

No. 08-1423

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In The  
**Supreme Court of the United States**

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COSTCO WHOLESALE CORPORATION,

*Petitioner,*

v.

OMEGA, S.A.,

*Respondent.*

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**On Petition For A Writ Of Certiorari  
To The United States Court Of Appeals  
For The Ninth Circuit**

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

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**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 industry. 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.<sup>1</sup>

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, meaning that these devices,

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<sup>1</sup> 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.

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) and 109.

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 both physical stores and “online” Internet stores. Members sell both 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).

*Amici’s* members purchase new and used copies and phonorecords in the free flow of commerce. Such purchases are often from third parties and not in privity with the copyright holder, be it from independent distributors, “sideways selling” from a competitor, or even buying back used copies and phonorecords from their own customers. Members frequently do not know, nor could they reasonably determine, where these copies were manufactured.<sup>2</sup>

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<sup>2</sup> Many states require that the “true name and address of the manufacturer” appear on the product or packaging, but that information only identifies the manufacturer, and not the place of manufacture. *See, e.g.*, Fla. Stat. ch. 540.11(3)(a)(3) (2007).

All of *Amici's* members depend on the first sale doctrine and § 109 of the Copyright Act for their freedom to compete vigorously with each other in the broadest possible dissemination of creative works to the public, with the broadest possible product selection, and at the cheapest possible prices. Every day, the commercial activities of *Amici* invoke the wisdom of the House Committee on Patents of the United States Congress, which, in 1909, recommended codification of this Court's recognition of the first sale doctrine in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908):

Your committee feel that it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale.

H.R. Rep. No. 60-2222, at 28-29 (1909).

Notably, the businesses of *Amici's* members are at the heart of copyright law. Unlike the distribution of Omega brand watches, 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 Distributors, Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), 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 this Court’s careful attention in *Quality King* to the ramifications of its ruling for the “core of intended copyright protection.” Instead, the Ninth Circuit examined the issues penuriously (and erroneously), from the perspective of a manufacturer’s ability to leverage copyright law to enforce a global price discrimination strategy over common goods.

*Amici*’s members have a wealth of experience with myriad business models based partially or entirely on the entitlement conferred upon owners of lawfully made copies and phonorecords by virtue of 17 U.S.C. §§ 202 and 109. 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 telling the time of day or washing hair. *Amici*’s members also are engaged in sublicensing consumers to reproduce works into their own copies and phonorecords, and therefore have an interest in preserving the § 109 rights of their customers. Finally, *Amici* have a history of engagement in legislative and public policy debates concerning the proper scope of § 109.

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## ARGUMENT

Retail competition and innovation has thrived under the first sale doctrine. In misinterpreting § 109 and gutting the first sale doctrine with respect to foreign-manufactured goods, the Ninth Circuit has

stretched judicial reasoning beyond its limit, and has contravened the text of the Copyright Act and this Court's precedent. According to the Ninth Circuit, and directly contrary to the first sale doctrine as it has been understood, a copyright holder may continue to exercise control after the first sale by simply outsourcing the manufacturing operation to a foreign country. *Amici* urge this Court to grant the Petition so the Court may examine and correct the Ninth Circuit's misinterpretation of § 109(a).

Review by this Court is urgently needed because the Ninth Circuit's ruling threatens to irreparably harm *Amici's* members, the rights of their customers, and the objectives of the Copyright Act.

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, *Amici* respectfully submit that the rights of owners of copies and phonorecords must also be weighed, precisely because the Copyright Act itself gives owners of lawfully made copies rights separate from and superior to those of the copyright owners. *See, e.g.*, 17 U.S.C. § 202 ("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"); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 447 (1984) ("[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.”).

**I. THE NINTH CIRCUIT’S DECISION THREATENS TO IRREPARABLY HARM *AMICI*’S MEMBERS AND THEIR CUSTOMERS BY PREVENTING WIDELY ACCEPTED MEANS OF DISTRIBUTING COPIES AND PHONO-RECORDS**

**A. The Ninth Circuit’s decision baselessly threatens retailers’ well-settled means of distributing copyrighted content**

*Amici*’s members generate billions of dollars of annual revenue from distribution of copies and phonorecords, or the licensing of reproductions. Their businesses are at risk if the Ninth Circuit’s interpretation of “under this title” in § 109(a) takes hold, undoing 150 years of first sale doctrine jurisprudence upon which *Amici*’s members depend. Now, according to the Ninth Circuit, the mere shift of manufacturing operations abroad is all that it takes for a copyright owner to nullify the first sale doctrine and § 109(a).

A review of business models employed by *Amici*’s members demonstrates the real threat posed by the Ninth Circuit’s decision to established and legitimate commerce in expressive works.

