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 BUSINESS SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT**

ANDREW J. PINCUS
*Counsel of Record*
PAUL W. HUGHES
*Mayer Brown LLP*
*1999 K Street, NW*
*Washington, DC 20006*
*(202) 263-3000*
*apincus@mayerbrown.com*

*Counsel for Amicus Curiae*

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## BRIEF OF BUSINESS SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

## INTEREST OF THE *AMICUS CURIAE*

The Business Software Alliance (BSA) is an association of the world's leading software and hardware technology companies. On behalf of its members, BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members rely on copyright protection to establish property rights in their critical assets and provide essential legal protection for their substantial investments in those assets. As a group they hold a significant number of copyrights. Because copyright policy is vitally important to promoting the innovation that has kept the United States at the forefront of software development, BSA members have a strong stake in the proper functioning of the U.S. copyright system.

The members of the BSA are Adobe, Apple, Autodesk, Bentley Systems, CA, Cadence Design Systems, Cisco Systems, Corel, CyberLink, Dell, Embarcadero Technologies, HP, IBM, Intel, Intuit, McAfee, Microsoft, Minitab, Quark, Quest Software, Rosetta Stone, SAP, Siemens, SolidWorks, Sybase, Symantec, Synopsys, and The MathWorks.[1]

[1] Pursuant to 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.

## SUMMARY OF ARGUMENT

In arguing that the first sale doctrine codified in 17 U.S.C. § 109(a) overrides the importation right set forth in 17 U.S.C. § 602(a), petitioner and its *amici* assert that as a general matter the Copyright Act should be construed to promote secondary markets in protected works, that the plain language of the statute supports their position regarding the applicability of the first sale doctrine, and that their interpretation is necessary to prevent the inappropriate expansion of copyright protections. Each of these contentions is wrong.

*First*, the fundamental purpose of the Copyright Act is to implement the Constitution's mandate to promote creative works by securing to authors control over their works for limited time periods. The Act grants copyright holders specified exclusive rights, such as the rights to distribute, import, copy, and perform their works. Consumers in turn are entitled to certain rights in copyrighted works that they lawfully acquire. The Act thus is a carefully-crafted compromise that balances the rights of copyright holders, consumers, and other stakeholders.

Nothing in the Act's language or history—or in this Court's decisions—supports adoption of an interpretive principle favoring secondary markets in protected works over authors' exclusive rights. The practical consequence of such a rule would be to *dis*favor authors' exclusive rights, a result that makes no sense because those exclusive rights are the means by which Congress implemented the Act's, and the Constitution's, basic purpose of promoting "the Progress of Science and useful Arts." This Court should reject the invitation to adopt such an approach.

*Second*, petitioner's assertion that the first sale doctrine (which creates an exception to a copyright holder's exclusive right to distribute following the first sale of that work) applies to goods that are manufactured and sold outside the United States is foreclosed by the plain language of the statute. As codified in Section 109(a), the doctrine applies only to copyrighted works "made under [the Copyright Act]." Works produced outside the United States thus cannot qualify for this statutory exception.

Indeed, this Court has already explained that Section 602(a) is "broader" than Section 109(a) "because it encompasses copies that are not subject to the first sale doctrine—*e.g.*, copies that are lawfully made under the law of another country." *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135, 148 (1998).

And, although recourse to policy is neither necessary nor appropriate given the clarity of the statutory language, the negative policy implications of petitioner's approach would be severe. Section 602(a) permits copyright owners to charge lower prices in economically less-developed countries, reflecting the reality of the reduced financial resources of potential customers. It also allows copyright owners to include special terms and conditions (including special pricing terms), in countries with weak copyright protection or lax enforcement mechanisms. Petitioner's construction of the statute would enable a cross-border secondary market that would be harmful to all copyright owners, and would have especially adverse consequences for software creators.

*Third*, petitioner and its *amici* contend that their interpretation of the statute is essential to prevent product manufacturers from using trivial copyrighted works to cloak non-copyrighted products with copyright protections. Even if true, that consequence would provide no basis for limiting the exclusive rights of software creators and others whose copyright extends to all, or the lion's share, of the product in question.

