

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 *AMICUS CURIAE*
AMERICAN INTELLECTUAL PROPERTY LAW
ASSOCIATION IN SUPPORT OF NEITHER PARTY**

AMERICAN INTELLECTUAL
PROPERTY LAW
ASSOCIATION

ALAN J. KASPER, PRESIDENT
241 18th Street, South
Suite 700
Arlington, VA 22202
(703) 415-0780

PATRICK J. COYNE*
FINNEGAN, HENDERSON,
FARABOW, GARRETT,
& DUNNER LLP

901 New York Avenue, N.W.
Washington, DC 20001
(202) 408-4000
patrick.coyne@finnegan.com

July 9, 2010

*Counsel of Record

Counsel for *Amicus Curiae*

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STATEMENT OF INTEREST¹

The American Intellectual Property Law Association (“AIPLA”) is a national bar association of more than 15,000 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. AIPLA members represent both owners and users of intellectual property.

AIPLA has no interest in any party to this litigation nor does AIPLA have a stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the administration of the copyright and trade laws. This brief is filed with the consent of both parties to this dispute, as expressed in letters consenting to amicus filings entered on this Court’s docket May 5, 2010.

¹ In accordance with Supreme Court Rule 37.6, this brief was not authored, in whole or in part, by counsel for a party, and no such counsel or party made any monetary contribution intended to fund the preparation or submission of this brief.

SUMMARY OF ARGUMENT

This brief urges the Court to clarify the respective rights of U.S. copyright owners to control the channels of distribution for their goods, and of the owners of copies of those goods to sell or otherwise dispose of their copies. This issue was addressed in part by this Court in *Quality King Distributors, Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), with a decision favoring the owners of copies and to the detriment of copyright owners.

In the case now before the Court, the Ninth Circuit ruled in favor of the copyright owner, concluding that its rights were not limited by *Quality King* because, unlike that case, the copies here were made abroad. *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008). Both this case and the *Quality King* case concern the extent to which a copyright owner's right to block the unauthorized importation of its works under 17 U.S.C. § 602(a) of the Copyright Act is limited by the first sale defense under 17 U.S.C. § 109(a).

AIPLA takes no position on who should prevail on the present facts, but instead seeks to address the broader concerns of authors and creators. However, AIPLA urges this Court to reject the Ninth Circuit's reading of Section 109(a)'s "lawfully made under this title" language as limiting the statute to U.S.-made copies, and to construe the phrase as meaning "consistent with" the provisions of Title 17. Such a reading would not require a reversal of this Court's holding in *Quality King*,

although it may require a rethinking of the interplay between Section 602(a)'s restriction on the importation of copies and Section 106(3)'s right of distribution. Moreover, the legislative and judicial history of the first sale doctrine, as well as the context of identical language in other parts of the Copyright Act, makes clear that the first-sale doctrine applies to the sale and distribution of copies in the United States without regard to their place of manufacture.

Beyond this point, AIPLA's brief explores the first sale doctrine and presents the case for two alternative results here:

(1) The first sale defense applies here for the same reasons that required its application to a charge of infringing imports in *Quality King*. As Justice Stevens wrote in that case, "once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Id.* at 152; or

(2) The first sale defense does not limit infringement liability for unauthorized importations under 17 U.S.C. § 602(a) because the act of importation itself involves neither a sale nor disposition of a copy necessary to trigger the first sale doctrine. The difference in *Quality King* was that there was a distribution "to the public" inside the United States which exhausted the copyright owner's

rights before any importation occurred. No such sale or disposition of the copies took place prior to importation in this case.

BACKGROUND

In *Omega, S.A. v Costco Wholesale Corp.*, 541 F.3d 982, 986 (2008), a three-judge panel of the Ninth Circuit held that the first sale doctrine, 17 U.S.C. § 109(a), is not available as a defense to a copyright infringement claim that the sale in the United States of genuine copies originally made and sold overseas by the copyright owner infringe the copyright. In doing so, the Ninth Circuit panel sought to reconcile prior Ninth Circuit decisions denying the first sale defense with this Court's decision in *Quality King Distrib., Inc. v L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), in which this Court sustained the first sale defense.

In *Quality King* this Court held that the first sale doctrine (17 U.S.C. § 109(a)) applies to imported copies originally made in the United States ("round-trip" imports). This Court left open the issue of whether the importation of authorized copies made in a foreign country ("one-way" imports) also would be subject to the first sale defense. *Id.* at 154 (Ginsburg, J., concurring). The Ninth Circuit panel distinguished this Court's holding in *Quality King* on the basis of where the copies were made, holding that the phrase "lawfully made under this title" requires that the copy be physically made in this country. The Ninth Circuit panel concluded that

prior Ninth Circuit precedent is not “clearly irreconcilable” with *Quality King*, and followed the Ninth Circuit’s prior decisions denying a first sale defense where the copies were made in a foreign country.

In the *BMG Music* decision, the Ninth Circuit held that the phrase “lawfully made under this title” requires that the copy be made in the United States, and denied the first sale defense to legitimate, imported copies. *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991). In subsequent cases, the Ninth Circuit recognized that this limiting construction of the first sale doctrine is too constrained, among other reasons because it creates perverse incentives that cannot be reconciled with the Copyright Act. Specifically, it “would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States.” *Parfums Givenchy v. Drug Emporium, Inc.*, 38 F.3d 477, 482 (9th Cir. 1994). The Ninth Circuit modified its *BMG Music*-construction in subsequent cases, adding an additional exception from liability found nowhere in the statute or its legislative history: when the foreign-made copy was sold in the United States with the copyright owner’s authorization. *Id.*; *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir. 1996). Consequently, the Ninth Circuit now construes the phrase “lawfully

made under this title” in Section 109(a) to mean either: (1) made in the United States; or (2) if not made in the United States, sold in the United States with the authorization of the copyright owner.

