such practices, which are beneficial to the copyright owner itself as well as to domestic and foreign consumers.

³ Sometimes the product may be exactly the same as the domestic version. Sometimes it may have differences, such as lower quality paper, or black and white illustrations instead of color, or different typesetting.

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 section 109 first sale doctrine did not apply to foreign-made copies imported by Costco. A copy “lawfully made under this title” means *made under the United States Copyright Act*, and it is well established that the Copyright Act only applies to acts within or subject to the jurisdiction of the United States. Moreover, if there were any ambiguity to the statute, its legislative history plainly resolves it. Contemporaneous statements by those drafting and debating section 602(a) show that it was meant for the very purpose of preventing parallel imports without the authorization of the copyright owner – the very conduct at issue in this case.

The appellate court’s conclusion also is the only one fully consistent with this Court’s analysis in *Quality King*, and subsequent holdings by the dozens of other courts to encounter the issue. Reversing the court’s decision would upset more than a quarter century of settled law and settled expectations of the U.S. copyright industries and their customers.

Costco’s position also requires the Court to encroach upon the policy role that is the province for Congress alone. The arguments of Costco and its *amici* rely upon conjecture about what may happen in various industries should the Court affirm the case, and policy concerns regarding the extent to

which copyright owners should be entitled to exercise control over their works. The participants on both sides of this case surely advance competing views over whether so-called “market segmentation” is good or bad for consumers, and whether it is generally a socially desirable or undesirable exercise of a copyright owner’s rights. But as Omega and the United States have explained, such policy concerns: (1) already were taken into account by Congress when it passed section 602(a); (2) have not actually come to pass in the quarter century since enactment of section 602(a); and (3) in any case would be the responsibility of Congress to consider again.

Finally, it is important to note that this case involves the *sale* of products bearing a copyrighted work, and not the *license* of copies as is the predominant practice in several significant copyright industries (including the mass market software industry). It is well established that section 109 does not apply to licensed copies, and unauthorized distributors of such copies can be sued for copyright infringement. *See* 17 U.S.C. § 109(a) (first sale doctrine available to the “owner” of a copy). Not surprisingly, some “reseller” industries desire a shift in the law, and some *amici* appear to advocate this case as a vehicle to do so. There are many important reasons beyond mere market segmentation, however, for some copyright owners to license rather than sell copies of certain products. This case should not affect the integrity of the thousands of existing software licenses and other licenses in place, the businesses built upon such licensing, and the critical enforcement regimes (copyright, not simply contract) needed to effectively protect them.

ARGUMENT**I. THE FIRST SALE DOCTRINE (SECTION 109) DOES NOT APPLY TO COPIES MADE IN FOREIGN JURISDICTIONS AND IMPORTED INTO THE UNITED STATES WITHOUT AUTHORIZATION**

Straightforward principles of statutory interpretation dictate that section 109 does not apply to copies made in foreign jurisdictions, under the copyright laws of those jurisdictions rather than the U.S. Copyright Act, and imported into the United States in violation of section 602.

A. The Plain Language of Section 109, Section 602, And Surrounding Context In The Copyright Act Support Affirmance

Section 602(a) of the Copyright Act provides:

[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 under section 106, actionable under section 501.

17 U.S.C. § 602(a)(1). The exclusive right to distribute copies is, however, subject to limitations

by other provisions including the first sale doctrine. First established by this Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), the first sale doctrine is now codified in section 109. It states:

[n]otwithstanding 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).

The meaning of the phrase “lawfully made under this title” is plain: the act of making the copy was governed by the U.S. Copyright Act – it occurred within the territorial reach of U.S. law and the U.S. Copyright Act is what made it lawful. If the making of the copy is not governed by the Copyright Act, the copy cannot be “made under this title,” let alone “*lawfully made under this title.*” See *Quality King Distributors, Inc. v. L'anza Research Intern., Inc.*, 523 U.S. 135, 142 (1998).