Moreover, equitable doctrines preclude the expansion of trademark rights through the improper invocation of copyright law. The resolution of the question presented here—whether Section 109 overrides the importation right in Section 602(a)—is thus separate and distinct from questions regarding the availability of Copyright Act protections in circumstances such as those presented here. The Court accordingly need not and should not narrowly construe the exclusive rights granted by the Act based on the parade of horribles conjured by petitioner. Those concerns, to the extent they are realized, can be addressed by other copyright law principles.

## ARGUMENT

### I. THE NINTH CIRCUIT CORRECTLY INTERPRETED THE COPYRIGHT ACT.

Petitioner and its *amici* invoke two basic arguments in advancing their substantial evisceration of the importation right granted to copyright owners by Section 602(a). First, they invent a new principle for interpreting the Copyright Act—that the statute should be construed to promote secondary markets in protected works—and contend that the new interpretive rule supersedes the plain words of Section 602(a) and thus supports their position. Second, they argue that the plain language of the relevant provisions support their preferred result.

Both arguments are wrong. This Court should refuse to elevate creation of secondary markets over the Act's fundamental goal of promoting the creation of new creative works. And it should hold that the plain language Congress used in the Copyright Act makes clear that copyright holders have the exclusive right to authorize the importation into the United States of foreign-manufactured copyrighted works.

### A. The Copyright Act Strikes A Careful Balance Between Competing Interests And Does Not Specially Favor Expansive Secondary Markets In Protected Works.

Petitioner and certain of its *amici* suggest that the Copyright Act favors creation of broad secondary markets for protected works, and invoke that supposed principle in contending that the Act precludes recognition of the importation right specified in Section 602(a). That approach to interpreting the Act is plainly wrong.

The Copyright Act, like other federal statutes protecting intellectual property, embodies "a carefully crafted bargain," balancing the rights of the various stakeholders. *Dastar Corp.* v. *Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33 (2003). The Act's provisions reflect "a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand." *Sony Corp.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). See also *Stewart* v. *Abend*, 495 U.S. 207, 228 (1990) (The Copyright Act "creates a balance between the artist's right to control the work during the term of the copyright protection and the public's need for access to creative works.").

To provide authors with necessary incentives to create new works—works that provide significant benefits to the public at large—the Copyright Act grants authors specified rights with respect to the results of their creative endeavors. "The rights conferred by copyright are designed to assure contributors to the store of knowledge a fair return for their labors." *Harper & Row Publishers, Inc.* v. *Nation Enters.*, 471 U.S. 539, 546 (1985). See also *Fox Film Corp.* v. *Doyal*, 286 U.S. 123, 127-128 (1932) ("A copyright, like a patent, is 'at once the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects'") (quoting *Kendall* v. *Winsor*, 62 U.S. (21 Howe) 322, 328 (1858)).

Thus, Section 106 of the Act confers on the copyright owner the exclusive rights of reproduction, distribution, performance, and of the creation of derivative works. And in Section 602(a), Congress granted the copyright owner exclusive importation rights.

Congress of course limited these rights in several ways, including through the "first sale" exception codified in Section 109. That doctrine provides that the "the right" of the copyright holder "'to distribute copies * * * by sale or other transfer of ownership'" "applie[s] only to the first sale of the copyrighted work." *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135, 141-142 (1998) (quoting 17 U.S.C. § 106(3)). By allowing a buyer to resell the work, the doctrine enables the development of a secondary market in the copyrighted work.

Of course, Congress specified that the first sale exception applies only to acts by an "owner" of a copy of a work. 17 U.S.C. § 109(a). See also *id.* § 109(d) ("privileges" of first sale doctrine do not extend to a person who has acquired possession of a copy of a work "without acquiring ownership of it"). The doctrine, for example, does not attach when a copyrighted work is licensed. See, *e.g.*, *Wall Data Inc.* v. *Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 785 n.9 (9th Cir. 2006). See also 17 U.S.C. § 109(b)(1)(A) (making clear that first sale doctrine does not apply to copies of computer software obtained by rental, lease, or lending).

At bottom, the "first sale" doctrine is an *exception* to the exclusive rights that the Act grants to copyright holders. There is no basis in law or history for suggesting that Congress tilted the scales of the Copyright Act to prefer creation of broad secondary markets over vigorous protection of the exclusive rights granted to copyright owners. Such an approach would permit the exception to swallow the rule and would directly contradict the well-established principle that Congress's main concern was to provide a sufficient incentive for creation of new works. "[T]he Framers intended copyright itself to be the engine of free expression. By establishing a marketable right to the use of one's expression, copyright supplies the economic incentive to create and disseminate ideas." *Harper & Row*, 471 U.S. at 558.

