

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 *AMICI CURIAE* ENTERTAINMENT
MERCHANTS ASSOCIATION AND NATIONAL
ASSOCIATION OF RECORDING MERCHANTISERS
IN SUPPORT OF PETITIONER**

KATHLEEN HARTNETT
SPIVA & HARTNETT LLP
1776 Massachusetts Ave., NW
Suite 600
Washington, DC 20036
(202) 785-0601

JOHN T. MITCHELL
Counsel of Record
INTERACTION LAW
1629 K Street, NW
Suite 300
Washington, DC 20006
(202) 415-9213
john@interactionlaw.com

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	i
TABLE OF AUTHORITIES	iii
INTEREST OF <i>AMICI CURIAE</i>	1
SUMMARY OF ARGUMENT	6
ARGUMENT	8
I. THE NINTH CIRCUIT’S DECISION IMPERILS WIDELY AND LONG- ACCEPTED MEANS OF DISTRIBUTING COPIES AND PHONORECORDS.....	8
A. The Ninth Circuit’s decision base- lessly threatens retailers’ well-settled right to distribute copies of copy- righted works.....	8
1. Selling any copy would require a license	9
2. Competition from secondary sales could be suppressed or eliminated ...	10
3. Rental could be prohibited	12
4. Gifting would be at risk.....	14
5. Consumer-direct sales of used copies and phonorecords could be affected	15
B. The Ninth Circuit’s decision jeop- ardizes consumers’ full use and enjoy- ment of their property that the first sale doctrine heretofore protected.....	17

TABLE OF CONTENTS – Continued

	Page
1. Consumers would risk liability for common, every-day acts.....	17
2. Consumers authorized to make reproductions would be penalized for doing so outside of the United States.....	18
II. THE DECISION BELOW UNDERMINES THE COMMON LAW DOCTRINE CONGRESS INTENDED TO CODIFY	20
A. The Ninth Circuit’s holding would nullify the § 202 copy/copyright distinction with respect to foreign-made copies	21
B. The Ninth Circuit’s holding ignores the exhaustion principle upon which the first sale doctrine is based	23
III. THE HOLDING BELOW VIOLATES THE TEACHING OF SONY BY EXTENDING COPYRIGHTS TO CONTROL CHATTEL OWNED BY OTHERS AND OVER DISTRIBUTION OF COPIES OF OTHER AUTHORS’ WORKS.....	25
IV. THE HOLDING BELOW THREATENS SETTLED FIRST AMENDMENT RIGHTS BY ALTERING THE TRADITIONAL CONTOURS OF COPYRIGHT PROTECTION.....	28
CONCLUSION.....	37

TABLE OF AUTHORITIES

	Page
CASES	
<i>Bobbs-Merrill Co. v. Straus</i> , 210 U.S. 339 (1908).....	20, 23, 24, 31
<i>Campbell v. Acuff-Rose Music, Inc.</i> , 510 U.S. 569 (1994).....	29
<i>Clemens v. Estes</i> , 22 Fed. 899 (C.C.D. Mass. 1885)	32
<i>Columbia Pictures Industries v. Redd Horne</i> , 749 F.2d 154 (3rd Cir. 1984)	23
<i>Edward J. DeBartolo Corp. v. Florida Gulf Coast Building & Constr. Trades Council</i> , 485 U.S. 568 (1988).....	28
<i>Eldred v. Ashcroft</i> , 537 U.S. 186 (2003).....	29, 31
<i>FCC v. Fox TV Stations, Inc.</i> , __ U.S. __, 129 S. Ct. 1800 (2009)	28
<i>Fogerty v. Fantasy, Inc.</i> , 510 U.S. 517 (1994)	35
<i>Golan v. Gonzales</i> , 501 F.3d 1179 (10th Cir. 2007)	31
<i>Harrison v. Maynard, Merrill & Co.</i> , 61 F. 689 (2d Cir. 1894).....	31
<i>Independent News Co. v. Williams</i> , 293 F.2d 510 (3d Cir. 1961).....	23
<i>John Wiley & Sons, Inc. v. Kirtsaeng</i> , No. 08 Civ. 7834 (DCP), 2009 U.S. Dist. LEXIS 96520 (S.D.N.Y. Oct. 19, 2009)	10
<i>NEGB, LLC v. Weinstein Co. Holdings</i> , 490 F. Supp. 2d 89 (D. Mass. 2007).....	13

TABLE OF AUTHORITIES – Continued

	Page
<i>Pearson Education, Inc. v. Liao</i> , 2008 U.S. Dist. LEXIS 39222 (S.D.N.Y. May 13, 2008).....	16
<i>Pearson Education, Inc. v. Liu</i> , 656 F. Supp. 2d 407 (S.D.N.Y. 2009).....	10, 16
<i>Pearson Education, Inc. v. Liu</i> , Docket No. 26, 2008 Civ. 6152 (RJH) (Oct. 20, 2009)	16
<i>Pearson Education, Inc. v. Valore, Inc.</i> , No. 07-cv-01348-JG-JMA, consent judgment (E.D.N.Y. Dec. 17, 2007)	16
<i>Quality King Distributors, Inc. v. Lanza Research Int'l, Inc.</i> , 523 U.S. 135 (1998)	5, 14, 16, 29
<i>Sony Corp. of America v. Universal City Studios, Inc.</i> , 464 U.S. 417 (1984).....	12, 25, 26, 28, 36
<i>Turner Broad. Sys., Inc. v. F.C.C.</i> , 520 U.S. 180 (1997).....	34
<i>UMG Recordings v. Augusto</i> , 558 F. Supp. 2d 1055 (C.D. Cal. 2008).....	21
<i>United States v. Cohen</i> , 946 F.2d 430 (6th Cir. 1991)	21
<i>United States v. Paramount Pictures, Inc.</i> , 334 U.S. 131 (1948).....	30
<i>United States v. Sachs</i> , 801 F.2d 839 (6th Cir. 1986)	21
<i>United States v. X-Citement Video</i> , 513 U.S. 64 (1994).....	29
<i>Vernor v. Autodesk, Inc.</i> , 555 F. Supp. 2d 1164 (W.D. Wash. 2008).....	18

TABLE OF AUTHORITIES – Continued

	Page
STATUTES	
17 U.S.C. § 101	2
17 U.S.C. § 106	4, 30
17 U.S.C. § 106(1)	2
17 U.S.C. § 106(3)	2
17 U.S.C. § 107	14, 36
17 U.S.C. § 109	<i>passim</i>
17 U.S.C. § 109(a)	<i>passim</i>
17 U.S.C. § 117	4, 19
17 U.S.C. § 202	<i>passim</i>
17 U.S.C. § 1008	18
Copyright Act of 1909, § 15	36
Copyright Act of 1909, § 16	36
Copyright Act of 1909, § 41	20, 21
Copyright Act of 1909, § 107	32
Fla. Stat. ch. 540.11(3)(a)(3) (2010)	3
N.C. Gen. Stat. § 14-435(b) (2010)	3
LEGISLATIVE MATERIALS	
H.R. Rep. No. 60-2222 (1909)	22, 33
H.R. Rep. No. 94-1476 (1976)	25, 36
S. Rep. No. 93-983 (1974)	24