## 1. Selling any copy would require a license

The simple act of selling a copy or phonorecord made by or under the authority of the copyright holder would require a license from the copyright holder – simply because such a copy or phonorecord was manufactured abroad. Copyright holders could license – or withhold licenses – on a whim. A disfavored retailer, be it because of its discount pricing, product reviews, or merely to enforce an “exclusive” arrangement with a competing retailer, could be prohibited from selling specific copies or phonorecords.

Although copyright holders sometimes grant “exclusives” to certain retailers, prior to the Ninth Circuit’s ruling, and pursuant to the first sale doctrine, § 109, and this Court’s ruling in *Quality King*, any competing retailer remains free to purchase copies or phonorecords from the exclusive 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,” § 109 rights would not apply, and the resale would be infringing.<sup>3</sup>

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<sup>3</sup> Curiously, due to the decision below, the law of the Ninth Circuit now holds that if the copyright holder sells any of the foreign-manufactured copies in the United States, those copies are once again subject to § 109 despite the fact that, under its own interpretation, § 109(a) cannot apply because they were not made here. Pet. App. 15a-16a.

## **2. Copyright holders could eliminate competition from secondary sales**

Some copyright holders chafe at the growing market for used copies and phonorecords.<sup>4</sup> Under the Ninth Circuit's holding, manufacturing abroad would empower copyright holders to prohibit all secondary sales, even though many people depend on them. *Amici* estimate the market for resale at retail of used copies to comprise as much as 15% percent 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%. This volume of commerce does not include non-commercial redistribution by lending, trading or gifting. All such commerce is jeopardized by the Ninth Circuit's ruling.

## **3. Copyright holders could prohibit rental**

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. Since that time, copyright holders

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<sup>4</sup> 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.guardianweeklytechnologysection2>; David D. Kirkpatrick, *Online Sales Of Used Books Draw Protest*, THE NEW YORK TIMES (Aug. 10, 2002), available at <http://query.nytimes.com/gst/fullpage.html?res=9400e0dc113df933a25757c0a9649c8b63>.

have variously attempted to prevent or impair home video rental, be it by contractual agreements to restrain such trade, exclusive sales to non-renting companies, or just labeling copies of videos as “not for rental.” In each instance, the first sale doctrine and § 109 rebuffed such attempts.<sup>5</sup> Now, the Ninth Circuit has provided a road map of foreign manufacturing for copyright holders to prohibit rental (or extract additional fees for rental), despite that rental has long been permitted under §§ 202 and 109. Neither the text of the Act or this Court’s past reasoning requires this undesirable result.

#### **4. Gifting would be at risk**

*Amici’s* members encourage purchases of copies and phonorecords as gifts. NARM, for example, sponsored the “Give the Gift of Music” campaign to encourage consumers to buy phonorecords for the sole purpose of redistributing them as gifts. *Amici* doubt

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<sup>5</sup> In a December 19, 1984 unpublished memorandum seeking a legislative compromise before the 1985 legislative session, Jack Valenti, President of the Motion Picture Association of America, proposed to Weston Nishimura, President of the Video Software Dealers Association (EMA’s predecessor), that in exchange for supporting a repeal of § 109 for video rental, the studios would support an obligation to permit rentals within 30 days of the first sale. However, copyright holders at the time envisioned retail video rental prices equivalent to the price of one or more first-run movie tickets. The studios eventually abandoned their effort to control the rental market by legislation and, today, movies still rent for as little as 99 cents.

that copyright holders want to restrict gift purchases. However, the Ninth Circuit's ruling means that consumers purchasing foreign-made phonorecords would need either to ensure that their phonorecord came with a "license to re-distribute by gift" or to take the risk of making a gift as "fair use," 17 U.S.C. § 107, as such gifting would no longer be protected under § 109. 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.

#### **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 use many Internet-connected services, including services hosted by *Amici's* members, to offer used or even "new condition" second-hand copies and phonorecords for sale to the public. Until now, the law concerned itself only with whether those copies were non-infringing. Under the Ninth Circuit's holding, sellers also now would need to determine whether the place of manufacture was on United States soil, regardless whether the copy or phonorecord is the genuine article that the copyright holder made and placed into the stream of commerce. Copyright holders already have filed a number of 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. In these suits, the copyright holders manufacture and sell the article abroad, often at a much lower price, and then argue that § 109 does not apply when American consumers are offered those same copies at a bargain price.<sup>6</sup> The 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.<sup>7</sup>

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<sup>6</sup> See, e.g., *Pearson Education, Inc. v. Valore, Inc.*, 1:07-cv-01348-JG-JMA, *consent judgment* (E.D.N.Y. Dec. 17, 2007) (prohibits 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*, 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, the court followed 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. Allen Air Conditioning*, 1:08-cv-06152-RJH (S.D.N.Y. filed July 3, 2008) (seller of textbooks the publishers printed in China sued for undercutting higher prices charged to American students).