Indeed, preferring creation of secondary markets would undermine the fundamental protections that copyright law is intended to provide. "By according authors and their assigns a proprietary entitlement, copyright fosters the development of an independent sector for the creation and dissemination of original expression, a sector composed of creators and publishers who earn financial support for their activities by reaching paying audiences rather than by depending on state or elite largess." Neil W. Netanel, *Copyright & a Democratic Civil Society*, 106 YALE L.J. 283, 347 (1996).

Construing the Copyright Act to favor broad secondary markets would thus require the Court to find within the Act a principle *disfavoring* protection of the author's exclusive rights—a result at odds with the underlying purpose of the statute. To the extent the Act places a thumb on the policy scales, it expresses a preference for the exclusive rights granted to the author, because those rights are the means by which Congress implemented the Act's basic purpose.

In this case, however, fidelity to the plain language Congress used in the Copyright Act resolves the question presented. The relevant provisions make clear that a U.S. copyright holder has the exclusive right to authorize the importation into the United States of foreign-manufactured works that infringe the U.S. copyright.

### B. Section 602(a) Grants Copyright Holders The Right To Prevent The Importation Of Copies Of Works Made And Sold Outside The United States.

Recognizing that the creator of a work may choose to sell, lease, license, or otherwise distribute that work differently depending on the particular characteristics of particular markets around the world, Congress granted U.S. copyright owners specified exclusive rights relating to the importation of a copyrighted work produced abroad.

In particular, the Copyright Act provides that when a copy of a work is made abroad, the holder of the U.S. copyright has the exclusive right under Section 602(a) to determine whether that work may be imported into the United States: "Importation into the United States, without the authority of the owner of copyright under this title, of copies * * * of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies * * * under [S]ection 106 * * *." 17 U.S.C. § 602(a)(1). Even if a foreign-produced copy is sold outside the United States, therefore, the U.S. copyright holder retains the statutory right to restrict importation of that copy into the United States.

1. Section 109(a), which codifies the "first sale" doctrine, does not override the importation right conferred by Section 602(a)(1). Under the first sale doctrine, "the owner of a particular copy * * * lawfully made under this title * * * is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a).

A work produced outside the United States cannot qualify as a copy "lawfully made under" the Copyright Act, because the Copyright Act does not apply outside the United States. See *United Dictionary Co.* v. *G. & C. Merriam Co.*, 208 U.S. 260 (1908). Such a work was made beyond the reach of the U.S. copyright regime

In *Quality King*, 523 U.S. at 147, the Court expressly found that the phrase "lawfully made under this title" used in Section 109(a) does not "encompass[] copies that were 'lawfully made' not under the United States Copyright Act, but instead under the law of some other country." The Court likewise explained that Section 602(a) is "broader" than Section 109(a) "because it encompasses copies that are not subject to the first sale doctrine—*e.g.*, copies that are lawfully made under the law of another country." *Id.* at 148.

The Court illustrated its analysis with an example: if a U.S. copyright holder sold exclusive U.S. publishing rights to one publisher, and exclusive British publishing rights to another, "only those [copies] 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. Thus "[t]he first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under [Section] 602(a)." *Ibid.*

2. Petitioner and its *amici* contend that under this view of the statute a work manufactured abroad could never qualify under the first sale doctrine because it would never be "lawfully made under this title" and thus within Section 109(a)'s ambit.

Not so. Once the U.S. copyright owner imports—or authorizes another to import—the work into the United States, the work becomes subject to the Copyright Act and any subsequent sale will trigger application of the first sale doctrine.

This interpretation accords with the exhaustion principles underlying the first sale doctrine. "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," and thus Section 109(a) applies. *Quality King*, 523 U.S. at 152. In the context of a work produced abroad, the U.S. copyright holder is provided the exclusive right to authorize its importation. Once that right has been exercised and the good lawfully imported and sold in the U.S. market, Section 109(a) attaches as a defense to subsequent owners of that good.

3. What petitioner and its *amici* ultimately support is not the expansion of the secondary market in the United States—to be sure, Section 109(a) already provides for such a domestic secondary market once a work is lawfully sold in the U.S. marketplace—but instead creation of a robust *international* secondary market. That result would significantly harm U.S. copyright owners.