It is well established that a copyright owner’s exclusive rights under Title 17, including the reproduction right (the right to make a copy) 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); 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) (Holding that United States patent law is territorial, and “[f]oreign conduct is . . . the domain of foreign law.”). International copyright treaties similarly treat the “lawfulness” of making a reproduction as the province of the nation in which it occurred. *See, e.g.*, Berne Convention for the Protection of Literary and Artistic Works, art. V (Sept. 28, 1979) (“Protection in the country of origin is governed by domestic law.”). Thus, when a copy is made outside of the United States, it is neither permitted nor precluded by Title 17 (“this title”). The Copyright Act does not govern the conduct at all.⁴

Costco and its *amici* argue that “lawfully made under this title” means simply that the copy *would* have been lawful *if* U.S. copyright law applied. But if Congress had meant that, it knew exactly how to say it – it did so in a different part of section 602. 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). Congress’ use in subsection (a) of the different phrase “under this title,” must mean something different. *See, e.g., Russello v. United States*, 464 U.S. 16, 23 (1983) (“[W]here Congress includes particular language in one section of a

⁴ This is particularly true where, as here, the copy was made abroad pursuant to an authorization that only permitted distribution abroad. Nothing about the making of that copy is “under” U.S. copyright law.

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.” (citations omitted)). Thus, “under this title” cannot mean *if* U.S. law applied to the making of the copy. It means U.S. law *did* apply to the making of the copy.⁵

While the plain statutory language is dispositive, *see Connecticut Nat’l Bank v. Germain*, 503 U.S. 249, 253-54 (1992), the surrounding context of section 602 and other portions of the Copyright Act further support the Ninth Circuit’s interpretation. First, that interpretation appears to be necessary in order to avoid redundancy with the general distribution right under section 106(3). *See, e.g., Ratzlaf v. United States*, 510 U.S. 135, 140-41 (1994) (courts should avoid interpreting statutory terms “in any setting” as “surplusage” or “superfluous” to other terms in the same statute (citations omitted)); *Regions Hosp. v. Shalala*, 522 U.S. 448, 467 (1998) (a statute should be construed so that “no clause, sentence, or word shall be superfluous, void, or insignificant”).

⁵ Section 104 of the Copyright Act is consistent, specifying when a U.S. copyright exists “under this title.” 17 U.S.C. § 104. While section 104 grants U.S. copyright *status* to some foreign-published works (pursuant to treaty obligations), the exclusive *rights* that attach to copyright (including the right to make a copy) are specified and exercised *territorially*.

Section 106(3) already prohibits “distribut[ing] copies . . . to the public” in the United States without authorization. 17 U.S.C. § 106(3). This provision on its face would appear to cover the importing of piratical copies into the United States. This is confirmed by a passage in section 602. *See* 17 U.S.C. § 602(a) (“[i]mportation is an infringement of the exclusive right to distribute copies . . . under section 106.”). To avoid nearly complete redundancy with section 106(3), the importation right under section 602(a) must properly be interpreted to apply not only to piratical copies, *but to certain authorized copies as well*. *See* 2 GOLDSTEIN ON COPYRIGHT § 7.5.2 (2007) at 7:130.1 (“Section 602(a)[(1)] encompasses both piratical and gray market goods.”). Indeed, the Court already reached this conclusion in *Quality King*, 523 U.S. at 147. And as discussed below, this is consistent with the intent expressed by Congress in legislative history. There would be little reason for Congress to devote attention to a new section 602 if it only applied to piratical imports already covered by the traditional distribution right of section 106(3).

Moreover, Omega’s interpretation is necessary to avoid internal redundancy within section 602 itself. Sections 602(a)(2) and 602(b) both provide remedies in the case of piratical goods that would appear to subsume § 602(a)(1) if that provision only covered piratical (unauthorized) copies. *See* Omega Br. at 24-27 (explaining redundancies). And limiting section 602 to piratical copies also would render moot the various exceptions within section 602, such as the “baggage exception” for travelers bringing back personal copies of a work. *See* 17 U.S.C. §

602(a)(3)(B). Such exceptions would be unnecessary, as the user simply could assert the first sale doctrine.