<sup>7</sup> 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).

## **6. Consumers would have to be wary of where they happen to be when making a licensed reproduction**

Copyright holders often license “through to the consumer” the right to reproduce a copy or phonorecord of the work, typically onto a computer hard drive, video game player, cell phone or portable media player. These licenses sometimes involve reproductions from remote copies to local media, such as the practice of “downloading” licensed reproductions using the Internet, a practice that is experiencing significant commercial growth. Also gaining in popularity is the practice of distributing a copy or phonorecord along with a license to reproduce a second copy.<sup>8</sup> Similarly, some sound recordings come with a “second session” – a music file in the popular MP3 format that can be copied directly to another medium rather than “ripped” from the uncompressed file.

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<sup>8</sup> For example, the Advanced Access Content System Licensing Administrator (AACSLA) recently announced that the new Blu-ray format for high definition movies distributed by *Amici's* members will require all discs to enable the consumer to make at least one “managed copy” – a licensed reproduction of the motion picture. “The requirement that studios include managed copy on Blu-ray discs means that virtually all Blu-ray discs released after the first quarter of 2010 will offer consumers the ability to make one full-resolution backup copy, AACSLA chair Michael Ayers said.” Jennifer Netherby, *Managed copy due next year*, VIDEO BUSINESS (June 11, 2009), <http://www.videobusiness.com/article/CA6664863.html?nid=2705>.

The Ninth Circuit’s decision undercuts these new business models, which promise to inject new life into copies and phonorecords, giving them greater appeal than copies that have been illegally reproduced from unlicensed sources. Under the Ninth Circuit’s decision, if a consumer invokes the licensed “second session” or “managed copy” reproduction right while outside of the United States, the device or storage medium onto which the customer reproduced it is placed under the distribution control of the *licensor*, even if the original disc containing the MP3 file or “managed copy” was made and sold in the United States.

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

“Owners” of lawfully made copies include not only merchants like *Amici*’s members, but also customers of merchants. And customers have come to depend on the first sale doctrine and § 109 for transferring ownership of copies of works in a variety of ways. Such transfers occur through yard sales, gifts, informal trading, donations to charity, purchases from the local library’s surplus books, testamentary transfers of a decedent’s estate, and so on.

In the commercial context, the first sale doctrine adds value to a customer’s initial purchase. The new copy or phonorecord is made intrinsically more

valuable because there is considerable value in the right to subsequently transfer ownership or possession to others. Whether it is the economic advantage of “trading in” a used video game or music CD for a new one, the tax advantage of making a charitable donation, or simply the intangible benefit derived from lending or giving a copy or phonorecord to a friend, the first sale doctrine directly serves the purpose of copyright by fueling the demand for and dissemination of copies and phonorecords. Competition from secondary markets also keeps prices for new products lower.

Contrary to the settled operation of the first sale doctrine and § 109, the Ninth Circuit’s ruling sets forth a legal minefield for customers seeking to participate in secondary markets: customers must learn where a purchased copy was made before transferring it, or seek a pre-license to redistribute it to others before purchasing it.

## **II. THE NINTH CIRCUIT’S REASONING AND CONCLUSION ARE IRRECONCILABLE WITH THAT OF THE THIRD CIRCUIT**

In addition to transgressing the plain terms of the Copyright Act and this Court’s decision in *Quality King*, see Pet. at 9-20, the Ninth Circuit’s decision is irreconcilable with the reasoning of *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). The *Sebastian* Court noted the first sale doctrine’s “origins in the common law aversion to

limiting the alienation of personal property.” *Id.* at 1096. *Sebastian* also elaborated upon the economic purpose for the first sale doctrine, explaining that “the ultimate question under the ‘first sale’ doctrine is whether or not there has been such a disposition of the copyrighted article that it may be said that the copyright proprietor has received his reward for its use.” *Id.* at 1096-96 (quoting *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964), and citing *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963)).

Like *Quality King*, *Sebastian* did not view § 602(a) as creating a right in addition to the distribution right in § 106(3). *Id.* at 1097. Rather, like this Court in *Quality King*, *Sebastian* interpreted § 602(a) as setting forth a type of distribution right under § 106(3). In doing so, it anticipated and rejected the Ninth Circuit’s reasoning in the present case, based on the very language of § 109:

This analysis poses a problem in the case of unauthorized imports of *copies made abroad* pursuant to a license restricting sales to a particular country. Although the domestic copyright holder undoubtedly would prefer to block such importation, *the statutory language does not expressly authorize such control.*

*Id.* (emphasis added). Review by this Court is warranted due to the irreconcilability between the Third Circuit’s reasoning and the erroneous decision of the Ninth Circuit below.