For example, the legal framework for—and, more importantly, the practical reality of—copyright protections vary greatly around the world. Copyright owners take this factor into account in the pricing, terms, and conditions they use to distribute their copyrighted works. For example, they frequently charge lower prices in economically less-developed countries because of the reduced financial resources of potential customers. And in countries with weak copyright protection or lax enforcement mechanisms, copyright holders may, depending on the product and the precise circumstances, need to add terms and conditions of the permitted uses of the work or to charge more for products (to compensate for anticipated copyright infringement) or to charge less as an accommodation to market pressures (to decrease incentives for piracy).

The ability to engage in this differentiation is especially important for software creators. With cross-border communication and collaboration ever more frequent in both business and personal interactions, the software platforms that enable this interaction must be available throughout the world—and at prices that reflect each country's market realities. That means that software creators must be able to set prices at different levels to reflect different conditions in different markets.

Permitting unlimited arbitrage across international markets would prevent software creators and other copyright holders from making these reproduction, translation, adaptation, pricing, and other decisions based on the law and economic circumstances of the market where the work is first made available: any terms or pricing adapted to take into account the conditions of a specific market differential would be undercut by a secondary "international resale" market. That would produce a substantial inequity in the sale of copyrighted works—depriving consumers, for example, of lower prices and depriving copyright owners of the right to control the distribution of their works. See James Boyle, *Cruel, Mean or Lavish? Economic Analysis, Price Discrimination & Digital Intellectual Property*, 53 VAND. L. REV. 2007, 2021-2027 (2000) (reviewing economic justifications for market segmentation).[2]

## II. EQUITABLE DOCTRINES LIMIT THE UNJUSTIFIED EXTENSION OF COPYRIGHT ACT PROTECTIONS.

Petitioner and its *amici* argue that their construction of the Copyright Act is necessary to prevent

[2] To be sure, Omega's market segmentation strategy does not appear to rest on antipiracy or loss prevention considerations. But that may be a product of the peculiar factual context presented here, in which the copyrighted work is a minor component of the overall product.

product manufacturers from invoking copyright remedies with respect to an extremely minor "work" only tangentially related to a non-copyrighted product in order to restrict importation of that product. They justify their dramatic reinterpretation of the importation right by arguing that a manufacturer of branded goods should not be permitted to obtain relief under the Copyright Act that it would be denied under trademark law.

Even assuming that this view of the interplay between copyright and trademark law is correct, there is no warrant for this Court to reach that result by construing the Act in a manner that reduces the protection for products consisting predominately of copyrighted work—software, for example. Other aspects of copyright law preclude product manufacturers from leveraging copyright remedies in this fashion.

1. A manufacturer typically uses registered trademarks to preserve "the goodwill of [its] business" and "the ability of consumers to distinguish among competing producers." *Park 'N Fly, Inc.* v. *Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985). As this Court has long recognized, "trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation." *Ibid*. Thus "the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product." *Qualitex Co.* v. *Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995).

Trademark law thus protects a manufacturer against counterfeit goods (see, *e.g.*, 15 U.S.C. § 1116(d) and other forms of infringement that may dilute the value of the mark (see, *e.g.*, *id.* § 1114(1)).

For similar reasons, trademark law also prohibits unauthorized importation of trademarked merchandise a manufacturer distributes abroad if that merchandise "do[es] not conform to the trademark holder's quality control standards" adopted for the sale of goods in the United States or if the merchandise "differ[s] materially from the product authorized by the trademark holder for sale" in the United States. *Zino Davidoff SA* v. *CVS Corp.*, 571 F.3d 238, 243 (2d Cir. 2009). This standard safeguards the trademark holder against the marketing of authentic but unauthorized products in this country that—because of their difference from authorized products—could serve to diminish the goodwill secured by the U.S. trademark.

But trademark law does not necessarily confer on the trademark holder the ability to prohibit importation of trademarked goods. Courts have stated that "the basic question in gray market cases is not whether the mark was validly affixed to the goods, but whether there are differences between the foreign and domestic product and if so whether the differences are material." *Bourdeau Bros., Inc.* v. *U.S. Int'l Trade Comm'n*, 444 F.3d 1317, 1321 (Fed. Cir. 2006) (internal quotation marks omitted). See also 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION § 29:51.75 (4th ed. 2010) (describing "the approach followed by almost all courts: if there are material differences between the gray market imports and the authorized imports, then the gray market imports are not 'genuine' goods and can create a likelihood of confusion").

