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No. 08-1423

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION, PETITIONER

v.

OMEGA, S.A.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTION PRESENTED

Section 602(a)(1) of Title 17 generally prohibits the "[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." Under 17 U.S.C. 109(a), however, "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." In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), this Court held that, where Section 109(a) applies, it provides an exception to the general ban on the unauthorized importation into the United States of copies of copyrighted works. The question presented in this case is as follows:

Whether a copy made outside of the United States by the owner of the United States copyright is "lawfully made under this title [*i.e.*, Title 17]" and is therefore covered by Section 109(a)'s exception to the general ban on unauthorized importation.

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This brief is submitted in response to the order of this Court inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be denied.

STATEMENT

1. Section 106(3) of Title 17 grants a copyright owner an exclusive distribution right, 17 U.S.C. 106(3), "[s]ubject to sections 107 through 122," 17 U.S.C. 106. Section 602(a)(1) provides that "[i]mportation into the United States, without the authority of the [copyright owner], of copies * * * of a work that have been acquired outside the United States is an infringement of the [owner's] exclusive right to distribute copies" granted by Section

106(3). 17 U.S.C. 602(a)(1).[1] And Section 109(a) states that, "[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). Section 109(a) is the current codification of the "first sale doctrine" initially recognized by this Court in *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908).

In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135, 143-152 (1998) (*Quality King*), this Court held that Section 109(a) establishes an exception to Section 602(a)(1)'s general ban on unauthorized importation. The Court also recognized that the first sale doctrine in its current form "applies only to copies that are 'lawfully made under this title.'" *Id.* at 152 (quoting 17 U.S.C. 109(a)). Because the imported copies at issue in *Quality King* were manufactured in the United States by the copyright owner, see *id.* at 138-139, the case did not present the question whether copies produced outside this country could be "lawfully made under this title" within the meaning of Section 109(a). See *id.* at 154 (Ginsburg, J., concurring).

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[1] In October 2008, shortly after the court of appeals issued the decision below, Congress amended Section 602 of the Copyright Act to add a separate private cause of action against importers of piratical copies. See Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b), 122 Stat. 4259. The legislation also reorganized the existing provisions of Section 602. The exclusive importation right discussed by the parties and by the court below, formerly codified at 17 U.S.C. 602(a), was redesignated as Section 602(a)(1). All citations in this brief are to the amended version of the statute (to be codified at 17 U.S.C. 602(a)(1) (Supp. II 2008)).

2. Respondent Omega, S.A., a Swiss corporation, manufactures wristwatches in Switzerland and sells them internationally, including in the United States, through a network of distributors and retailers. Pet. App. 3a. On the back of each watch, respondent engraves a small logo, which it calls the "Omega Globe Design," that is registered as a copyrighted work with the United States Copyright Office. *Ibid.*

Respondent sold watches overseas to an authorized distributor under an agreement to limit resale to specific territories outside the United States. Pet. App. 4a; Br. in Opp. 3 n.1. The watches were imported into the United States by unidentified third parties and were ultimately purchased by petitioner Costco Wholesale Corporation, which sold them to consumers in California. Pet. App. 3a-4a. Although respondent authorized the initial overseas sale, it did not authorize importation into the United States or the subsequent domestic sales. *Id.* at 4a; see *id.* at 17a.

Respondent brought this suit for copyright infringement under 17 U.S.C. 106(3) and 602(a)(1) and moved for summary judgment. Pet. App. 4a. Petitioner filed a cross-motion for summary judgment, arguing that, under Section 109(a), respondent's voluntary first sale of the watches bearing its copyrighted logo exhausted its right to control the distribution or importation of those copies. *Ibid.* The district court granted summary judgment for petitioner without explanation. *Id.* at 18a-19a.

3. The court of appeals reversed and remanded for further proceedings. Pet. App. 1a-17a.

The court of appeals first explained that, in a series of cases predating *Quality King,* the Ninth Circuit had held that Section 109(a) does not provide a defense against infringement claims for importing copies that

were made and first sold overseas. Pet. App. 8a-9a. Because respondent had "made copies of the Omega Globe Design in Switzerland and [petitioner] sold the copies without [respondent's] authority in the United States," the court concluded that petitioner could not have prevailed under that case law. *Id.* at 9a.