Other Circuits have declined to interpret the first sale doctrine in the manner of the Ninth Circuit, *e.g.*, *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). The Ninth Circuit’s decision, whether or not “clearly irreconcilable” with *Quality King*, fails to acknowledge and accommodate this Court’s holdings regarding the scope of the first sale doctrine, the plain language of the statute, and its legislative history.

ARGUMENT

I. *Quality King* Did Not Resolve Whether the First Sale Doctrine Applies To the Importation and Sale of Legitimate Foreign-Made Copies

The Ninth Circuit held that the first sale defense of Section 109(a) applies “only to copies legally made . . . in the United States.” *Omega*, 541 F.3d at 990. In spite of this Court’s intervening decision in *Quality King*, the Ninth Circuit held that its own prior authority on this issue remains binding precedent. *Omega*, 541 F.3d at 990.

Nonetheless, the Ninth Circuit recognizes that this Court in *Quality King* set forth a syllogism that

affects several critical issues in this case. First, the exclusive right in Section 602(a) to prevent unauthorized importation of a copy is not independent of, and is merely a subcategory of, the exclusive distribution rights provided by Section 106(3). Second, similar to the other exclusive rights granted by Section 106, the right to prevent unauthorized importation in Section 602(a) and 106(3) is limited by the first sale doctrine, 17 U.S.C. § 109(a), as well as by the remaining defenses in sections 107 through 122. Third, if the “owner of a particular copy . . . lawfully made under this Title” imports and sells that copy, even without the authority of the copyright owner, there can be no infringement. *Omega*, 541 F.3d at 984-85; *Quality King*, 523 U.S. at 142. What remains unresolved is whether being “lawfully made under this title” requires that the copy is physically made in the United States or simply that it is a lawful copy made consistent with the provisions of the Copyright Act, regardless of where it is made. This brief will: discuss the impact of certain statements in this Court’s *Quality King* opinion on this issue; summarize the legislative history of this specific phrase—“lawfully made under this title”; describe and critique the arguments in favor of reversal and affirmance, respectively; and finally, provide AIPLA’s observations regarding the possible consequences of this Court either reversing, or affirming on other grounds, the Ninth Circuit’s decision.

Although this Court in *Quality King* made a number of statements regarding the scope of the first sale doctrine with respect to foreign-made copies, that case did not involve a foreign-made copy. AIPLA respectfully submits that these statements, made in *dicta*, merit reexamination by the Court.

Some of the Court's *dicta* favors reversal. Specifically, the Court stated: "the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act." *Quality King*, 523 U.S. at 145 n.14. Although the goods in *Quality King* were in fact sold overseas, they were also made and sold domestically, *id.* at 138-39, and the *Quality King* judgment can rest on these domestic sales. Thus, this statement is unnecessary to the Court's decision, presenting the danger identified by Justice Ginsburg of the Court prejudging in *dicta* the meaning of the phrase "lawfully made under this title" with respect to an authorized, foreign-made copy. *Id.* at 154.

Other of the Court's *dicta* in *Quality King* favor affirmance. In *Quality King*, this Court stated that "lawfully made under this title" does not include a copy that is lawfully made in a foreign country with the authorization of the copyright owner. *Id.* at 146-47. Yet, the examples from the statutory history referenced by this Court in *Quality King* supporting this conclusion concerned predominantly non-dramatic literary works which, unlike the visual

work at issue in this case, were expressly subject to statutory protection under the “manufacturing clause” of the 1976 Copyright Act. This factor was not taken into account in the Court’s analysis, particularly in view of the expiration of the manufacturing clause in 1986.

This Court notes in *Quality King* that the “category of copies produced lawfully under a foreign copyright was expressly identified in the deliberations that led to the enactment of the 1976 Act.” *Id.* at 147. The Court quotes the Register’s 1961 Report to Congress as banning such imports. Yet, such imports were banned by the now-expired manufacturing clause, which had been a part of the copyright law since 1891 and was included in 17 U.S.C. § 601. This protection never applied to the type of work at issue in the present case. Similarly, the Court’s statement that, “presumably only those made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of Section 109(a),” *Quality King*, 523 U.S. at 148, is just that, a presumption, in dicta, about a different type of work.

The *Quality King* decision relied upon a similar analysis in rejecting L’Anza’s argument that, if the first sale doctrine applied, the exceptions in Section 602(a)(3) would be superfluous. The Court resolved this issue on three alternative grounds, *id.* at 146-47, and its statements regarding “the category of copies produced lawfully under a foreign copyright” is unnecessary to its holding in *Quality King*. *Id.* at 146-47. The Court cited the exceptions

to Section 602 as further support for its holding in *Quality King*. *Id.* Yet, the exceptions to Section 602(a) serve another purpose, namely, to clarify that the excepted activities are permitted even if they fail to satisfy the more stringent criteria for fair use. *See* 17 U.S.C. § 107. This statement too was unnecessary to the Court's holding in *Quality King*.