TABLE OF AUTHORITIES – Continued

	Page
OTHER AUTHORITIES	
Mike Anderiesz, <i>Publishers Rankled By Secondhand Games Boom</i> , THE GUARDIAN (Jan. 3, 2006).....	10
Bargain-Hunting Gamers Turning to Impulse Buying, Used Titles (press release).....	12
DMCA SECTION 104 REPORT, U.S. Copyright Office (August 2001)	5, 23, 26
Seth Goldstein, <i>Picture This</i> , BILLBOARD, Jan. 14, 1995	13
David D. Kirkpatrick, <i>Online Sales Of Used Books Draw Protest</i> , THE NEW YORK TIMES (Aug. 10, 2002)	10
James Lardner, <i>Video Wars</i> , THE WASHINGTON POST, May 2, 1982	13
NARM, RIAA Refresh ‘Give The Gift Of Music’ Promotional Campaign, June 10, 2010.....	14
Marybeth Peters, <i>General Guide to the Copyright Act of 1976</i> , ch. 5 (Sept. 1977)	22
The Register of Copyrights on the General Revision of the U.S. Copyright Law 1975 Revision Bill, October-December 1975 (<i>Draft</i>): <i>Second Supplementary Report</i> , ch. II.....	32
Supplementary Register’s Report on the General Revision of the U.S. Copyright Law (1965), ch. 2	35

TABLE OF AUTHORITIES – Continued

	Page
Richard Roehl and Hal R. Varian, <i>Circulating Libraries and Video Rental Stores</i> , FIRST MONDAY, vol. 6, no. 5 (May 2001).....	14
Paul Sweeting, <i>Rental ruin?</i> , VIDEO BUSINESS, March 9, 2009.....	13
WIPO Copyright Treaty, Article 6.....	5
WIPO Performances and Phonograms Treaty, Articles 8 and 12	5
Troy Wolverton, <i>Video Games' Second Life</i> , THESTREET.COM (Dec. 2, 2005)	10
RS 231.1, Loi fédérale du 9 octobre 1992 sur le droit d'auteur et les droits voisins, art. 12.....	6

INTEREST OF *AMICI CURIAE*

Entertainment Merchants Association, Inc. (“EMA”), is the major trade association representing retailers and distributors in the home video and video game industries. National Association of Recording Merchandisers, Inc. (“NARM”), is the major trade association representing retailers and distributors of sound recordings. They respectfully submit this brief as *amici curiae* in accordance with Supreme Court Rule 37.¹

The members of EMA and NARM distribute, through sale and rental, lawfully made copies of “audiovisual works” (“home videos” in the DVD and Blu-ray disc format) and “video games” (including “console games” for use in proprietary systems and “PC games” playable in a variety of personal computers). *Amici*’s members also sell lawfully made “phonorecords,” consisting of music CDs, vinyl record albums, and flash media. In addition, members of *Amici* sell hardware such as cell phones, portable media players and personal digital assistants “pre-loaded” with audiovisual works, computer programs, and sound recordings, or onto which consumers

¹ Petitioner Costco Wholesale Corporation is not a member of either EMA or NARM. The parties were provided with timely notice of the intent to file this brief, and they have consented to the filing of this brief. Counsel for a party did not author this brief in whole or in part. No person or entity other than *Amici Curiae*, their members, or their counsel made a monetary contribution to the preparation and submission of this brief.

reproduce such works, meaning that these devices, too, are “copies” and “phonorecords” as those terms are defined and used in the Copyright Act. *See* 17 U.S.C. §§ 101, 106(1), 106(3), 109 and 202. A healthy first sale doctrine is crucial to enabling *Amici’s* members to provide the public with the broadest possible lawful access to copyrighted works.

In addition to name brand music, video and video game specialty chains, the members of NARM and EMA include global mass merchants as well as single-store specialty shops. Members sell or rent from physical stores, “online” Internet stores, and stores distributing copies and phonorecords using both business models. Members sell pre-recorded media as well as licenses to reproduce (“download”) works lawfully onto the consumer’s own media. Such licensed reproductions may be made from another copy or phonorecord, or from an Internet-accessed server (perhaps on the retailer’s own network, for which it is the Internet service provider).²

Amici’s members purchase new and used copies and phonorecords in the free flow of commerce. Such purchases are often not in privity with the copyright holder, having been purchased from third parties such as independent distributors, a competitor, their

² *Amici’s* hundreds of members include Best Buy, Blockbuster, GameStop, Hastings, iTunes, J&R Music World, Netflix, Nokia, Redbox, Target, Trans World Entertainment, and Verizon, as well as numerous other national retailers and local merchants.

own customers (often as trade-ins), or from the inventories of merchants that have ceased operations. Members generally do not know, nor could they reasonably determine, the country in which these copies were made.³ The NARM Distributor Database,⁴ which is the leading industry database that copyright owners use to communicate available copies and phonorecords to music and video retailers, does not contain a field for the copyright owner to indicate where the copies are made.⁵ Yet, under the Ninth Circuit’s holding, prior knowledge of the place of

³ Many states require that the “true name and address of the manufacturer” appear on the product or packaging, but that information identifies only the manufacturer’s address, not the place of manufacture. *See, e.g.*, Fla. Stat. ch. 540.11(3)(a)(3) (2010). Moreover, the products at issue may be composed of components made in different countries. For example, a music CD or movie DVD may have been made in the United States, but the copyrighted packaging or label could have been made elsewhere. A typical “true name and address” law is concerned only with the labeling applicable to the article on which the primary work is reproduced. *See, e.g.*, N.C. Gen. Stat. § 14-435(b) (2010) (“the term ‘manufacturer’ shall not include the manufacturer of the article’s packaging, cover, box, jacket, or label itself”). It would be odd for the sale of a CD to be protected by § 109(a), but for the sale of the accompanying copyrighted packaging to result in distribution liability.

⁴ *See* <http://www.narm.com/services/database/narm-distributor-database/whatisndd/>.

⁵ Under NARM Distributor Database governance, copyright owners and retailers alike may suggest new data fields, and do so regularly, but none have expressed an interest in data identifying whether the copy or phonorecord was made in the United States.

manufacture would be indispensable for any merchant selling or renting such products.⁶

Amici's members also have an interest in preserving the first sale doctrine rights of their customers. For example, a prospective consumer may be less likely to purchase a copy or phonorecord as a gift, or to take a chance on a lesser known copy or phonorecord, if resale or gifting could not be undertaken without obtaining permission from the copyright holder, separately from the purchase price paid to the retailer. And, to an ever-increasing degree, *Amici's* members are engaged in sublicensing consumers to reproduce works onto their own tangible media, or in selling copies of computer programs that consumers are entitled, by law, to reproduce onto a personal computer.⁷ Here, too, consumers may be reluctant to engage in such activities if their rights with respect to their own computers or portable

⁶ It is not unusual for copyright holders to sell their rights long after copies are in circulation. Consumers cannot necessarily tell who owns the copyright just by examining the copy.