B. The Legislative History Of Section 602 Confirms That The First Sale Doctrine Is Not A Defense To Parallel Importation Of Copies Made Abroad For Distribution Exclusively Abroad

The legislative history of section 602 confirms that Congress enacted the statute to deal with the problem of parallel imports, not simply the importation of piratical works. *See, e.g.*, 4 William F. Patry, PATRY ON COPYRIGHT § 13:42 (2010) at 13-89 (Congress intended section 602 “to grant a U.S. distributor an exclusive right to distribute copies of the work in the United States.”). The Copyright Office played a substantial role in the deliberations leading up to the adoption of section 602, like the rest of the 1976 Copyright Act. The Act was the culmination of various studies and reports conducted by the Office in the 1950’s and 1960’s. In those reports and elsewhere, the Office explained that a new section (to become 602) was intended to address foreign copies that were made with the authorization of the copyright owner but authorized only for distribution abroad, and “if sold in the United States would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States.” House Comm. on the Judiciary, 88th Cong., 2d Sess., Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft 28, 32 (Comm. Print Sept. 1964).

The Register of Copyrights similarly stated on record that the new provision would apply, for example, where “the copyright owner had authorized the making of copies in a foreign country for distribution only in that country.” Staff of the House Comm. on the Judiciary, 89th Cong., 1st Sess., Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 149-50 (Comm. Print 1965). The Register further explained that, in addition to prohibiting import of “unauthorized editions” or “piratical” copies, the new section also prohibited “importation for infringing distribution” of non-piratical copies, or “copies . . . lawfully made but [for which] distribution in the United States would violate the exclusive rights of the U.S. copyright owner.” *Id.*

The House Report similarly confirms that section 602 is directed to parallel imports. *See* H.R. Rep. No. 94-1476, at 169 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5785 (“Section 602 . . . deals with two separate situations: importation of ‘piratical’ articles (that is, copies . . . made without any authorization of the copyright owner), and unauthorized importation of copies . . . that were lawfully made.”)

Congress also recognized that, in theory, copyright owners may have a breach of contract claim when a copy was imported without authorization. But Congress realized the impracticality and ineffectiveness of contract law to protect against parallel imports. *See* Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess.,

Copyright Law Revision Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 212-14, 232, 327 (Comm. Print 1963). As noted in various reports in the legislative history, enforcement of contractual terms often is impossible because the copyright owner may not know which party breached its terms, or because there is no privity between the importer and the copyright owner, or because the contract must be enforced in the foreign country where the sale or unauthorized distribution took place. *See* 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 126 (Comm. Print 1961). Thus, Congress determined that the only viable solution to prevent parallel importation was enforcement of a copyright owner's parallel importation rights under section 602(a).

If section 109(a) nevertheless is interpreted so broadly that it prevents an action against parallel imports under section 602(a), copyright owners will be left with no practical remedy for preventing parallel importation, directly in contrast to Congress' stated intent.

In sum, the statutory language, surrounding text, and legislative history support the Ninth Circuit's decision in this case, and the prevailing law for the past thirty years. Costco and its *amici's* arguments essentially boil down to a request to change the law for policy reasons. As discussed below, those reasons are dubious and outweighed by substantial benefits of permitting copyright owners

to bar parallel imports that were made abroad for exclusive distribution abroad. In any event, it is the role of Congress to make that determination, not the Court. *See, e.g., Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (“[I]t is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors . . . in order to give the public appropriate access to their work product.”).

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

The limited rights Congress implemented in section 602 are beneficial to consumers and significant for many copyright owners. The theoretical “parade of horrors” cited by Costco and its *amici* have not come to pass during the quarter century in which section 602 has prohibited most unauthorized parallel import copies. Indeed, the enormous commercial success enjoyed by Costco itself, its online retailer *amici* such as eBay and Amazon, and the unrivaled vibrancy of the U.S. market for copyrighted works, illustrate the fallacy in Costco’s speculation.

Costco and its *amici* use the terms “market segmentation” and “price discrimination” in describing section 602, and suggest that such practices are inherently harmful to consumers and the United States economy. But 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, to compete with copies made for domestic distribution. Some SIIA member companies, for example, introduce slight variations in product presentation or quality to conform to the demand in various countries. Price 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 test preparation materials, textbooks, and other copyrighted works, with prices based upon various local and international factors.

While these practices often benefit consumers around the world, 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,⁶ 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

⁶ Differentiated global pricing often results in a larger global market for a product. The producer's fixed costs, sometimes including first production costs, then have a wider base against which to be recovered, which in turn permits the producer to lower prices in the domestic market to levels that would not otherwise be possible.