This Court in *Quality King* set out a paradigm of three alternatives relative to the phrase “lawfully made under this title” in Section 109(a). Such copies may be either: (1) piratical; (2) lawfully-made (non-piratical) in the United States; or (3) lawfully-made (non-piratical) under another country's laws. *Quality King*, 523 U.S. at 136. Respondents argue that the second and third categories are not mutually exclusive. Instead, AIPLA respectfully submits that this paradigm does not bear close scrutiny in light of the legislative history of Section 109(a).

II. Legislative History of “Lawfully Made Under This Title” Does Not Support Confining The § 109(a) Defense To U.S. Made Copies

Before 1908, this Court had not yet recognized a first sale doctrine as applied to copyrighted works. The Copyright Act at the time of the *Bobbs-Merrill* decision gave the owner the right to “vend.” U.S. Comp. Stat. 1901, pp. 3406, 3414, 3416. After noting patent law decisions that allowed restraints on alienation after the product had been sold, the Court held that the issue was one of first impression under

the copyright laws. *Bobbs-Merrill v. Straus*, 210 U.S. 339, 346 (1908). The Court noted:

. . . [D]oes the sole right to vend (named in §4952) secure to the owner of the copyright the right, after the sale of the book to a purchaser, to restrict future sales of the book at retail to the right to sell it at a certain price per copy because of a notice in the book that a sale at a different price will be treated as an infringement, which notice has been brought home to one undertaking to sell for less than the named sum? We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction.

* * *

In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future

purchasers, with whom there is no privity of contract. . . . The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend.

Id. at 350-51.

The following year, Congress codified the *Bobbs-Merrill* holding in the Copyright Act of 1909: “nothing in this act shall be deemed to forbid, prevent, or restrict the transfer of *any copy* of a copyrighted work the possession of which has been lawfully obtained.” Copyright Act of 1909, Ch. 320, § 41; 17 U.S.C. § 27 (emphasis added). The phrase “any copy” remained unchanged in the 1947 Copyright Act, and was finally changed in the 1976 Act to: “made under this title.” Under the “any copy” formulation, the first-sale doctrine would have precluded Omega’s infringement claims in this case. *See Quality King*, 523 U.S. at 142, n.9. The precise question before this Court, therefore, is whether Congress, in changing the language of the first-sale doctrine from “any copy” to a copy “lawfully made under this title,” intended to exempt foreign-made copies from the operation of the first sale doctrine.

Had Congress desired this change to limit the scope of the first sale doctrine to domestically-made copies, the legislative history would be expected to evidence this change. If, instead, the legislative history is silent on this point, it is important to

consider precisely what Congress did intend by this change. Was Congress endorsing the *Bobbs-Merrill* holding or attempting to limit it in some way?

In January of 1963, Congress considered a proposed change of the first sale doctrine from “any copy of a copyrighted work the possession of which has been lawfully obtained” to “[e]xcept in the case of articles made in violation of the exclusive right provided in subsection (a), this right [to distribute copies and sound recordings] shall end with respect to a particular copy or sound recording as soon as its first sale or other transfer of ownership has taken place. . . .” Preliminary Draft for Revised Copyright Law (Part 3) (July 20, 1964). The reason given for this change was to avoid invoking the first sale doctrine with respect to pirated copies of the work: “articles made in violation of the exclusive right provided in subsection (a).” *Id.*; Section 5(b). Yet, no discussion accompanied the proposal regarding whether the piratical copies were domestically-made or foreign-made. *Id.*

This proposal was further revised in 1964, with the addition of Section 7 of the Copyright Act. There was no discussion whether the goods were manufactured in the United States or abroad, as this Court considered and attributed to Congress in the *Quality King* opinion. 523 U.S. at 146-48. There was, however, some discussion that the first sale provision should not protect piratical copies and should not be construed to pre-empt state laws, including those prohibiting restraints on alienation.

In a letter dated November 3, 1964, Professor Nimmer noted that:

Sections 7(a) and (b) [the first sale doctrine] should be stated in the negative rather than in the affirmative. That is it should be said: 'The sale or other disposition of the possession of a particular copy or phonorecord lawfully made under this title by the owner of such copy or phonorecord shall not constitute an infringement of the rights of the copyright owner . . . even if such sale or other disposition is made without the authority of the copyright owner. . . . The reason for the negative rather than the affirmative form is to avoid an argument that Section 7(a) and (b) constitute a federal preemption so as to invalidate any state law contractual restrictions on the right of the owner of the particular copy to dispose, exhibit, etc. same.

Copyright Law Revision Bill (Part 5), 316 (Sept. 2, 1965). Ultimately, Professor Nimmer's suggestion to phrase the first sale doctrine in the negative rather than the positive was not accepted by Congress. However, his letter expresses a concern for federal preemption of state law rights

held by the owner of a particular copy. While comments during a panel discussion do not necessarily reflect Congressional intent, *Puerto Rico Dept. of Consumer Affairs v. Isla Petroleum Corp.*, 485 U.S. 495, 501 (1988), *c.f. Quality King*, 523 U.S. at 147-48, the letter demonstrates that the evolution of what became Section 109 included an attempt to preserve those rights. The “lawfully made under this title” language became a fixture in the various legislative proposals culminating in the 1976 Act. But what exactly was Congress trying to accomplish by this change?