⁷ 17 U.S.C. § 117 provides, in part:

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

- (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner.

devices may be affected by making licensed reproductions abroad.

The first sale doctrine, codified in §§ 109 and 202 of the Copyright Act, is a primary driving force behind *Amici's* members' freedom to compete vigorously with each other in the broadest possible dissemination of creative works to the public at the most competitive prices possible.⁸

Amici's members have a wealth of experience with myriad business models based partially or entirely on the entitlement conferred by 17 U.S.C. §§ 109 and 202. It is the expressive works embodied in these copies and phonorecords that *Amici's* customers seek out in their own right; such expression is not merely incidental to an object used for telling the time of day, as in the case at bar, or washing hair, as in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

Finally, *Amici* have a history of engagement in legislative and public policy debates concerning the proper scope of § 109(a) in the United States and in international treaties providing global recognition of the legitimacy of the first sale doctrine.⁹

⁸ The Register of Copyrights has observed, "competition policy is viewed as one of the underlying bases for the first sale doctrine." DMCA SECTION 104 REPORT, at 21, U.S. Copyright Office (August 2001).

⁹ *Amici* have sent observers to Geneva during negotiations of key treaties touching on the distribution right. International
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Amici submit this brief not to repeat Petitioner's compelling arguments for reversal. Instead, *Amici* offer additional arguments for reversal and highlight the extremely undesirable consequences of the Ninth Circuit's decision for *Amici*'s members and their customers.



SUMMARY OF ARGUMENT

Retail competition and innovation have thrived under the first sale doctrine. In misinterpreting § 109(a) and gutting the first sale doctrine with respect to foreign-manufactured copies reproduced by or under authority of the U.S. copyright owner, the Ninth Circuit has stretched judicial reasoning beyond its limit, has contravened the text of the Copyright

treaties negotiated with the United States after enactment of the Copyright Act of 1976 fit comfortably with the reading of the first sale doctrine advanced by Petitioner. For example, recent treaties under auspices of the World Intellectual Property Organization (“WIPO”) explicitly provide that Parties are free to determine national rules for exhaustion of the distribution right with respect to copies and phonorecords made “with the authorization of” the copyright owner. *See* Articles 8 and 12 of the WIPO Performances and Phonograms Treaty, adopted in Geneva on December 20, 1996; Article 6 of the WIPO Copyright Treaty, adopted on the same date. Even Switzerland, where the Omega watches at issue in this case were made, Joint Appendix at 60 (Final Pre-Trial Conference Order, ¶ 5(2)), would appear to allow Costco to sell identical watches in Switzerland even if they were made in the United States. *See*, RS 231.1, Loi fédérale du 9 octobre 1992 sur le droit d’auteur et les droits voisins, art. 12.

Act and this Court's precedent, and has blurred the clear, longstanding distinction in § 202 between rights in copies and rights in copyrights.¹⁰ *Amici* urge this Court to reverse the Ninth Circuit's misinterpretation of § 109(a), and to restore the Copyright Act's separation, embodied in § 202, between ownership of the tangible article and ownership of the intangible copyright.

In addition, the Ninth Circuit's holding, if allowed to stand, dramatically alters the traditional contours of copyright protection. The holding places under the exclusive control of the author the historically unencumbered nonexclusive right – and therefore constitutionally protected right – to redistribute noninfringing copies and phonorecords made abroad. Pursuant to the interpretative canon of constitutional avoidance, the Ninth Circuit's erroneous interpretation of § 109(a) should be reversed because it raises serious constitutional questions concerning the burdening of fundamental First Amendment rights.



¹⁰ 17 U.S.C. § 202 provides, in relevant part: “Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.”

ARGUMENT

I. THE NINTH CIRCUIT'S DECISION IMPERILS WIDELY AND LONG-ACCEPTED MEANS OF DISTRIBUTING COPIES AND PHONORECORDS

A. The Ninth Circuit's decision baselessly threatens retailers' well-settled right to distribute copies of copyrighted works

Amici's members generate billions of dollars of annual revenue from distribution of copies and phonorecords, and the licensing of reproductions of works into copies and phonorecords, for public benefit. Their businesses are at risk if the Ninth Circuit's interpretation of "under this title" in § 109(a) takes hold, undoing 150 years of settled expectations under the first sale doctrine. Now, according to the Ninth Circuit, the mere shift of manufacturing operations abroad is all that it takes for copyright owners to nullify the historic limitation on their distribution right, which is expressly set forth in § 109(a).

A review of business models employed by *Amici's* members demonstrates the extent to which the Ninth Circuit's decision would fundamentally alter the traditional contours of copyright protection and would undermine established and legitimate commerce in expressive works – commerce that, to the degree not rightfully limited by copyright, is fully protected by the First Amendment to the U.S. Constitution.

1. Selling any copy would require a license

If allowed to stand, the Ninth Circuit's ruling would radically change settled practice by requiring a license from the copyright holder for the simple act of selling a copy or phonorecord made abroad by or under the authority of the copyright holder. Such a license would be required even if the copyright holder was also the supplier to the U.S. market. Copyright holders could choose to grant or withhold licenses on a whim. A disfavored retailer, whether because of its discount pricing, product reviews, or for untold reasons, could be prohibited from selling specific copies or phonorecords for the entire term of the copyright.

Although copyright holders sometimes grant "exclusives" to certain retailers or for other reasons refuse to sell products to a retailer or a class of retailers, prior to the Ninth Circuit's ruling, any competing retailer remained free to purchase copies or phonorecords from the favored retailer and offer them for resale. Under the Ninth Circuit's reading, however, such copies, if made abroad, would not be "lawfully made under this title," and any unlicensed resale would be infringing.¹¹

¹¹ Recognizing the radical impact of exempting foreign-made items from the first sale doctrine, the Ninth Circuit has created from whole cloth an "exception" providing that if the copyright holder sells any of the foreign-manufactured copies in the United States, the owners of those *non*-"lawfully made"

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2. Competition from secondary sales could be suppressed or eliminated

Some copyright holders chafe at the growing market for used copies and phonorecords, unable to appreciate that a consumer's original purchasing decision may have been aided by the intrinsic value in resale or gift of the new copy, or that the consumer may choose buying a used copy at a "used price" in the same manner that he or she chooses to buy a used car or thousands of other common, previously used goods.¹²

copies (under the Ninth Circuit's rule) may nevertheless enjoy the first sale doctrine's benefits. Pet. App. 15a-16a. As other courts have pointed out, there is no basis in law for the Ninth Circuit's exception transforming copies "unlawfully made" (because the copyright holder made them abroad) into copies "lawfully made" (because the copyright holder sold them domestically). See *Pearson Education, Inc. v. Liu*, 656 F. Supp. 2d 407, 414 (S.D.N.Y. 2009), *petition to appeal pending*, No. 10-894-mv (2d Cir.) (rejecting the Ninth's Circuit's exception for foreign-made products resold in the United States); see also *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 U.S. Dist. LEXIS 96520, *37 n.25 (S.D.N.Y. Oct. 19, 2009), *appeal pending*, No. 09-4896 (2d Cir.) (reluctant to apply a "bright-line rule" that "results in the phenomenon that, once imported, the goods manufactured abroad could provide the U.S. copyright holder with never-ending section 106(3) 'exclusive distribution' protection against any subsequent sale, no matter how legitimate.").