BASED ECONOMY 397, 402 (Robert Anderson & Nancy Gallini eds., 2007) (“Without 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.”). Differentiated pricing 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. It enhances the value of a U.S. copyright.

Moreover, SIIA members sometimes deem some version of “market segmentation” necessary to comply with the legal regimes 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*, 2006 WL 1096816 (S.D.N.Y. Apr. 26, 2006) (slip op.). In the software industry, data protection and security laws vary.

In short, Congress had multiple, rational reasons to provide copyright owners with a right to preclude certain parallel imports. Its judgment and intent should not lightly be overturned. *See Eldred v. Ashcroft*, 537 U.S. 186, 204 (2003) (“[W]e turn now to whether [the statute at issue] is a rational exercise of the legislative authority conferred by the Copyright Clause. On that point, we defer substantially to Congress.”).

The ability of some copyright owners to continue selling market-specific copies of works depends upon maintaining the interpretation of sections 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. v. Arora*, 2010 WL 2300535 (S.D.N.Y. 2010) (distributor liable for copyright infringement, for purchasing foreign editions of a textbook and importing them into U.S. for sale); *John Wiley & Sons, Inc. v. Kirtsaeng*, 2009 WL 3364037 at *5 (S.D.N.Y. 2009) (same).

Costco and its *amici* predict dire consequences if the first sale doctrine is not interpreted to now 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. *See Omega Br.* at 44-47. SIIA, for example, is aware of no evidence that its member companies have moved manufacturing operations abroad as a result of the *Quality King* holding, which distinguished U.S.-made copies from foreign-made copies. And throughout its extensive, ongoing copyright enforcement activities, SIIA is aware of no instance in which a U.S. reseller was sued over a legitimate copy that had been made overseas and imported *with* the copyright owner’s authorization.

Thus, there is simply no sound reason for changing the rules that have been in effect for thirty years. *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. Costco argues that these developments merit a change in the way section 109 is interpreted. But as the Court has stated:

[f]rom its beginning, the law of copyright has developed in response to significant changes in technology. Indeed, it was the invention of a new form of copying equipment - the printing press - that gave rise to the original need for copyright protection. Repeatedly, as new developments have occurred in this country, it has been the Congress that has fashioned the new rules that new technology made necessary.

Sony Corp., 464 U.S. at 430.

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

The SIIA believes that the decision in this case should be affirmed. But if the Court were to find

otherwise, *e.g.*, that the *sales* and import of Omega-brand watches in this case fall within the first sale doctrine, its analysis should avoid jeopardizing the integrity of the many thousands of *licenses* in force. Preventing grey market infringement is but one effect of some licenses, albeit an important one. For example, illegal online “resale” of licensed academic and OEM software on sites such as eBay is a very significant problem and may jeopardize the future availability of discounted software to those markets. But more importantly, the ongoing rights and responsibilities in licenses provide a critical level of clarity and expectations to licensors and licensees in the software and information industries.

It is indisputable that the benefits of section 109 inure only to the “owner of a particular copy” and not one who obtains it by other means, such as under a license. *See, e.g., Quality King*, 523 U.S. at 146–47. This requirement has long exempted various categories of copyrighted works, such as many mass-marketed software products, from the first sale doctrine and the essential steps doctrine of section 117. *See, e.g., Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009) (software transaction was a license with a non-transfer provision, so subsequent acquiring entity infringed when it used the software); *Wall Data Inc. v. Los Angeles County Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir. 2006) (software distributed under shrink-wrap license, so not owned by the user); *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1362 (Fed. Cir. 1999). It is important that the present case not upset these well established principles.

For several decades, the mass market software industry has relied heavily upon a licensing model for the distribution, maintenance, and updating of its products to and for its customers. Today, licenses govern most mass market software transactions, and the software and information industry has grown to over \$500 billion in annual revenues. *See* Software & Information Industry Association, *Software and Information: Driving the Knowledge Economy* (January 24, 2008) at 7-8, <http://www.siiia.net/estore/globecon-08.pdf>. The software and information industry is one of the largest employers in the United States, and is projected to add two million more jobs by 2016. *See* U.S. Bureau of Labor Statistics, National Industry Specific Occupational Employment and Wage Estimates, <http://www.bls.gov/oes/current/oesrci.htm#51> (last modified Oct. 24, 2007).