The court of appeals next concluded that *Quality King* did not undermine those circuit precedents. Pet. App. 10a-17a. The court observed that this Court in *Quality King* had not directly addressed the application of Section 109(a) to foreign-made copies because that case involved a "round trip" importation in which the copyrighted goods were originally manufactured in the United States. *Id.* at 10a-11a. The court of appeals further explained that this Court in *Quality King* had distinguished between copies lawfully made under United States regulatory statutes and copies lawfully made under foreign law. *Id.* at 13a-15a. Relying on that distinction, the court of appeals concluded that "copies covered by the phrase 'lawfully made under [Title 17]' in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright"; they are those made "*within the United States*, where the Copyright Act applies." *Id.* at 14a.

The court of appeals acknowledged that, taken to its logical extreme, the court's construction of Section 109(a) could allow a copyright owner to "exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland." Pet. App. 16a. Such a rule, the court recognized, "would likely encourage [United States] copyright owners to outsource the manufacturing of copies of their work overseas." *Ibid.* Earlier Ninth Circuit cases had "resolved this problem," the court explained, by holding that any domestic sale

authorized by the copyright owner would trigger the application of Section 109(a), even when the copy in question was lawfully made overseas. *Ibid.* Because respondent had not authorized any of the domestic sales in this case, the court of appeals found it unnecessary to decide whether those holdings survived *Quality King*. *Id.* at 17a.

DISCUSSION

The decision below is consistent with this Court's analysis of Section 109(a) in *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), and it does not conflict with any decision of another court of appeals. Although the court of appeals' reasoning could result in adverse policy consequences, particularly if carried to its logical extreme, the government is aware of no evidence that the most serious potential consequences have actually materialized. The Court therefore should deny the petition for a writ of certiorari.

A. The Ninth Circuit's Decision Reaffirms Well-Settled Law And Does Not Conflict With Any Decision Of Another Court Of Appeals

1. As petitioner acknowledges (Pet. 8, 25-28 & nn.11-12), there is no split of authority regarding the application of 17 U.S.C. 109(a) to copies made outside this country by or with the authorization of the United States copyright owner. When the question first arose in *CBS* v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), aff'd, 738 F.2d 421, 424 (3d Cir. 1984) (*Scorpio*) (table), the court concluded that the phrase "lawfully made under this title" limits the first sale doctrine to copies made within the territorial jurisdiction of the United States. The Ninth Circuit reached the same conclusion several years later. *BMG Music* v. *Perez*, 952

F.2d 318, 319-320 (9th Cir. 1991) (*BMG Music*), cert. denied, 505 U.S. 1206 (1992).[2] No other court of appeals has confronted this issue.[3]

The court of appeals' decision is also consistent with the consensus view of the leading commentators on copyright law. See 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[B][6][c] at 8-178.4(10) (rev. ed. 2009) (*Nimmer on Copyright*) (discussing *Quality King* and concluding that the Copyright Act "should still be interpreted to bar the importation of gray market goods that have been manufactured abroad"); 4 William F. Patry, *Patry on Copyright* § 13:44, at 13-96 (2009) (The Copyright Act "bars only the importation of copies that were acquired outside the United States and that were not 'lawfully made under this title,' i.e., were not made in the United States."); 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1.2, at 7:144 (3d ed. Supp. 2007) (concluding that, under *Quality King*, "the first sale defense is unavailable to importers who acquire ownership of gray market goods made abroad and to resellers who acquire ownership in the United States of copies lawfully made abroad but unlawfully imported into the United States").

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[2] The courts in *Scorpio* and *BMG Music* construed Section 109(a) to apply only to copies "legally manufactured *and sold* within the United States." *Scorpio*, 569 F. Supp. at 49 (emphasis added); see *BMG Music*, 952 F.2d at 319 (limiting first sale doctrine to copies "legally made *and sold* in the United States") (emphasis added). This Court's subsequent decision in *Quality King* makes clear, however, that Section 109(a) encompasses copies that are lawfully made within the United States even if they are first sold abroad.

[3] The same question is currently pending before the Second Circuit in *John Wiley & Sons, Inc.* v. *Kirtsaeng*, appeal pending, No. 09-4896 (filed Nov. 24, 2009), and *Pearson Education, Inc.* v. *Allen Air Conditioning Co.*, appeal pending, No. 10-705 (filed Mar. 2, 2010).