The 1964 proposal specifically addressed the “lawfully made under this title” language as follows:

**D. Effect of Transfer of
Particular Copy or Phonorecord**

* * *

To come within section 108(a) a copy or phonorecord must have been ‘lawfully made under this title,’ but not necessarily under the authority of the copyright owner.’ Thus, for example, the disposition of a phonorecord manufactured in compliance with section 113 of the bill would be outside the copyright owner's control. To prevent possible abuse of the copyright owner's rights where copies or phonorecords are

lawfully made without his authorization, safeguards have been written into section 110 (restricting the use of ephemeral recordings), and into section 113 (allowing a compulsory license for the making of phonorecords only where the maker's 'primary purpose is to distribute them to the public for private use').

Preliminary Draft U.S. Copyright Law & Discussions & Comments on the Draft (Part 3), 28 (July 20, 1964).

On May 13, 1965, the Register of Copyrights submitted another report to Congress on the first sale doctrine, Section 108, stating:

Effect of transfer of particular copy or phonorecord.

Section 108 reaffirms the principle that, when the copyright owner has sold or otherwise transferred ownership of a particular copy or phonorecord of his work, the person who has acquired ownership of that copy or phonorecord is entitled to dispose of it by sale, rental, or any other means of disposition. Under section 108(b) the owner of a copy

would also be free 'to exhibit that copy publicly to viewers present at the place where the copy is located,' although he would not be entitled to show the copy over television.

Supplementary Report of Register of Copyrights on the General revision of the U.S. Copyright Law: 1965 Revision Bill (Part 6), XVIII (May 13, 1965).

By 1966, the language of the first sale doctrine assumed substantially the form in which it would be enacted into law, 10 years later. On September 27, 1966, Representative Robert W. Kastenmeier, the principal sponsor of the series of bills that became the 1976 Act, summarized the then-current version of the bill on the House floor:

Section 109: Effect of transfer of particular copy or phonorecord

Section 109 restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person who becomes the owner is entitled to dispose of the copy or phonorecord by sale, rental, or any other means. This principle does not apply where a person has acquired possession under a rental or loan agreement,

without obtaining ownership of the object. Under Section 109(b), the owner of a copy would be able to display it publicly 'to viewers present at the place where the copy is located,' as long as he does not project more than one image at a time or transmit images by television or similar devices.

Summary of Principal Provisions of H.R. 4347, As Amended; *inserted into record by Mr. Kastenmeier*, 112 Cong. Rec. 24064, 24064-68 (Sept. 27, 1966).

Through continued consideration over the next 10 years, the language of what would become Section 109(a) changed very little. Yet, throughout these deliberations, Congress reiterated its unequivocal and unqualified acceptance of the *Bobbs-Merrill* holding. *See, e.g.*, H.R. Rep. No. 89-2237 (1966) *submitted with* H.R. 4347 (Oct. 12, 1966); H.R. Rep. No. 90-83 (1967) *submitted with* H.R. 2512 (Mar. 9, 1967).

By 1975, Abraham Kamenstein had retired as Register of Copyrights and was succeeded by Barbara Ringer. In October 1975, Ms. Ringer presented to Congress the Register's statement on then-pending H.R. 2223, 94th Cong. (1975). Although her comments did not address the first sale doctrine directly, she noted that the broad formulation of the first sale doctrine that had been considered by Congress for the past 14 years had "attracted no opposition":

The proposal that royalties be imposed on the large-scale commercial resale of used copies of textbooks and other works received no support; it runs counter to the traditional 'first-sale' doctrine of copyright law embodied in section 109(a), which has attracted no opposition.

Draft Second Supplementary Report of the Register of Copyrights on the Revision of the U.S. Copyright Law: 1975 Revision Bill, 30 (Oct. 1975).

Ultimately, the first sale doctrine was adopted as Section 109 of the 1976 Copyright Act in substantially the same form in which it had been proposed in 1964. The House and Senate Reports summarize Section 109 in identical language. Both maintain the earlier focus on excluding pirated copies from the protection of the first-sale doctrine, without regard to the geographic source of the copies. Both memorialize that: "Section 109 restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means." H.R. Rep. No. 94-1476, 79 (1976); S. Rep. No. 94-473, 71 (1975).

At no point in its 13-year discussion of the phrase "lawfully made under this title" did Congress, as distinct from those who were attempting to

persuade it, address the geographic source of the pirated copies. Had Congress intended this phrase—“lawfully made under this title”—to somehow limit the scope of the first sale doctrine in the 1909 and 1947 Acts to only domestically-made copies, at least some articulation of this intent would be expected. Rather, both the House and Senate Reports note, specifically with respect to this phrase “lawfully made under this title”:

Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law, the copyright owner’s exclusive right of public distribution would have no effect upon anyone who owns a ‘particular copy or phonorecord lawfully made under this title’ and who wishes to transfer it to someone else or to destroy it.

* * *

This does not mean that conditions on future disposition of copies or phonorecords, imposed by contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.

* * *

To come within the scope of section 109(a), a copy or phonorecord must have been 'lawfully made under this title,' though not necessarily with the copyright owner's authorization. For example, any resale of an illegally 'pirated' phonorecord would be an infringement, but the disposition of a phonorecord legally made under the compulsory licensing provisions of section 115 would not.

Id. This summary of the first sale doctrine, as it was enacted in the 1976 Act, is critical for several reasons. First, Congress continues to endorse, without qualification, a broad formulation of the first sale doctrine, without regard to the location where the copy is made. Second, Congress expressly recognized that, while copyright owners retained the

ability to limit further distribution of their works under state law, they could not do so under the Copyright Act. Finally, Congress continues to focus on piratical copies. In spite of years of lobbying that the resale of legitimate but stolen copies should be excepted from the first sale doctrine, *see, e.g., Quality King*, 523 U.S. at 147, the resale of legitimate copies that have been stolen was not excluded from the scope of the first sale doctrine. Nor did Congress express any intent to limit state laws precluding restraints on alienation of “lawful” copies.