¹² See, e.g., Mike Anderiesz, *Publishers Rankled By Secondhand Games Boom*, THE GUARDIAN (Jan. 3, 2006), at <http://www.guardian.co.uk/technology/2006/jan/19/games.guardian> weeklytechnologysection2; Troy Wolverton, *Video Games' Second Life*, THE STREET.COM (Dec. 2, 2005); David D. Kirkpatrick, *Online*

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Under the Ninth Circuit's holding, manufacturing abroad would empower copyright holders to prohibit all secondary sales, even though such sales are an established and significant part of the market. *Amici* estimate the market for resale at retail of used copies to comprise as much as 15% of all sales of video games and substantial portions of total sales of DVDs. Independent music retailers estimate sales of used CDs at about 20% of all sales, on average, with some stores ranging as high as 50%.¹³ For video games, where the cost of a new title is substantially higher than for a music CD or movie DVD, the secondary market for used games provides both a lower cost opportunity for some consumers to obtain these works, as well as a "trade-in value" that makes the original new purchase a better consumer value.¹⁴

One recent study by a leading industry research firm, The NPD Group, Inc., found an increase in "impulse" used game purchases in response to the recession:

Sales Of Used Books Draw Protest, THE NEW YORK TIMES (Aug. 10, 2002), at <http://query.nytimes.com/gst/fullpage.html?res=9400e0dc113df933a25757c0a9649c8b63>.

¹³ This volume of commerce does not include non-commercial redistribution by lending, trading or gifting.

¹⁴ Consumers rely widely on this option for access to video games and, by one estimate, choose this purchase option to the tune of two billion dollars per year with a single national retailer.

The large percentage of shoppers buying a game on impulse coincides with a rise in low-cost used games, which flourished during the recessionary months to the tune of \$65 million in sales.

Impulse game buyers overwhelmingly selected low price as the primary driver behind purchasing their game at a specific retailer. Impulse shoppers in particular are more cost conscious; the average price of impulse purchases was only \$27.19 compared with \$42.97 for planned purchases. The reduced price of used games is, therefore, increasingly attractive to gamers. In fact, one-third of gamers reported buying a used game in the past six months and only 10 per cent say they would never buy a used game.¹⁵

All such resale commerce is jeopardized by the Ninth Circuit's interpretation of § 109(a).

3. Rental could be prohibited

This Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), ushered in the age of consumer-owned or rented copies of motion pictures. The videocassette recorder (VCR) not only enabled the home recording at issue

¹⁵ Bargain-Hunting Gamers Turning to Impulse Buying, Used Titles, http://www.npd.com/press/releases/press_091015.html (last visited June 30, 2010).

in that case, but also provided a technological platform for the explosion of the market for pre-recorded videocassette tapes. Since that time, copyright holders have variously attempted to prevent or impair home video rental, such as by contractual agreements to delay or restrain such trade, exclusive sales to non-renting companies, or labeling copies of videos as “not for rental.” In each instance, the first sale doctrine and § 109 rebuffed such attempts.¹⁶ Now, the Ninth Circuit has provided offshore manufacturing as a roadmap for copyright holders to gain control over copies they no longer own, allowing them to prohibit or extract royalties for rental despite that rental has long been permitted under §§ 109 and 202,

¹⁶ See, e.g., *NEGB, LLC v. Weinstein Co. Holdings*, 490 F. Supp. 2d 89 (D. Mass. 2007) (movie producer was labeling DVD copies as “intended for sale only” and announcing that consumers would be given a toll free number to call if they obtained a copy by rental). Before this Court decided *Sony*, efforts were underway to repeal the first sale doctrine with respect to video rental. James Lardner, *Video Wars*, THE WASHINGTON POST, F1, May 2, 1982 (“A little-noticed section of the two royalty bills would abolish the first-sale doctrine for prerecorded videocassettes.”), efforts which were occasionally renewed in other contexts. Seth Goldstein, *Picture This*, BILLBOARD, Jan. 14, 1995, at 47. Even today, major copyright holders are in tension over retailers’ freedom to do with their copies as they please. Paul Sweeting, *Rental ruin?*, VIDEO BUSINESS, March 9, 2009, at 5 (reporting on the tension between 99-cent rentals at Redbox rental kiosks, and various studios’ efforts to curtail it despite the first sale doctrine).

and that commercial rental practices have generally benefitted authors.¹⁷

4. Gifting would be at risk

Amici's members encourage purchases of copies and phonorecords as gifts. NARM, for example, sponsors the "Give the Gift of Music" campaign to encourage consumers to buy phonorecords for the sole purpose of redistributing them as gifts.¹⁸ *Amici* doubt that copyright holders want to restrict gift purchases, but the Ninth Circuit's ruling means that consumers purchasing foreign-made copies or phonorecords would, by law, need either to ensure that their copy or phonorecord came with a "gift license" or to blaze new legal ground by establishing gift-giving of foreign-made copies and phonorecords as non-infringing fair use, 17 U.S.C. § 107. Such gifting would no longer be protected under § 109(a). Such a result makes clear how far the Ninth Circuit strayed in this case from Congress's intent and this Court's admonishment to "read literally" the "unambiguously" expressed text of § 109. *Quality King*, 523 U.S. at 145.

¹⁷ For a comparison between the private circulating libraries in England circa 1725-1850 and video rental stores in the United States circa 1980-1990, see Richard Roehl and Hal R. Varian, *Circulating Libraries and Video Rental Stores*, FIRST MONDAY, vol. 6, no. 5 (May 2001), at <http://firstmonday.org/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/854/763>.

¹⁸ See, e.g., NARM, RIAA Refresh 'Give The Gift Of Music' Promotional Campaign, June 10, 2010, at <http://www.narm.com/news/narm-riaa-refresh-give-the-gift-of-music-promotional-campaign/>.