Software publishers 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. Publishers 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.

By the same token, the nature of software imposes unusual risks on the publisher. Whether a

customer is running the program on his home computer to edit photo albums, or operating a mission-critical database application in the workplace, the software publisher aims to ensure that the product will continue to function as intended, even as the user's desktop environment, network environment, and hardware may constantly change. The need for providing warranties, but at the same time reducing the inherent risk to economically acceptable and reasonably certain levels, is apparent.

For all of these reasons, licenses evolved as the logical means of transacting mass market software. By clearly setting forth the terms of use and the obligations of the publisher, software companies could gain the certainty and uniformity necessary to make mass software distribution economically feasible. Customers also typically benefit by acquiring rights not provided by copyright law or other intellectual property laws, such as:

- Permitting multiple backup and archival copies stored on various media or locations.
- Permitting multiple log-ins or connections to use a single CD, and make multiple copies.
- Permitting modification and adaption of the code.
- Granting free or reduced price access to updates and upgrades.
- Providing access to ongoing technical support.
- Permitting copying and distribution of the software documentation.

- Permitting sublicensing for purposes of outsourcing.

See Software & Information Industry Association & LicenseLogic LLC, CERTIFIED SOFTWARE MANAGER STUDENT MANUAL (SIIA Publications 2004) at Section 4: Understanding License Agreements 4:1 – 4:62.

Licensing also permits a wider range of users to access and use software. Because the “product” is, in essence, the rights bundled with the code, a publisher need not reduce or degrade the function of its product in order to provide it at a reduced price appropriate for a particular market of users. Rather, the publisher can simply vary the rights of using it. So, for example, a publisher may offer a fully functional “academic” version of its product to students at a deeply reduced price, but the rights granted do not permit use for commercial purposes. *See, e.g., ProCD, Inc., v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (“Instead of tinkering with the product . . . [software companies] turned to the institution of contract.”); *id.* at 1455 (“Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets.”). Similarly, “OEM licenses” bundle software with or installed upon specific hardware, such as a scanner or desktop computer, and require the software to be used and distributed only with that hardware. Often, the hardware manufacturer was granted a deep discount as part of the OEM license terms. Another example is “site licenses, which are defined by some geographic restriction on use, such as a specific company, area, or even department or floors of a building. *See, e.g.,* Software & Information Industry Association &

LicenseLogic LLC, CERTIFIED SOFTWARE MANGER STUDENT MANUAL (SIIA Publications 2004) at 4:1 – 4:52.⁷

There is no single, common term that defines a software license.⁸ By varying terms such as the extent of transferability, extent of copying, modification rights, export rights, location and type of use, the publisher can provide a price-appropriate product appropriate for the varying needs of various markets. Consumers benefit significantly. And licensing allows publishers to manage the risks inherent in providing a product constantly susceptible to reverse engineering, copying, and other misuse, and to balance potential liability should it fail to perform as intended.

⁷ Licenses also are the foundation of open source software development and distribution. *See, e.g., Jacobsen v. Katzer*, 535 F.3d 1373, 1378 (Fed. Cir. 2008) (“Open source software licenses, or ‘public licenses,’ are used by artists, authors, educators, software developers, and scientists who wish to create collaborative projects and to dedicate certain works to the public.”); GNU General Public License, Preamble, <http://www.fsf.org/licenses/licenses/gpl.html> (November 14, 2009).

⁸ While a hallmark of licensing or leasing a physical good may be return of that item at some point, the same cannot be said for software. It is, by its nature, ephemeral and infinitely reproducible. While the plastic disc, or floppy disk, or other media used to convey it or store it may, in theory, be requested back by the publisher, to do so would be relatively pointless and highly inefficient. *See, e.g., DSC Commc’ns*, 170 F.3d at 1362 (Fed. Cir. 1999).

Licenses are essential to the ordered functioning of the mass market software industry and other significant U.S. businesses. While some of them have the effect of so-called “market segmentation” just as the Omega watch *sales* in this case, a license to a copy is distinct from a sale and does not typically convey “ownership” of the copy. Thus, even if Costco’s reproduction and sales of watches abroad are held to trigger the first sale doctrine, the Court should avoid any implication that it affects the licensing of copyrighted works.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

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September 7, 2010