2. Petitioner contends (Pet. 25) that the decision below is "in conflict with the reasoning" of the Third Circuit in *Sebastian International, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (1988) (*Sebastian*). That argument lacks merit. Like *Quality King*, *Sebastian* involved a "round trip" importation of hair-care products in which the copyrighted labels attached to the products were made in the United States. The copyright owner sold the labeled products to a foreign party, who reimported them into the United States. *Id.* at 1098-1099. The court distinguished cases like *Scorpio*, where "the copies were produced abroad and the sales occurred overseas," and it "specifically d[id] not pass upon" the question whether Section 109(a) would apply in those circumstances. *Id.* at 1098; see *BMG Music*, 952 F.2d at 319 n.3 (distinguishing *Sebastian* based on the location of manufacture); *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477, 482 n.7 (9th Cir. 1994) (same), cert. denied, 514 U.S. 1004 (1995).

Petitioner relies on a footnote in which the *Sebastian* court expressed "some uneasiness with" the *Scorpio* court's interpretation of Section 109(a). 847 F.2d at 1098 n.1. The *Sebastian* court suggested that, if Congress had intended for the application of Section 109(a) to turn on the "place of manufacture," it might have expressed that intent more clearly. *Ibid.* The Third Circuit's expression of "uneasiness" as to the proper resolution of a question that was not before it, and that the court specifically declined to address, does not establish a circuit conflict. In any event, the *Sebastian* court's inconclusive discussion of Section 109(a)'s potential application to foreign-made copies predates *Quality King*, in which this Court construed Section 109(a) not to encompass "copies that are lawfully made under the law of another country." 523

U.S. at 148. That analysis, which indicates that Section 109(a)'s application *does* depend on the place where copies are manufactured (see pp. 9-10, *infra*), supersedes any contrary suggestion in *Sebastian* and thus mitigates any inter-circuit disagreement that might previously have existed.

B. The Decision Below Represents The Best Reading Of Section 109(a)'s Text In Light Of The Court's Decision In *Quality King* And The Relationship Between Section 109(a) And Other Copyright Act Provisions

1. Petitioner argues (Pet. 16) that this Court's intervention is needed because the court of appeals "blatantly ignore[d]" the "clear principles" announced in *Quality King*. Petitioner misreads this Court's opinion.

The "narrow[]" question presented in *Quality King* was "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." 523 U.S. at 138. The labels at issue in *Quality King* were manufactured in the United States, see *id.* at 139; *id.* at 154 (Ginsburg, J., concurring), and the copyright owner (L'anza) did not dispute that the labels were "lawfully made under this title" within the meaning of Section 109(a), see *id.* at 143. Rather, L'anza argued that Section 602(a)(1)'s ban on unauthorized importation of copyrighted materials is not subject to Section 109(a). See *id.* at 143, 145. The Court rejected that contention. See *id.* at 145-152. Because the relevant copies were made within the United States, and because the dispute between the parties did not concern the proper *interpretation* of Section 109(a) (rather, the parties disagreed on the distinct question whether Section 109(a) applies to unauthorized importation *at all*), the Court had no occasion squarely to decide the issue presented here—*i.e.*, wheth-

er Section 109(a) encompasses copies made outside this country by the United States copyright owner.

The Court's opinion in *Quality King* does, however, provide significant guidance as to the proper resolution of that issue. L'anza (supported by the United States as amicus curiae) argued that applying Section 109(a) to unauthorized imports would thwart Congress's intent in enacting Section 602(a)(1) to expand the importation right beyond piratical copies (*i.e.*, copies whose creation would constitute an infringement of any applicable copyright protection). See *Quality King*, 523 U.S. at 145, 146 & n.17. In rejecting that contention, the Court explained, *inter alia*, that Section 602(a)(1) sweeps more broadly than Section 109(a) because Section 602(a)(1) "applies to a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147; see *id.* at 148.

In elaborating on that point, the Court discussed "one example" that was noted in the deliberations leading up to the 1976 Act. See *Quality King*, 523 U.S. at 147. The Court explained that "[e]ven in the absence of a market allocation agreement between, for example, a publisher of the United States edition and a publisher of the British edition of the same work, each such publisher could make lawful copies." *Id.* at 148. The Court observed that "[i]f the author of the work gave the exclusive United States distribution rights * * * to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." *Ibid.* The

Court did not further explain its conclusion that copies made with the author's consent by the "publisher of the British edition" would not be "lawfully made under this title" for purposes of Section 109(a). The most natural explanation, however, is that such copies would not be "lawfully made under" Title 17 because they would be produced in a place where Title 17 does not apply.