The risk is not borne by consumers alone. It is quite common during the Christmas shopping season, as well as for other holidays such as Mother's Day, Father's Day, and Valentine's Day, for merchants to encourage giving copies and phonorecords of copyrighted works as gifts for their loved ones. To avoid any possible risk of liability for "inducing" infringement by customers, the Ninth Circuit's interpretation counsels that retailers limit such promotions to "domestically made copies and phonorecords only," despite the fact that the place of manufacture is frequently difficult if not impossible to determine.¹⁹

5. Consumer-direct sales of used copies and phonorecords could be affected

The Internet has increasingly blurred the lines between commercial sales of used copies and sales by average consumers. Ordinary consumers can also be retailers, thanks to many Internet-connected services, including services hosted by or used by *Amici's* members, to offer second-hand copies and phonorecords for sale to the public. Until now, the first sale doctrine clearly protected the sale of such used goods, and the law concerned itself only with whether those copies were non-infringing. Under the Ninth Circuit's holding, however, sellers would need to determine whether the place of manufacture was on United States soil. In addition to informal transactions such

¹⁹ See *supra*, n.3, and accompanying text.

as yard sales, sophisticated web portals, such as eBay, Amazon.com, and Valorebooks, are now available for consumer-offered copies. But using such mechanisms makes consumers' actions visible to copyright holders. Indeed, several copyright holders already have filed lawsuits against individual sellers (or the services used by these sellers), attempting to prevent them from competing with the copyright holder's preferred retail price, and citing as support the Ninth Circuit's holding at issue in this case.²⁰ The

²⁰ The actions of college textbook publishers alone provide a compelling example. See, e.g., *Pearson Education, Inc. v. Valore, Inc.*, No. 1:07-cv-01348-JG-JMA, *consent judgment* (E.D.N.Y. Dec. 17, 2007) (prohibiting Valore, operator of the valorebooks.com website, from allowing anyone to sell books "manufactured abroad and intended for sale abroad"); *Pearson Education, Inc. v. Liao*, No. 07-civ-2423 (SHS), 2008 U.S. Dist. LEXIS 39222 (S.D.N.Y. May 13, 2008) (ruling against a *pro se* defendant on an unopposed motion for summary judgment, and following the Ninth Circuit's interpretation *carte blanche*: "because a first sale defense only applies to the sale of copies that are 'lawfully made under this title,' 17 U.S.C. § 109(a), the resale in the United States of copies manufactured outside the United States is not protected under the terms of the statute," *id.* at *11); *Pearson Education, Inc. v. Liu*, 656 F. Supp. 2d 407 (S.D.N.Y. 2009), *interlocutory appeal petition pending*, No. 10-705 (2d Cir.) (lawsuit against a reseller of textbooks printed in China by the U.S. copyright holders). Although the *Liu* court rejected the Ninth Circuit's reasoning, it nevertheless relied on *dicta* from this Court's Opinion in *Quality King* to reach the same result. See also Defendant's Memorandum of Law in Support of Her Motion for Certification of an Order for Interlocutory Appeal under 28 U.S.C. § 1292(b), *Pearson Education, Inc. v. Liu*, Docket No. 26, 2008 Civ. 6152 (RJH) (Oct. 20, 2009), App. A (list of eleven cases pending in the U.S. District Court, S.D.N.Y., raising the identical issue).

Ninth Circuit’s ruling will only embolden these lawsuits targeting ordinary consumers engaging in sales that should be protected under a proper interpretation of § 109(a).²¹

B. The Ninth Circuit’s decision jeopardizes consumers’ full use and enjoyment of their property that the first sale doctrine heretofore protected

1. Consumers would risk liability for common, every-day acts

When *Amici*’s customers purchase noninfringing copies, they rely on a longstanding expectation that ownership includes the right of alienation by any means they choose, such as a sale, trade, gift, bequest, or lending. Until recently, settled understanding and application of the first sale doctrine has protected such transfers without regard to whether the copyright owner’s permission was necessary because of where the copy was made.

If ratified by this Court, the Ninth Circuit’s ruling lays down a legal minefield for consumers, contrary to the settled and customary operation of the

²¹ The argument being made in those lawsuits would apply, as well, to a student seeking to sell or exchange used textbooks to help finance the next semester’s purchases. The popularity of such an option is evidenced by the myriad services students can select from by searching “textbook exchange” in the web browser.

first sale doctrine. This would particularly be true in today's digital world, when, instead of informal private transactions unlikely to be noticed by the copyright holder, copy owners increasingly use more public, electronic marketplaces that leave a record of the offer of alienation.²²

2. Consumers authorized to make reproductions would be penalized for doing so outside of the United States

There are an increasing number of ways in which consumers themselves make authorized copies and phonorecords. Most often, those reproductions are made onto a single tangible medium – such as a computer hard drive, a smartphone, or a portable media player – that contains many other works by myriad unrelated copyright owners. Music is reproduced (“ripped”) from CDs onto such media under the protection of 17 U.S.C. § 1008. Some movie DVDs contain a “managed copy” feature allowing the purchaser to reproduce a compressed format movie

²² See, e.g., *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008), *appeal pending*, No. 09-35969 (9th Cir.) (involving a noninfringing copy of a work acquired at a yard sale, which came to the copyright owner's attention upon being re-sold on eBay (www.ebay.com); see also Amazon.com (<http://www.amazonservices.com/content/sell-on-amazon.htm>) (allowing copy owners, for a fee, to sell their books, CDs and DVDs); Craigslist (www.craigslist.org) (allowing copy owners to list their copies and phonorecords for sale (or free)).

file onto a computer or a more portable medium. And, every computer program that cannot be performed from the disc copy comes with statutory authority for the copy owner to reproduce the work onto the computer. 17 U.S.C. § 117. Finally, some of *Amici*'s members do not sell prerecorded copies or phonorecords at all, but instead offer "downloads" – licensed reproductions onto the customer's computer, portable media device, or smartphone.²³

Under the Ninth Circuit's holding, if any such authorized reproductions are made while the device is outside of the United States, every U.S. copyright holder of every work so reproduced would enjoy a distribution right over the computer, portable media player or smartphone once it re-enters the country. (See Section III, *infra*.) Even if enforcement of the distribution right under such circumstances is improbable, it is a legal consequence of the Ninth Circuit's holding that is clearly untenable.

²³ In addition, most computer users have grown accustomed to routinely reproducing more works onto their devices at the urging of the copyright holders, in the form of updates, patches, and drivers, by downloading directly from the copyright holder's Internet website at no additional charge.

II. THE DECISION BELOW UNDERMINES THE COMMON LAW DOCTRINE CONGRESS INTENDED TO CODIFY

Although this case has largely focused on the portion of the common law first sale doctrine codified in 17 U.S.C. § 109(a), the remainder of the codification of the first sale doctrine, now found in § 202, shares both statutory and common law roots with § 109 and the two sections should be read together.

Judicially recognized in the mid-1800s, and ultimately by this Court in 1908,²⁴ the initial codification of the first sale doctrine reflected that doctrine's breadth. Section 41 of the Copyright Act of 1909 provided:

*The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of title to the material object; but nothing in this title 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.*²⁵

²⁴ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

²⁵ Act of March 4, 1909, ch. 320, 35 Stat. 1075, 1084 (1909), effective July 1, 1909 (emphasis added). The text was unchanged when it was renumbered as § 27 by amendment, Pub. L. No. 80-281, 61 Stat. 652, 660 (1947).