2. Although protections accorded patents, copyrights, and trademarks share similarities, this Court has been careful to police misapplication of these dis-

crete doctrines. For example, "in construing the Lanham Act," the Court has been "'careful to caution against misuse or over-extension' of trademark and related protections into areas traditionally occupied by patent or copyright." *Dastar*, 539 U.S. at 34 (quoting *TrafFix Devices, Inc.* v. *Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001).

Just as trademark principles cannot be invoked to circumvent copyright limitations, so too courts should refuse to create a copyright "supplement" to trademark rights. The differing purposes underlying trademark and copyright illustrate why this is so. As we have explained, trademarks protect the "goodwill" associated with the underlying good, such as a particular brand. *Park 'N Fly*, 469 U.S. at 198. See also pages 13-14, *supra*.

Copyrights serve a substantially different purpose. "The primary objective of copyright is * * * '[t]o promote the Progress of Science and useful Arts.'" *Feist Publ'ns, Inc.* v. *Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991) (quoting U.S. Const. Art. I, § 8, cl. 8). Copyright protection thus "reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts." *Twentieth Century Music Corp.* v. *Aiken*, 422 U.S. 151, 156 (1975).

In short, the purpose of a trademark is to protect the holder's value in the goodwill associated with its product by barring others from infringing on the mark. A copyright, on the other hand, is designed to advance creative arts by ensuring that authors have sufficient incentives (in the form of royalties) to produce new work, production which will benefit the public at large.

Controlling the distribution of its luxury-branded goods is a quintessential trademark interest. Copyright protections generally are not implicated by a manufacturer's effort to control distribution of a non-copyrighted product. Just as trademark principles cannot be invoked to circumvent copyright limitations, so too courts should refuse to create a copyright backdoor to trademark rights. "Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible." *Fogerty* v. *Fantasy, Inc.*, 510 U.S. 517, 527 (1994).

3. To the extent a manufacturer is seeking to invoke copyright law to address a trademark interest, the proper response is not to reduce copyright remedies across-the-board, and thereby adversely affect holders of copyrights in software and other works as to which all or most of the product is protected by copyright. Equitable doctrines provide substantial grounds for declining to afford copyright remedies when the claim either runs counter to the public policies informing copyright principles or when the alleged violation is *de minimis*.[3]

[3] At oral argument in *Quality King*, one Justice asked, "it's easy to follow the arguments when you're talking about books and records and so forth, but when you're talking about the label on a product that is not itself patented or copyrighted, the label is controlling the distribution of the product, is that relevant at all in the case?" Transcript of Oral Argument at 32, *Quality King*, 523 U.S. 135 (No. 96-1470).

For example, in certain circumstances, a copyright infringement may not be actionable because the violation is simply too insignificant. "*[D]e minimis* in the copyright context can mean what it means in most legal contexts: a technical violation of a right so trivial that the law will not impose legal consequences." *Ringgold* v. *Black Entm't Television, Inc.*, 126 F.3d 70, 74 (2d Cir. 1997). That is to say "the law does not concern itself with trifles." *Ibid.* After explaining "that even where the fact of copying is conceded, no legal consequences will follow from that fact unless the copying is substantial," the Ninth Circuit concluded that a band's sampling of a small portion of a copyrighted song did not constitute an actionable violation of the Copyright Act. *Newton* v. *Diamond*, 388 F.3d 1189, 1192-1193 (9th Cir. 2004).[4]

## CONCLUSION

The judgment of the Ninth Circuit should be affirmed and the case remanded for further proceedings.

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[4] BSA also notes that petitioner has asserted a copyright misuse defense against Omega's infringement claim. Because this case arises in an interlocutory posture, the lower courts have not yet considered this alternative resolution to Omega's claim. See C.A. E.R. 117-119 & n.1.

Respectfully submitted.

ANDREW J. PINCUS
*Counsel of Record*
PAUL W. HUGHES*
*Mayer Brown LLP*
*1999 K Street, NW*
*Washington, DC 20006*
*(202) 263-3000*
*apincus@mayerbrown.com*

**Admitted in New York only; admission to the District of Columbia pending.*

*Counsel for Amicus Curiae*

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