Consistent with the general presumption against extraterritorial application of United States regulatory statutes, see Pet. App. 12a (citing *EEOC* v. *Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991)), the Copyright Act does not apply outside the United States, see, *e.g.*, *United Dictionary Co.* v. *G. & C. Merriam Co.*, 208 U.S. 260 (1908); 4 *Nimmer on Copyright* § 17.02, at 17-19. That understanding informs the proper construction of the phrase "lawfully made under this title" in Section 109(a), particularly given this Court's emphasis on the distinction between copies lawfully made under Title 17 and copies "lawfully made under the law of another country," *Quality King*, 523 U.S. at 148. As petitioner observes (Pet. 17-18), the court of appeals appears to have overstated the matter in suggesting (see Pet. App. 13a) that application of Section 109(a) to the foreign-made copies at issue here would actually constitute an impermissible extraterritorial application of the Copyright Act. Petitioner does not argue that United States law governed the manufacture of respondent's watches abroad; it contends only that respondent's conduct (even though occurring overseas) bears on the legality of the watches' importation and of their subsequent resale in California. But the court of appeals' reliance on the presumption against extraterritoriality as an aid to the proper con-

struction of Section 109(a) (see *ibid.*) is both sound and consistent with *Quality King*.[4]

2. Other provisions of the Copyright Act reinforce the court of appeals' reading of Section 109(a).

a. As explained above, the Court in *Quality King* distinguished between copies lawfully made under Title 17 and copies lawfully made under the law of another country. The Court's analysis indicates that Section 109(a)'s application depends not simply on whether the relevant copies are made in accordance with Title 17's

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[4] In *Quality King*, the United States argued as amicus curiae that Section 109(a) does not apply to importation of copyrighted materials. See Gov't Br. at 7-22, *Quality King, supra* (No. 96-1470); 523 U.S. at 145. The Court rejected that contention. See *id.* at 145-152. The government further argued that the application of Section 109(a) does not turn on the place of manufacture, see Gov't Br. at 29-30, *Quality King, supra* (No. 96-1470), but that Section 109(a) instead encompasses "any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17," *id.* at 30 n.18.

For two principal reasons, the government no longer adheres to that proposed construction of Section 109(a) in light of this Court's decision in *Quality King*. First, that interpretation appears to be inconsistent with the Court's holding that Section 109(a) does not apply to copies that are created with the author's consent but pursuant to the law of a foreign country. 523 U.S. at 147-148. Second, under the construction advanced by the United States in *Quality King*, Section 109(a) would encompass all copies whose creation would have been lawful if it had occurred in the United States. Given the Court's holding that Section 109(a) (where it applies) provides an exception to Section 602(a)(1)'s ban on unauthorized importation, construing Section 109(a) in that manner would disserve Congress's intent to extend the importation ban beyond piratical copies. See pp. 13-14, *infra*. By contrast, if the Court in *Quality King* had agreed with the government's contention that Section 109(a) does not apply to importation, the government's construction of Section 109(a) as encompassing foreign-made copies would not impede Congress's purposes in enacting Section 602(a)(1).

substantive requirements, but also on whether Title 17 governs the relevant act of copying. Under that approach, respondent's wristwatches were neither "lawfully" nor unlawfully "made under [Title 17]" because they were not "made under" Title 17 at all. United States law simply has no bearing on the legality of respondent's conduct in Switzerland.

Section 602(b), which was enacted contemporaneously with Section 109(a) and which grants Customs the authority to stop the importation of piratical copies of a copyrighted work, provides an instructive contrast. Section 602(b) states: "In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited." 17 U.S.C. 602(b). The counterfactual structure of that provision—"would have constituted an infringement of copyright if this title had been applicable"—demonstrates Congress's recognition that Title 17 does not apply beyond the territorial jurisdiction of the United States.

In 2008, a decade after this Court's decision in *Quality King* and shortly after the court of appeals' ruling in this case, Congress amended Section 602(a) to provide a distinct private right of action against piratical imports. See note 1, *supra*. In so doing, Congress again employed the same counterfactual formulation used in Section 602(b), authorizing civil actions to enjoin the unauthorized importation of copies "which would have constituted an infringement of copyright if this title had been applicable." 17 U.S.C. 602(a)(2). Congress could have used similar language in Section 109(a) if it had intended the application of that provision to turn on a comparable inquiry into whether particular extraterritorial conduct

would have been legal if it had occurred in the United States.

b. In the Copyright Act of 1976, Pub. L. No. 94-553, § 101, 90 Stat. 2541 (17 U.S.C. 101 *et seq.*), Congress both adopted the phrase "lawfully made under this title" and broadened protections against unauthorized imports by enacting Section 602(a)(1). The court of appeals' interpretation of Section 109(a) gives meaning to the phrase "lawfully made under this title," while preserving Congress's manifest intent in adopting Section 602(a)(1).