Every subsequent codification of the first sale doctrine has been intended to follow rather than supplant the doctrine's separation of the copyright owner's rights from the copy owner's right.²⁶ As this dichotomy demonstrates, the first sale doctrine rests on broader principles than mere "first sale."²⁷ The Ninth Circuit's ruling annuls this longstanding dichotomy, upon which the entire first sale doctrine is based.

A. The Ninth Circuit's holding would nullify the § 202 copy/copyright distinction with respect to foreign-made copies

In keeping with the prefatory words of the original codification of the first sale doctrine in § 41 of

²⁶ The present codification of the first sale doctrine divides the provisions of § 41 of the Copyright Act of 1909 into two sections. Section 109 of the current Act vests the transfer right with the "owner" of the copy (rather than merely the possessor), and § 202 repeats the copy/copyright distinction that prefaced the original codification.

²⁷ Despite its name, the "first sale doctrine" has not been dependent upon whether a "sale" occurs in any of its codifications. See, e.g., *UMG Recordings v. Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008) (first-sale doctrine applies to promotional copies given away by copyright owner), *appeal pending*, No. 08-55998 (9th Cir.). "[C]opyright law does not forbid an individual from renting or selling a copy of a copyrighted work which was lawfully obtained or lawfully manufactured by that individual." *United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) (emphasis added) (quoting *United States v. Sachs*, 801 F.2d 839, 842 (6th Cir. 1986)).

the Copyright Act of 1909,²⁸ § 202 of the Copyright Act of 1976 provides, in part:

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.²⁹

The Ninth Circuit's holding would, in effect, read this distinction out of the Copyright Act with respect to copies made abroad. Owners of non-infringing copies made domestically would enjoy a right of ownership in the tangible medium that is wholly distinct from the copyright owner's intangible copyright. In stark contrast, and contrary to the dichotomy set forth in § 202, owners of non-infringing copies made abroad would no longer enjoy such a distinct right of ownership in the tangible medium, as such ownership would be subject to the author's exclusive right to

²⁸ The Committee on Patents explained: "Section 41 is not intended to change in any way existing law, but simply to recognize the distinction, long established, between the material object and the right to reproduce copies thereof." H.R. Rep. No. 2222, 60th Cong., 2d Sess., at 28-29 (1909).

²⁹ The Register of Copyrights, expressing her own views the following year, explained:

All this section [202] really says is that copyright is one thing and the material object in which the work is embodied is another; that ownership of one is distinct from ownership of the other; that the transfer of ownership of one does not, in and of itself, transfer ownership of the other.

Marybeth Peters, *General Guide to the Copyright Act of 1976*, ch. 5, at 6 (Sept. 1977).

distribute the medium.³⁰ In legal terms, ownership is converted into a mere right of possession.

B. The Ninth Circuit’s holding ignores the exhaustion principle upon which the first sale doctrine is based

The common law formulation of the first sale doctrine articulated by this Court in *Bobbs-Merrill*, and which Congress intended to codify, is akin to the “exhaustion” principle that has come to be universally recognized in international law.³¹ The exhaustion principle provides that the copyright owner’s right of distribution ends with transfer of ownership of the

³⁰ The Third Circuit, in contrast, has embraced the distinction embodied in § 202:

Section 109(a) is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material. *See* 17 U.S.C. § 202 (1982). The first sale doctrine prevents the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred. *See, e.g., Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908); *Independent News Co. v. Williams*, 293 F.2d 510, 515-17 (3d Cir. 1961).

Columbia Pictures Industries v. Redd Horne, 749 F.2d 154, 159-60 (3d Cir. 1984).

³¹ “‘Exhaustion’ is the term that is often used in international agreements to refer to the termination of a copyright owner’s distribution right with respect to a particular copy after that copy has been sold with the copyright owner’s authorization – *i.e.*, the first sale doctrine. The distribution right is said to ‘exhaust’ after the first sale.” DMCA SECTION 104 REPORT, at 92 n.301, U.S. Copyright Office (August 2001).

copy. The Ninth Circuit's ruling is contrary to this universally accepted understanding of the first sale doctrine.

The common law approach is instructive here, because under that framework, the copyright owner enjoys the distribution right only with respect to the copies that it owns. Transfer of ownership exhausts the copyright owner's distribution right.³² This rights-exhaustion approach is consistent with the legislative history of § 109. Indeed, Congress intended the right of distribution to be limited to the former right of "publication," as set forth in *Bobbs-Merrill*:

Under this provision the copyright owner would have the right to control the first public distribution of an authorized copy or phonorecord of his work, whether by sale, gift, loan, or some rental or lease arrangement. Likewise, any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement. *As section 109 makes clear, however, the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.*

³² "Section 109(a) restates and confirms the principle that where a 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." S. Rep. No. 93-983 (1974).

H.R. Rep. No. 94-1476, at 62 (1976) (emphasis added).

The Ninth Circuit's position is contrary to both the common law and Congress' intent. The Ninth Circuit looked to the country in which a tangible medium of expression was converted into a "copy or phonorecord" by virtue of reproduction, rather than – as Congress intended – whether the reproduction was made by or with the consent of the owner of the exclusive right of reproduction, and whether the copy or phonorecord so reproduced was owned by someone other than the copyright owner. Under the common law first sale doctrine codified by Congress, and contrary to the Ninth Circuit's holding, authorized copies no longer owned by the copyright holder are not subject to the copyright holder's distribution right.

III. THE HOLDING BELOW VIOLATES THE TEACHING OF *SONY* BY EXTENDING COPYRIGHTS TO CONTROL CHATTEL OWNED BY OTHERS AND OVER DISTRIBUTION OF COPIES OF OTHER AUTHORS' WORKS

A fundamental basis for this Court's holding in *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984) was the principle that a copyright owner may not "enlarge the scope of [its] statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection," thereby expanding the copyright holders' control "beyond the limits of the grants authorized by Congress." *Id.* at

421. In *Sony*, the copyright holder sought to exert control over a VCR it did not own. This Court rejected that proposition. Likewise, this Court should reject the position – advanced by Omega and adopted by the Ninth Circuit – that would allow a copyright owner to control chattel in which it had never held title (such as a personal computer or a smartphone), simply because authorized copies were reproduced onto such media overseas.

As did the Ninth Circuit’s reversed decision in *Sony*, the Ninth Circuit’s decision in this case allows copyright holders to burden a tangible article of commerce capable of noninfringing uses.³³ This, despite that Congress has drawn a sharp distinction between ownership of the tangible object onto which a copyrighted work is reproduced³⁴ and ownership of

³³ In *Sony*, the burden was in keeping the device capable of making noninfringing copies out of the market. In this case, the burden would attach only once the device becomes an authorized copy made abroad, but the impact would be more far-reaching: The Ninth Circuit’s holding would allow an exclusive right of one author to burden works of others, because it would extend the right of distribution to include tangible media containing works authored by others (e.g., a computer hard drive with hundreds of lawfully made copies but just one copy made overseas, which, under the Ninth Circuit’s ruling, would be subject to the distribution right of the copyright owner whose work was lawfully copied overseas).