Congress did not, as this Court does in *Quality King*, categorize copies as either: (1) pirated; or (2) lawfully made in the U.S.; or (3) lawfully made in a foreign country. *Id.* at 136, 146.

III. Alternative A: Denying First Sale Defense For Importing Foreign-Made Copies Conflicts With Supreme Court Prior Holdings and Congressional Intent

In addition to the arguments advanced by the Petitioner, AIPLA observes that several arguments support reversal of the Ninth Circuit’s decision. First, the Ninth Circuit’s reasoning that applying the first sale doctrine to foreign-made copies would have a prohibited extraterritorial effect, is incorrect. Second, the Ninth Circuit fails to give appropriate credit to the extensive legislative history of this provision. Third, the Ninth Circuit’s approval of this restraint on alienation fails to account for the fact

that Copyright Law preempts state property law, resulting in outcomes that Congress expressly considered and rejected.

First, the Ninth Circuit recognized that the presumption against extraterritorial application stems from the notion that a U.S. statute applies “only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute.” *Omega*, 541 F.3d at 987-88, citing Restatement (Second) of Foreign Relations Law of the United States § 38. Yet, Title 17 extends copyright protection itself to any work created anywhere in the world (for unpublished works) or in foreign nations that are “treaty party” nations (for published works). 17 U.S.C. § 104. Several sections of the Copyright Act evidence that Congress was concerned with the effect of foreign activities, effectively rebutting the presumption against extraterritorial effect. *See, e.g.*, 17 U.S.C. §§ 601, 602. The mere existence of the “manufacturing clause”—extending and limiting certain rights based on conduct occurring overseas, namely, foreign manufacture—rebutts the presumption against extraterritoriality.

For 93 years, Congress maintained an express requirement that certain types of works be made in the United States. This “manufacturing clause,” although now expired was a feature of the Copyright Act of 1891, and of subsequent acts, including the 1976 Act. 17 U.S.C. § 601. It required that works—comprising preponderantly non-dramatic literary works in the English language that are

“protected by Title 17”—be manufactured in this country. More specifically, it barred their importation into the U.S. if they were not manufactured here. This requirement was explicit and unambiguous—“manufactured in the United States.” 17 U.S. C. § 601. In stark contrast, Congress chose very different language to express the first sale doctrine in Section 109(a).

Extension of this manufacturing requirement to all other media—including visual works such as those at issue in this case—was expressly proposed in the 1897 Treloar Copyright Bill. H.R. 5976, 54th Cong. (1896), *as amended by* H.R. 8211, 54th Cong. (Apr. 15, 1896). This proposal failed in committee. In fact, Congress never enacted any manufacturing clause requirement for visual works.

Ultimately, in March of 1984, the “manufacturing clause” was held to violate the General Agreement on Tariffs and Trade (GATT). It did not expire until July 1, 1986. In the meantime, however, the manufacturing clause effectively kept the U.S. out of the Berne Convention until 1989. William Patry, *The United States and International Copyright Law: From Berne to Eldred*, 40 Hous. L. Rev. 749, 750-51 (2003).

Although the language of the manufacturing clause (“protected under Title 17”) differs from that of Section 109(a) (“lawfully made under this title”), the concepts are at least comparable. The Ninth Circuit would require that to be “lawfully made” under this Title, the copy must be made in this

country. *Omega*, 541 F.3d at 990. Presumably the same would be true of the manufacturing clause's to be "protected under" this title, the copy would have to be made here. Yet, under the Ninth Circuit's reasoning, a foreign-manufactured copy could never be "protected" under Title 17 because this would have given the work the protection of U.S. law while it is located overseas, an extraterritorial effect.

Limiting the first sale doctrine to domestically-made copies would provide an incentive to manufacture abroad. A manufacturer seeking to restrain future distribution of its software, could merely manufacture in Canada or Mexico. Nothing justifies attributing such an intent to Congress in codifying the first sale doctrine. *C.f.*, *Drug Emporium*, 38 F.3d 477, and *Denbicare*, 84 F.3d 1143.

Such a limited reading of "lawfully made under this title" would also impair the public display right under 109(c), which employs the identical language as 109(a). At several points during the legislative history, noted above, Congress addressed this display right, reaffirming the principles of the first sale doctrine. Yet, the Ninth Circuit's reasoning would allow foreign creators of a work to control public display of their sold works. Thus, current beneficiaries of the Picasso estate (or any other foreign-made, non-public domain work) would have the right to prohibit public display of the original work (considered a copy under the statute) in museums in the United States, even if the museum owns the work.

Second, nothing in the phrase “lawfully made under this title” inherently requires manufacture of the goods in the United States. As the above legislative history indicates, Congress recognized that the copyright owner’s authorization is not required, provided that the work is made consistent with Title 17, that it is not piratical, or that it is otherwise authorized by the statute.

This court’s holding in *Bobbs-Merrill* did not depend on whether the copies were “lawfully made under this title.” When Congress codified the first sale doctrine it covered “any copy,” regardless of where it was made. *Quality King*, 523 U.S. at 142, n.9. The copies made by Omega are not unlawful, under either the laws of the United States or of any other country.