Section 602(a)(1) represented a departure from the treatment of imported goods under prior law. The Copyright Act of 1909, as codified in 1947, directed the Customs Service to block the importation only of "piratical copies of any work copyrighted in the United States." 17 U.S.C. 106 (1976); see also 17 U.S.C. 107 (1976). This "earlier prohibition is retained in § 602(b) of the present Act." *Quality King*, 523 U.S. at 146; see 17 U.S.C. 602(b). Section 602(a)(1) extends beyond piratical copies to provide copyright owners with a civil cause of action against the unauthorized importation of *all* copies—even those lawfully made—subject to enumerated exceptions. In describing the intended scope of Section 602(a)(1), the Register of Copyrights explained that the provision would bar importation if, "for example, * * * 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* 150 (Comm. Print 1965).

As earlier discussed, this Court in *Quality King* rejected the contention that, if Section 109(a) were read to

establish an exception to Section 602(a)(1)'s general ban on unauthorized importation, Section 602(a)(1) would effectively be rendered superfluous. The Court explained that Section 602(a)(1) "encompasses copies that are not subject to" Section 109(a), *Quality King*, 523 U.S. at 148, and it observed in particular that Section 602(a)(1) "applies to a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147; see *id.* at 148. If all copies made in foreign jurisdictions by or with the consent of the United States copyright owner are "lawfully made under this title" within the meaning of Section 109(a), the category of copies whose importation could be blocked under Section 602(a)(1) would be extremely small. Under that interpretation, moreover, Section 602(a)(1) could not be invoked in the paradigmatic situation, discussed both in the legislative history and in this Court's decision in *Quality King*, in which a United States copyright owner authorizes copies to be made abroad on the condition that their distribution will be limited to a foreign market.

To be sure, as petitioner notes (Pet. 12), Congress could have referred explicitly to the place of manufacture, as it did in the now-expired manufacturing provision, 17 U.S.C. 601. And, as petitioner also argues (Pet. 10-12), interpreting the phrase "lawfully made under this title" to exclude copies made abroad may be inconsistent with Congress's intent in enacting other provisions of the Copyright Act, such as 17 U.S.C. 110 and the Audio Home Recording Act of 1992, 17 U.S.C. 1001 *et seq.* But in light of the *Quality King* Court's analysis of Section 109(a) and its relationship to the ban on unauthorized

importation imposed by Section 602(a)(1), the court of appeals was correct to hold that Section 109(a) does not encompass copies made outside the United States.

c. Petitioner contends (Pet. 9-10) that "because [respondent] is the [United States] copyright holder, any copies * * * made by [respondent] are 'lawfully made under this title'" within the meaning of Section 109(a). That argument is inconsistent with two features of the statutory scheme discussed above. Petitioner's interpretation would make Section 109(a) turn on whether the creation of particular copies would have been lawful if subject to Title 17 at all—the same counterfactual inquiry that Congress expressly required in Section 602(a)(2) and (b) but did not mandate in Section 109(a). And it ignores this Court's careful distinction in *Quality King* between copies "lawfully made under this title" and copies lawfully made "under the law of some other country." 523 U.S. at 147.

Petitioner's effort to cabin its argument by focusing on respondent's role as the actual manufacturer of the watches at issue creates a further anomaly. Petitioner acknowledges (Pet. 14) that, "if a copyright owner gives * * * exclusive British publishing rights to Person B * * * , B's books are not lawfully made under the Copyright Act * * * because B did not receive U.S. rights from the copyright owner." Petitioner argues, however, that *all* copies made by the copyright owner itself are "lawfully made under this title" within the meaning of Section 109(a), even if (as in this case) they are manufactured and sold abroad under an agreement that limits resale to specific territories outside the United States. See, *e.g.*, Pet. 13 (arguing that "the phrase ['lawfully made under this title'] encompasses any copies made by the U.S. copyright holder, *regardless of*

location"); Reply Br. 2 (arguing that "a good is 'lawfully made under this title' if it is made by the U.S. copyright holder, at home or abroad"). Petitioner thus draws a sharp distinction between copies produced by the United States copyright owner itself and copies made by another entity with the copyright owner's authorization.