³⁴ “Nothing in the statute limits the manner in which the making of the copy may be accomplished, so long as the resulting copy is lawful.” DMCA SECTION 104 REPORT, at 23, U.S. Copyright Office (August 2001).

the intangible copyright (§ 202), and despite that Congress has specifically granted to owners of the tangible object the right to transfer those articles as they see fit (§ 109).

Like the consumers owning the Betamax VCRs at issue in *Sony*, consumers today own many devices in which the copyright holder has never held any ownership interest. Personal computers, electronic notepads, personal digital assistants, and “smart phone” cell telephones are sold to millions of consumers, with the expectation that a virtually unlimited number of works of authorship might be reproduced onto them. These may include photographs, text, audiovisual works, sound recordings and computer programs, either created by the owner of the device or reproduced onto the device with the permission of the copyright owner.

The Ninth Circuit’s holding means that if even one such work is reproduced onto the device while the device is outside of the United States, the author or copyright holder in that work is suddenly empowered to determine whether the owner of the device may distribute the device to anyone else, even by mere lending. The rights of owners of copies lawfully made *in* the United States are abridged merely because the same tangible article that is protected by § 109(a) is, according to the Ninth Circuit, concurrently *not* protected by § 109(a) by virtue of having had another work reproduced onto it *outside* of the United

States.³⁵ This is precisely the sort of “control over an article of commerce that is not the subject of copyright protection” that the Court expressly rejected in reversing the Ninth Circuit in *Sony*. The Court should similarly reject the Ninth Circuit’s flawed reasoning here.

IV. THE HOLDING BELOW THREATENS SETTLED FIRST AMENDMENT RIGHTS BY ALTERING THE TRADITIONAL CONTOURS OF COPYRIGHT PROTECTION

Although the statutory language and history are dispositive in favor of Petitioner’s reading of § 109(a), to the extent there is ambiguity, the interpretative canon of constitutional avoidance requires reversal of the Ninth Circuit’s interpretation of § 109(a).³⁶ The

³⁵ The *Sony* teaching suggests that the device makers would not be contributorily liable for the distribution of copies and phonorecords that share the same tangible medium of expression yet are made, with the respective U.S. copyright holder’s authority, both inside and outside of the United States. The shared tangible medium is “capable of substantial noninfringing uses,” *Sony*, 464 U.S. at 442. Less clear is the question of primary liability on the part of the one who distributes such copies or phonorecords. Omega urges a reading that would concurrently entitle the owner of such a shared tangible medium to distribute it without one copyright owner’s consent while committing copyright infringement with respect to another copyright owner’s distribution right.

³⁶ The canon of constitutional avoidance “is an interpretive tool, counseling that ambiguous statutory language be construed to avoid serious constitutional doubts.” *FCC v. Fox TV Stations, Inc.*, ___ U.S. ___, 129 S. Ct. 1800, 1811 (2009) (citing *Edward J.*

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Ninth Circuit’s interpretation warrants First Amendment scrutiny because it threatens long-recognized First Amendment rights that have traditionally been unencumbered by exclusive rights. *See Eldred v. Ashcroft*, 537 U.S. 186 (2003). The interpretation urged by Petitioner Costco, in contrast, avoids the serious constitutional questions raised by the Ninth Circuit’s interpretation of the statute.

The businesses of *Amici*’s members are at the heart of copyright law. Unlike the distribution of Omega brand watches and other general merchandise that is only incidentally a “copy” of a copyrighted work, distribution of copies of books, music, movies and video games by *Amici*’s members involves the “core of intended copyright protection,” *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994). Indeed, as the Court recognized in *Quality King*, 523 U.S. 135, although the L’anza brand shampoo labels at issue in that case “have only a limited creative component,” the Court’s ruling “would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books.” *Id.* at 140. The Ninth Circuit disregarded the implications of its ruling for the “core” focus of copyright protection. Instead, the Ninth Circuit narrowly (and erroneously)

DeBartolo Corp. v. Florida Gulf Coast Building & Constr. Trades Council, 485 U.S. 568, 575 (1988)). “It is therefore incumbent upon us to read the statute to eliminate those doubts so long as such a reading is not plainly contrary to the intent of Congress.” *United States v. X-Citement Video*, 513 U.S. 64, 78 (1994).

examined the issues only from the perspective of a manufacturer's ability to leverage copyright law to enforce a global price discrimination strategy over common goods, ignoring the public policy interests that give rise to copyrights, and the fundamental First Amendment rights with which copyrights are balanced.

Nothing in the record suggests that the price of Omega watches increased by virtue of having been transformed into a "copy" of the copyrighted work. Rather, the entire value of the watch was in characteristics unrelated to copyright, such as the goodwill associated with the Omega brand, the materials, the craftsmanship, the functional accuracy, and the aesthetic value. The inability to distribute watches, as watches, in no way burdens First Amendment rights, nor thwarts the Copyright Act's constitutional purpose.

In clear contrast, in the case of books, movies, music and video games – the works that form the business of *Amici's* members – the tangible medium of expression is only incidental to the constitutionally protected and copyrighted speech elements. The suppression of such speech – a direct result of the Ninth Circuit's interpretation of § 109(a) – burdens fundamental First Amendment rights and frustrates a core objective of the Copyright Act, which is to encourage broad dissemination of such creative works for the edification of the public. *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948).

This Court has recognized that “the First Amendment can limit Congress’s power under the Copyright Clause.” *Golan v. Gonzales*, 501 F.3d 1179, 1184 (10th Cir. 2007) (citing *Eldred*, 537 U.S. at 219-21 (2003)). In *Eldred*, this Court recognized the “free speech safeguards” built into copyright law, such as the idea/expression dichotomy and the fair use doctrine. As the *Golan* court explained:

Although these built-in free speech safeguards will ordinarily insulate [copyright] legislation from First Amendment review, the *Eldred* Court indicated that such review is warranted when an act of Congress has “altered the traditional contours of copyright protection.”

Golan, 501 F.3d at 1184 (citing *Eldred*, 537 U.S. at 221).