Although analogies between different areas of the law are not controlling, *Bobbs-Merrill*, 201 U.S. at 342, 345, the Ninth Circuit’s decision appears to be fundamentally inconsistent with recent developments in the law of exhaustion, estoppel, and waiver. The Ninth Circuit, by limiting the first sale doctrine, has enabled copyright owners to effect a continuing restraint on alienation. Yet, Omega sold copies at a price satisfactory to it. *Bobbs-Merrill*, 210 U.S. at 351. By selling these copies, at a minimum, Omega has exhausted its “exclusive statutory right to control its distribution.” *Quality King*, 523 U.S. at 152. Whether viewed as exhaustion, estoppel, or waiver, Omega has, by its own act, fully exploited its statutory right and

should not be permitted to effect a continuing restraint on alienation of the goods.

Third, the Ninth Circuit's decision wreaks havoc on property rights under state law. Copyright preempts state law, 17 U.S.C. § 301, including state laws protecting the rights of holders-in-due-course to dispose of their property with further transfers. This is precisely why Professor Nimmer warned Congress in November 1964 to alter the wording of the first sale doctrine. Panel Discussion and Comments on 1961 Report (Part 2) at 313.

Yet, under the Ninth Circuit's holding, the first sale doctrine would not apply. *Omega*, 541 F.3d at 990. As the Ninth Circuit held in *Drug Emporium*: the purchaser "had no more authority to distribute the copyrighted [work] than did the original importer." 38 F.3d at 482. Thus, a purchaser of a genuine Omega watch from Costco would not have the right to further distribute the watch. This incongruous outcome underscores some of the reasons why a first sale doctrine exists and why it was codified into the Copyright Act.

IV. Alternative B: Allowing First Sale Defense Conflicts With Congressional Intent And Renders § 602(a)(1) Redundant

Although creation or manufacture anywhere in the world can give rise to certain enforceable rights under the Copyright Act, the right of an owner to "sell or otherwise dispose of" a particular copy has

no effect beyond U.S. shores. The right to distribute the work in the U.S. does not compel a right to distribute it in any foreign country, any more than a right to distribute it elsewhere compels that the owner be allowed to distribute it in the U.S. This right to “sell or otherwise dispose” in Section 109(a) provides an opportunity to harmonize Section 109(a) with Section 602(a), resolving many of the issues identified in *Quality King*. There are three reasons for this result: (1) principles of statutory construction require that each portion of the statute be given some effect; (2) the right in Section 106 to distribute “to the public” is not implicated by foreign sales; and (3) regardless whether or not Section 109 is limited to domestically-made copies, the more specific provisions of Section 602 must be given effect over the more general provisions of Section 109, as a matter of statutory construction.

First, it is well-established that a court should avoid interpreting a statutory provision in a way that renders other provisions superfluous. *Freytag v. Comm’r of Internal Revenue*, 501 U.S. 868, 877 (1991). In contrast to Section 109, which permits distribution of the copy without the copyright owner’s authorization, Section 602(a)(1) expressly precludes unauthorized importation. If making a non-piratical copy, anywhere in the world, voids the prohibition of Section 602(a)(1), then Section 602(a)(1) provides a private right of action against only piratical copies. *Quality King*, 523 U.S. at 136.

There is a problem with this reading, however. Section 602(a)(2) specifically provides that

the importation of copies, “the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright, if the title had been applicable” is an infringement. In other words, Section 602(a)(2) also covers piratical goods. 17 U.S.C. § 602(a)(2). Further, Section 602(a)(2) expressly provides a remedy by private right of action under Section 501. Thus, if the first sale doctrine is construed to extend to legitimate foreign-made goods, Sections 602(a)(1) and 602(a)(2) are redundant: both provide private rights of action against piratical copies.

Second, although the Court in *Quality King* treated Sections 106, 109, and 602 under the syllogism that Section 602 is a subset of Section 106 and both are subject to Section 109, 523 U.S. at 136, harmonizing Section 109 and Section 602(a) requires a closer analysis of the right to distribute. In *Quality King*, this Court found that, where the goods were manufactured in the United States and imported back into this country, Section 602(a) was subject to 109(a). The present facts, however, require a more nuanced reading of 602(a), without undermining this Court’s holding in *Quality King*.

Section 106(3) specifically provides the copyright owner the exclusive right “to distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease or lending.” 17 U.S.C. § 106(3) (emphasis added). The Committee Reports expressly provide that the copyright owner has “the right to control the first *public* distribution of an authorized copy or phonorecord of his work.” H.R.

Rep. No. 94-1476, at 62 (emphasis added). Likewise Professor Nimmer notes that not every distribution of copies falls within 106(3), “but only such distributions as are made ‘to the public.’ ” Nimmer on Copyright, Section 8.11 at 81-148.

Although this Court in *Quality King* held that importation is a subset of the distribution right, 523 U.S. at 151-52, distribution under Section 106(3) further requires conveyance “to the public.” The mere act of importation—crossing the border—does not, by itself constitute distribution to the public within the meaning of Section 106. Section 602(a)(1), however, expressly provides that unauthorized importation is an “infringement of the exclusive right to distribute copies or phonorecords under section 106.” In this sense, Section 602(a)(1) is more of an extension of Section 106(3) than it is a subset of that provision.

The House and Senate Reports confirm that “[i]f none of the exemptions in 602(a)(3) applies, any unauthorized importer of copies . . . could be sued for damages and enjoined from making any use of them, *even before any public distribution in this country* has taken place.” H.R. Rep. No. 94-1476 at 170; S. Rep. No. 94-473 at 152. Thus, Congress recognized that importation precedes and is different than “public distribution.” By expressly providing that unauthorized importation is an infringement of the distribution right, Section 602(a) extends a specific exclusive rights at the point of “[i]mportation into the United States.”