But that distinction is inconsistent with a basic principle of copyright law. "[T]he owner of copyright under [Title 17] has the exclusive rights to do *and to authorize*" the prerogatives that attend copyright ownership, including the reproduction of the copyrighted work. 17 U.S.C. 106 (emphasis added); see 17 U.S.C. 106(1). In determining whether particular copies were "lawfully made under this title," there is consequently no sound reason to distinguish between copies made by the copyright owner and copies made in like circumstances by another entity with the copyright owner's authorization. Moreover, as respondent notes (Br. in Opp. 10-12), the limitation that petitioner advocates could be easily circumvented by dividing the copyright-ownership and manufacturing functions among different corporate entities so that copies made abroad and intended solely for foreign distribution are made by an entity different from the copyright owner itself. Cf. *John Wiley & Sons, Inc.* v. *Kirtsaeng*, No. 08 Civ. 7834(DCP), 2009 WL 3364037, at *2 (S.D.N.Y. Oct. 19, 2009) (parent company retained U.S. copyright and assigned subsidiary right to print, publish, and sell foreign edition of textbook overseas).[5]

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[5] Although petitioner is correct (see Reply Br. 5) that the first sale doctrine in trademark law has been interpreted by regulation to extend to corporate affiliates under common control, see 19 C.F.R. 133.23(a)(2), that principle has not been endorsed in the materially different context of copyright law. Cf. *Sony Corp. of Am.* v. *Universal City Studios, Inc.*,

In enacting Section 602(a)(1), Congress authorized copyright owners to prohibit the importation of lawful and genuine copies—in effect, permitting United States copyright owners to distinguish between copies authorized for distribution in the United States and those destined for foreign markets. To be sure, under *Quality King*, the right conferred by Section 602(a)(1) does not extend to copies manufactured in the United States. But with respect to foreign-made copies like those at issue here, neither this Court's decision nor the text of the relevant statutory provisions suggests that a copyright owner's entitlement to protection against unauthorized imports should depend on the adoption of any particular corporate structure.

C. The Potential Adverse Policy Consequences That Petitioner Identifies Provide No Sound Basis For This Court's Review

1. Petitioner and its amici contend that the court of appeals' decision will mark the end of secondary markets, lead to higher unemployment, and encourage companies to move manufacturing overseas. See, *e.g.*, Pet. 21; Public Knowledge et al. Amici Br. 13, 20; Retail Industry Leaders Ass'n et al. Amici Br. 8-9. They express concern (*e.g.*, Pet. 23) that downstream retailers will hesitate to sell a variety of products for fear that the sale could be deemed infringing. They argue (*e.g.*, Pet. 21) that, given this Court's holding in *Quality King* that Section 109(a) excepts domestically-manufactured copies from Section 602(a)(1)'s ban on unauthorized importation, the court of appeals' denial of like treatment to copies made abroad "creates perverse incentives" for out-

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464 U.S. 417, 439 n.19 (1984) (noting the Court's consistent refusal to endorse analogies between copyright and trademark doctrines).

sourcing. They also emphasize (*e.g.*, Reply Br. 5-7) that, if copies made abroad are categorically excluded from Section 109(a)'s coverage, a United States copyright owner like respondent "could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland," Pet. App. 16a.

The potential implications of excluding foreign-made copies of a copyrighted work from Section 109(a)'s coverage are indeed troubling. For several reasons, however, those legitimate concerns do not warrant the Court's review in this case.

a. Some of the potential adverse policy effects that petitioner identifies are a direct and inherent consequence of Congress's decision in 1976 to expand Section 602's ban on unauthorized importation beyond piratical copies. Congress granted copyright holders the right to control importation of lawfully made copies and thus to segment domestic and foreign markets. The imposition by copyright holders of restrictions on importation may hinder the development of secondary markets and thereby increase prices for American consumers. The enactment of Section 602(a)(1) indicates, however, that Congress perceived the benefits of allowing market segmentation to outweigh its costs.[6]

b. Taken together, the decision below and this Court's ruling in *Quality King* create the anomalous result that a copyright holder can exercise its statutory