With respect to the first sale issue presented in this case, prior to the Copyright Act of 1976, the traditional contours of copyright protection never gave a copyright owner control over the distribution of non-infringing copies it did not own. *See, e.g., Bobbs-Merrill*, 210 U.S. 339; *Harrison v. Maynard, Merrill & Co.*, 61 F. 689 (2d Cir. 1894); and the earlier cases cited therein.³⁷ To the contrary, distribution of a

³⁷ Modern copyright owners should fare no better than Mark Twain (Samuel Clemens) did in 1885, when he attempted to enjoin a retailer from selling copies of HUCKLEBERRY FINN below the minimum retail price Clemens and his dealers had agreed on (before several of them sold them, at a discount, to the

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copy by the copyright owner has always been understood to exhaust the distribution right, whether under common law or any of the codifications of the first sale doctrine since 1909. The amendments made by the Copyright Act of 1976 caused no change whatsoever in the distribution practices prevalent among the copyright holders supplying *Amici's* products, despite the historic inclination, by some, to want to control secondary distributions.³⁸ Not one case dating back to the mid-1800s countenanced a more favorable outcome for the copyright owner who prints abroad. The opposite was true.³⁹ There is also a

retailer). The Court held that his remedy was for breach of contract against the dealers, and not copyright infringement against the retailer. *Clemens v. Estes*, 22 Fed. 899 (C.C.D. Mass. 1885).

³⁸ This inclination was manifest during the development of the Copyright Act of 1976. “The proposal that royalties be imposed on the large-scale commercial resale of used copies of textbooks and other works received no support” and ran counter to the first sale doctrine embodied in the unopposed § 109(a). The Register of Copyrights on the General Revision of the U.S. Copyright Law 1975 Revision Bill, October-December 1975 (*Draft*): *Second Supplementary Report*, ch. II, at 55.

³⁹ For example, the Copyright Act of 1909 took note of the place of manufacture for the *opposite* purpose: Rather than reward U.S. copyright holders who manufacture copies abroad, § 107 of the Copyright Act of 1909 prohibited U.S. copyright holders from importing into the United States “any copies thereof (although authorized by the author or proprietor) which have not been produced in accordance with the manufacturing provisions specified in section 16.” (With few exceptions, § 16 required that the reproduction work be performed in the United States if the text was in English.) The Committee Report explained that the aim was the “protection of the men engaged

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long history of treating the rights in the tangible copy as distinct from the copyright, of favoring the freedom to alienate personal property, and of exhausting the right to distribute copies once title to the copy has passed.

Thus, although the statutory text and history clearly refute the Ninth Circuit's reading of § 109(a), the Ninth Circuit's reading is also impermissible under the interpretative canon of constitutional avoidance. Even assuming that § 109(a) were ambiguous with respect to goods made abroad by or under the authority of the U.S. copyright-holder, which it is not, the Ninth Circuit should have adopted Petitioner's reading of that provision, in light of the serious First Amendment questions presented by a contrary reading.

The Ninth Circuit's interpretation of § 109(a) alters the traditional contours of copyright protection and therefore raises serious First Amendment concerns under *Eldred* and similar cases. Under the canon of constitutional avoidance, the Ninth Circuit should have adopted Petitioner's interpretation of § 109(a), as that interpretation is much more consistent with these historical contours and would therefore avoid burdening the First Amendment

in the work of setting type, making plates, printing and binding." H.R. Rep. No. 2222, 60th Cong., 2d Sess., at 18 (1909). The House Report was also adopted by the Senate, S. Rep. No. 1108, 60th Cong., 2d Sess. (1909).

rights both of owners of authorized copies and phonorecords and of other authors whose works reside on the same medium as authorized copies and phonorecords made abroad.

Because a regulation favoring offshore manufacturing of copies of U.S. copyrighted works is content neutral, intermediate scrutiny would be appropriate.

A content-neutral regulation [of speech] will be sustained under the First Amendment if it advances important governmental interests unrelated to the suppression of free speech and does not burden substantially more speech than necessary to further those interests.

Turner Broad. Sys., Inc. v. F.C.C., 520 U.S. 180, 189 (1997). In order to show that the Ninth Circuit's interpretation raises serious constitutional questions, the analysis need not proceed further than whether the regulation advances an important governmental interest. Nothing in the record or the legislative history shows the advancement of any governmental interest by granting to U.S. copyright holders a right to prohibit people who own non-infringing copies of their works from selling, lending, or gifting those copies, merely because the U.S. copyright owner authorized reproduction abroad, or because the consumer happened to be abroad when making an

authorized reproduction.⁴⁰ Assuming that one could posit such a governmental interest, creating an incentive to export manufacturing jobs while cutting off access to secondary markets for authorized copies and phonorecords would certainly not rise to the level of an important interest required under intermediate scrutiny.

Even under ordinary copyright principles, this Court has recognized the importance of carefully demarcating the boundaries between the reach of the copyright and the wealth of activity beyond that reach.

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). In demarcating those boundaries, the rights of owners of copies and phonorecords must also be weighed, precisely because the Copyright Act itself gives

⁴⁰ The Register of Copyrights has even placed the right to destroy one's own copies under the umbrella of § 109(a) protection. Supplementary Register's Report on the General Revision of the U.S. Copyright Law (1965), ch. 2, at 29.

owners of lawfully made copies rights separate from and superior to those of the copyright owners.⁴¹

Amici's argument is not that the 1976 Act itself injected a flaw of constitutional dimensions. Rather, the Ninth Circuit, in misinterpreting the Act, made a radical departure from over 150 years of judicial and legislative history in which the place of manufacture authorized by the U.S. copyright holder had no bearing on the U.S. copyright holder's rights.⁴² Given that long and unbroken history in which both custom and law honored an exhaustion of the distribution right once title passed to another, coupled with the legislative history of the 1976 Act asserting no intent to change that history, the Ninth Circuit's interpretation would radically alter the contours of copyright regulation in a manner that dramatically burdens freedom of speech without promoting any countervailing governmental interest. Accordingly, at the very least, the Ninth Circuit should have rejected

⁴¹ See, e.g., *Sony*, 464 U.S. at 447 (“[T]he definition of exclusive rights in § 106 . . . is prefaced by the words ‘subject to sections 107 through [122].’”); accord H.R. Rep. No. 94-1476, at 61 (1976) (“[E]verything in section 106 is made ‘subject to sections 107 through [122]’ and must be read in conjunction with those provisions.”).

⁴² There was a period of time during which the foreign manufacture of English language copies served to completely *deny* copyright as a penalty for offshore printing. See Copyright Act of 1909, § 15, and prohibit their importation, *id.* at § 16. See, *supra*, n.39. Congress has never set out to purposely enlarge copyright protection as the reward for foreign manufacturing.

its chosen interpretation based on the serious constitutional questions presented by that reading of § 109(a).

◆

CONCLUSION

Because the Ninth Circuit's ruling below is so irreconcilable with the first sale doctrine's purpose, roots, and longstanding application; so likely to create recurrent chaos in the marketplace; and so contrary to the traditional contours of copyright protection as to burden First Amendment protections without any countervailing government interest, this Court should reverse the judgment below.

Respectfully submitted,

KATHLEEN HARTNETT
SPIVA & HARTNETT LLP
1776 Massachusetts Ave., NW
Suite 600
Washington, DC 20036
(202) 785-0601

JOHN T. MITCHELL
Counsel of Record
INTERACTION LAW
1629 K Street, NW
Suite 300
Washington, DC 20006
(202) 415-9213
john@interactionlaw.com