For example, suppose a company in Windsor, Ontario, contracts with a U.S. copyright owner to make and distribute CDs throughout Canada. An enterprising Detroit, seeing the value of a favorable exchange rate, travels to Canada and buys a truckload of the CDs. Absent Section 602(a), the copyright owner cannot stop the importation of these CDs into the United States. Yet, by extending infringement liability for the unauthorized importation, before the copies have been distributed to the public, Section 602(a) provides a remedy.

Importation transactions typically involve sales, as noted in *Quality King*. The same analysis applies when there has been a sale. Infringement occurs at the point of importation, whether or not the goods already have been sold in the foreign country because the foreign sale was not a distribution “to the public.”

Under basic principles of extra-territoriality, absent an express statement to the contrary, a statute does not control conduct occurring outside the United States. Section 109 includes no such express statement. Thus, Section 109(a) cannot dictate whether an owner of a copy may or may not “sell or otherwise dispose” of that copy in Canada or anywhere else outside the United States, any more than Section 106(3) controls the distribution of copies outside the United States.

In the Detroit / Windsor-importer example, suppose the Windsor manufacturer sells the CDs to a Toronto distributor, who, resells them to a buyer in

Nova Scotia. Section 109(a)'s authorization to "sell or otherwise dispose" of the goods without authorization is not triggered until the CDs cross the border into the United States because the sales in Canada are not a distribution to the public. At the point the copies are imported, however, the importer is liable for infringement. Justice Stevens in *Quality King* referred to this view as a "cramped reading" of the importation right. 523 U.S. at 152. However, that observation was unnecessary to the *Quality King* holding because the first sale defense vested with a U.S. sale before any export or re-importation occurred.

If, on the other hand, the copyright owner authorized the importation, the importer would be free to "sell or otherwise dispose of" the CDs because, as this Court noted, the foreign sale of goods made in the U.S. divested the copyright owner of the right to control distribution *in the United States*. *Quality King*, 523 U.S. at 145 n.14. Nothing in the statute or legislative history requires that the act of importation itself constitutes sale or disposition of the goods. While this Court in *Quality King*, noted that an importer "sells or otherwise disposes," *id.* at 151-52, it reached that conclusion without examining the extra-territorial effect of a sale and disposition in another country of foreign-made goods.

None of this is to suggest that the right to "distribute" in Section 602 is not subject to Section 109(a) (and all of the other exceptions to Section 106), as this Court noted in *Quality King*. Rather, the exceptions each apply. Yet, before the copies

reach the U.S., there has been no distribution “to the public,” therefore, the defenses have not yet been triggered.

Third, this analysis resolves an additional potential statutory conflict with which this Court wrestled in *Quality King*. Section 501(a) specifically provides, in pertinent part:

Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . *or* who imports copies or phonorecords into the United States in violation of section 602, is an infringer

17 U.S.C. § 501 (emphasis added).

As this Court noted in *Quality King*, the use of the disjunctive “or” “is more consistent with an interpretation that a violation of § 602 is distinct from a violation of § 106,” yet the Court concluded that such an inference was outweighed by other statutory language. 523 U.S. at 149. AIPLA respectfully submits that the specific language does not so much suggest an independent basis for relief but, rather, reflects Congressional intent to craft in Section 602 a more specific remedy than in Section 106.

The more specific remedy that Congress crafted in Section 602 controls the more general

provisions of the first sale doctrine in Section 109(a). *Bloate v. United States*, ___ U.S. ___, 130 S. Ct. 1345, 1354 (Mar. 8, 2010); *Gozlon-Peretz v. United States*, 498 U.S. 395 (1991). The Court's statements in *Quality King* that the exclusive rights in Section 602 are a subset of the rights in Section 106, subject to the provisions of Section 109, 523 U.S. at 136, fail to account for the fact that Congress crafted a more specific statutory right to exclude unauthorized importation. Although distribution without the authorization of the copyright owner is expressly protected by the first sale doctrine, 17 U.S.C. § 109, importation without the authorization of the copyright owner is expressly prohibited, 17 U.S.C. § 602.

Both provisions can be given effect. Viewing the statutory provisions as a whole, the right to preclude unauthorized imports must be viewed as an implicit exception to the first sale doctrine. Although Congress broadly embraced the first sale doctrine articulated in *Bobbs-Merrill* in 1909 and again in 1947, it did so in the context of domestically manufactured goods. When it faced the more specific question of foreign-made goods in 1976, it crafted a more specific exclusionary right in Section 602 that precludes unauthorized imports.

V. Effect of Reversing The Ninth Circuit; Effect of Affirming The Ninth Circuit

A. Reversal of the Ninth Circuit's Holding Would Vindicate the First Sale Doctrine

Reversal of the Ninth Circuit's holding will have concrete and practical implications for administration of the copyright law as well as for distribution of copyrighted works in increasingly global markets.

First, reversing the Ninth Circuit's decision conforms to the reasonable expectations of the parties, as well as of subsequent purchasers from them. If the Ninth Circuit's decision stands, holders-in-due-course of Omega's authorized, genuine Swiss-made watches will not be able to rely upon the basic provisions of the Uniform Commercial Code that they take their watches without any further restraint on alienation. Instead, holders-in-due-course will be subject to continuing claims of copyright infringement, *e.g.*, making it an infringement for a purchaser of a genuine Omega watch from Costco to further distribute the purchased watch. This result is untenable and clearly not what Congress intended.