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[6] For example, book publishers have sometimes offered cheaper editions of their works in other (particularly undeveloped) countries, but their willingness to continue that practice might be reduced if the foreign editions could be imported into this country to compete with the higher-priced United States edition. See *John Wiley & Sons, Inc.*, 2009 WL 3364037, at *1-*2, *8.

right to bar unauthorized importation *only* when the relevant copies are made abroad. That differential treatment of domestic- and foreign-manufactured goods has no evident policy justification, and it could at least in theory provide an artificial incentive for outsourcing. There is no reason to suppose that Congress anticipated and intended that result. That anomaly, however, is not a sufficient reason to construe Section 109(a) as effectively nullifying Congress's clear policy choice (see 17 U.S.C. 602(a)(1)) that market segmentation be permitted. Congress of course remains free to amend the Copyright Act in order to adjust the balance between protection of copyright holders' prerogatives and advancement of other policy objectives.

c. Petitioner provides no basis for concluding that the most serious policy concerns described above have actually materialized. As petitioner acknowledges (Pet. 8), the phrase "lawfully made under this title" in Section 109(a) has been understood for a quarter-century to exclude foreign-made copies. And more than a decade has passed since this Court's decision in *Quality King*. Yet petitioner identifies no evidence that the differential treatment of domestic- and foreign-made copies has caused increased outsourcing of manufacturing operations, and it cites no case in which a copyright owner has sought to extract royalties at multiple stages of an otherwise lawful distribution chain within the United States.[7]

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[7] There are a number of explanations, both legal and practical, for the apparent absence of the downstream effects that petitioner hypothesizes. As respondent notes (Br. in Opp. 23), downstream domestic distributors are often the copyright owner's own customers, and "it would be a curious business strategy" for a copyright owner to sue its own customers for infringement. Moreover, in many situations copyright owners might be deemed to have granted implied licenses to

d. This suit does not resemble the extreme hypothetical cases posited by petitioner and its amici, and it therefore provides an unsuitable vehicle for this Court to determine how such cases should be resolved. Respondent has not sought to collect multiple royalties for the same copies, prevent downstream purchasers from alienating title, or impose minimum-price or other obligations that run with the goods in commerce. Cf. *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 341 (1908). Indeed, the court of appeals specifically reserved the question whether (as prior Ninth Circuit decisions had held) "parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred." Pet. App. 16a; see *id.* at 17a. And because respondent is a Swiss corporation, there is no reason to suppose that it manufactured its watches abroad as a ploy to avoid the application of Section 109(a).

2. Petitioner further contends (Pet. 22) that the policy concerns it identifies are "exacerbated because it is easy for copyright holders to apply a copyrighted symbol, label, or package to almost any good offered for sale in the United States." This case, however, comes to the Court in an interlocutory posture, and petitioner's copyright-misuse defense remains to be adjudicated on remand. Petitioner has challenged, as a misuse of copy-

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downstream retailers. Cf. *Disenos Artisticos E Industriales, S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 382 (9th Cir. 1996) (explaining that "sales without restriction on export into the United States" give rise to implied license to import and preclude liability under Section 602(a)(1), which requires importation "without the authority of the owner"). Default rules of commercial law may also provide protection in the form of indemnification against defective title and third-party copyright infringement claims in the sale of goods. See, *e.g.*, U.C.C. § 2-312 (2006) (implied warranty of title and implied warranty against infringement).

right, respondent's artifice of affixing a tiny copyrighted logo to its luxury wristwatches in order to invoke Section 602(a)(1). See C.A. E.R. 117-119 & n.1; cf. *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488, 491-494 (1942) (discussing patent misuse).

The "principal function" of copyright law "is the protection of original works, rather than ordinary commercial products that use copyrighted material as a marketing aid." *Quality King*, 523 U.S. at 151. Although the doctrine of copyright misuse is both controversial and rarely invoked, it has been recognized by at least one court of appeals. See *Lasercomb Am., Inc.* v. *Reynolds*, 911 F.2d 970, 973-977 (4th Cir. 1990). The United States takes no position on the appropriate resolution of petitioner's copyright-misuse defense. To the extent that the particular type of copyrighted material at issue here raises distinct policy concerns, however, those concerns are best addressed on remand under a legal theory specifically targeted at that alleged abuse. Cf. *Quality King*, 523 U.S. at 140 (explaining that, "[a]lthough the labels" at issue in that case "ha[d] only a limited creative component, [the Court's] interpretation of the relevant statutory provisions would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books").

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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