Second, the policies articulated in the *Bobbs-Merrill* decision and echoed by Congress throughout the 1909, 1947, and 1976 Acts are vindicated by reversal of the Ninth Circuit's decision. As this Court stated in *Quality King*:

The whole point of the first-sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution. As we have recognized, the codification of that doctrine in §109(a) makes it clear that the doctrine applies only to copies that are “lawfully made under this title,” but that was also true of the copies involved in the *Bobbs-Merrill* case, as well as those involved in the earlier cases applying the doctrine. There is no reason to assume that Congress intended either §109(a) or the earlier codifications of the doctrine to limit its broad scope.

523 U.S. at 152. In fact, the earlier codifications of what is now Section 109(a) expressly included “any copy” and would have covered Omega’s Swiss-made works. As the Court noted in *Quality King*, there is no reason to assume, based on the extensive Congressional consideration of this language, that Congress intended any different result between the 1909 and 1976 Acts.

Third, mindful of this Court’s admonition that “[t]here are such wide differences between the right of multiplying and vending copies of a production

protected by the copyright statute and the rights secured to an inventor under the patent statute, that the cases that relate to one subject are not altogether controlling as to the other,” *Bobbs-Merrill*, 210 U.S. at 346, they may, nonetheless, be informative.

In *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), the Court noted that: “The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.” 553 U.S. at ____. Similarly, in the *Motion Picture Patents Co. v. United States* case, the Court reiterated the rule that: “the right to vend is exhausted by a single unconditional sale, the article being sold thereby being carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.” 243 U.S. 502, 516 (1917). The Court noted further that it is a “longstanding principle that, when a patented item is “once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.” *Quanta*, 553 U.S. at ____ (emphasis in original). Although non-binding in this case, these principles echo and amplify this Court’s holding in *Bobbs-Merrill*. They in no way depend on the geographic origin of the work.

In *Quanta*, LG Electronics argued that these exhaustion principles do not apply to the first sale of the patented product overseas because, as the foreign-made patented product is not made in the United States and, therefore, arguably not made “under” U.S. law, the overseas sale cannot infringe

under U.S. law. This Court rejected this argument in *Quanta*, stating: “*Univis* teaches that the question is whether the product is ‘capable of use only in practicing the patent,’ not whether those uses are infringing. . . . Whether outside the country . . . the Intel products would still be *practicing* the patent even if not infringing it.” *Quanta*, 553 U.S. at ___ n.6 (emphasis in original).

Reversal of the Ninth Circuit’s decision would preclude copyright owners from stopping unauthorized imports through a copyright infringement action. Yet, Congress expressly anticipated this outcome: “but it does mean that they could not be enforced by an action for infringement of copyright.” H.R. Rep. No. 94-1476 at 79; S. Rep. No. 94-473 at 72. This would not leave the copyright owner powerless against “gray market” sales, but it would complicate the owner’s ability to enforce restrictions on their distribution channels.

B. Affirmance of the Ninth Circuit’s Holding Vindicates the Copyright Owner’s Legitimate Need to Control Importation and Avoids Giving Extraterritorial Effect to National Laws

Affirmance of the Ninth Circuit’s decision will likewise have substantial, practical, and very real effects on the administration of the copyright law and international trade in foreign-made works.

First, it will vindicate the ability of copyright owners to exercise legitimate control over the

international distribution of their works. An example involving literary works illustrates a problem that is not hard to imagine. Publishers of literary works, like producers of most products, are subject to local laws, and those laws may include restrictions tied to the local views on obscenity. It is conceivable that a publisher may well choose one distribution for its expurgated edition and a different distribution for its unexpurgated edition. If the first sale defense is allowed to defeat this legitimate need of the copyright owner to control its channel of trade, the copyright owner will lose ability to effectively manage the commercial return for its creative efforts.

Second, disallowing a first sale defense under these circumstances provides the copyright owner effective enforcement of Section 602 against importation of foreign-made copies, before they enter the distribution channel in the U.S. and are sold to holders-in-due-course. This prevents the problems referenced above of disrupting the subsequent purchaser's expectations that they receive good and marketable title to the goods. Provided the first sale doctrine operates with respect to prior and subsequent sales, the limited Congressional exception for importation can be preserved consistent with a broad scope for the first sale doctrine. State law is unperturbed. Only importation is affected.

We live in an increasingly international trading system. This fact was not lost on the Congress, during the deliberations that led to the

1976 Act. Congress was aware of these facts and promulgated this language with these effects in mind. Affirmance of the Ninth Circuit's decision will vindicate these concerns.

VI. Conclusion

For the foregoing reasons, AIPLA respectfully requests that the Court clarify the scope of the first sale doctrine relative to importation of lawful goods that were made in a foreign country, as the resolution of this issue is of substantial importance to owners as well as purchasers of copyrighted works.

Respectfully submitted,

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AMERICAN INTELLECTUAL
PROPERTY LAW
ASSOCIATION
Alan J. Kasper, President
241 18th Street, South
Suite 700
Arlington, Virginia 22202
(703) 415-0780

*Patrick J. Coyne
FINNEGAN, HENDERSON,
FARABOW, GARRETT
& DUNNER, L.L.P.
901 New York Avenue, N.W.
Washington, D.C. 20001
(202) 408-4000

*Counsel of Record
Counsel for *Amicus Curiae*
American Intellectual Property Law Association