### III. THE COMMON LAW FORECLOSES THE ALLEGED RIGHT RECOGNIZED BY THE NINTH CIRCUIT

Every codification of the first sale doctrine has addressed the doctrine in terms of a privilege conferred upon owners of lawfully made copies that “trumps” the distribution right of the copyright holder.<sup>9</sup> Notably, however, the *Bobbs-Merrill* common law formulation of the first sale doctrine that Congress intended to codify is more akin to the “exhaustion” principle recognized in international law,<sup>10</sup> including treaties to which the United States is a party. The Ninth Circuit’s ruling is contrary to this common law formulation, further demonstrating its lack of foundation.

The common-law approach is instructive here, because under that framework, the copyright owner can only enjoy the distribution right with respect to the copies over which it retains ownership. In other

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<sup>9</sup> “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).

<sup>10</sup> “‘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).

words, the copyright owner's right of distribution ends with transfer of ownership. 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.*

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

The Ninth Circuit's position is starkly contrary to both the common law and Congress' intent. The Ninth Circuit looked to the country in which a tangible medium of expression became a "copy or phonorecord" by virtue of reproduction, rather than – as Congress intended – to whether the reproduction and distribution was exercised and exhausted by or with the consent of the copyright holder. Nothing in § 106 requires the United States copyright holder to limit its enjoyment of the exclusive right of reproduction and distribution to copies made and distributed

within the United States. Nor, therefore, should the § 109 limitation on § 106(3) rights be so restricted.<sup>11</sup>

#### **IV. THE HOLDING BELOW VIOLATES THE BASIS OF *SONY* BY EXTENDING COPYRIGHTS TO CHATTEL OWNED BY OTHERS**

A fundamental basis for this Court's reversal in *Sony* was that the appellate court's decision would have "enlarge[d] the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection," thereby expanding copyright holders' control "beyond the limits of the grants authorized by Congress." *Sony*, 464 U.S. at 421. Like the overruled appellate decision in *Sony*, the Ninth Circuit's decision will allow copyright holders to exercise continued control over an article of commerce, despite that Congress has specifically granted to subsequent owners the right to transfer those articles as they see fit. Also contrary to *Sony*, the Ninth Circuit's holding would extend the right of distribution to include tangible

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<sup>11</sup> Ironically, the European Union provides for exhaustion of copies distributed there. Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001, on the harmonization of certain aspects of copyright and related rights in the information society (OJ L 167/10 2001). The Ninth Circuit's rule, therefore, gives copyright holders who make and distribute copies within the European Union greater control over the copies circulating within the United States than they would have in the European Union itself.

media the copyright owner never controlled before, and containing works authored by others.

As explained above, copyright holders may, and do, license (or authorize retailers to license) the reproduction of their works by the owner of the tangible medium onto which the work is reproduced. Persons who lawfully reproduce the work using their own tangible media enjoy the right, pursuant to § 109(a), to distribute the resulting copies and phonorecords without consent of the copyright owner. *See, e.g., United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) (“[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.*” (emphasis added)); *United States v. Sachs*, 801 F.2d 839, 842 (6th Cir. 1986) (same). “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).

Given the routine practice today of reproducing copyrighted works onto high-capacity media over which the copyright owner has no claim of ownership (including even simple works of no independent commercial value, such as downloading software “patches,” new “versions,” or ancillary “drivers” common on every personal computer), it would upset settled practice and the current economics of buying and selling computers if the owner of the computer or portable device could be sued for infringement if the latest

upgrade, patch, driver, or new version happened to have been installed while the owner was vacationing abroad. While temporarily outside of the United States, the owner of a laptop might have reproduced a copy (specifically, a “phonorecord”) of a song offered as a licensed download from the Internet website of the owner’s favorite recording artist, only to learn that upon re-entry, it would be infringing to sell, lend or give away the laptop without first erasing the non-infringing reproduction from the hard drive.

In short, the Ninth Circuit’s interpretation of the Copyright Act improperly gives copyright holders the exclusive right to distribute or authorize the distribution of every computer, telephone, portable media player or storage medium (including computer hard drives, USB drives, flash memory, compact discs and microchips) onto which they authorized a copy or phonorecord of their work to be reproduced, if that medium happened to be located outside of the United States when the reproduction took place. It makes little sense to interpret the distribution right so broadly as to attach to copies and phonorecords that the copyright owner authorizes be made abroad pursuant to § 106(1), yet find that a domestic distribution is immune from the application of § 109 out of concern over extraterritorial application of the Copyright Act. Some may argue that the balance of rights between the parties can continue to be fought out in the courts below, but the collateral damage to the statutory right to distribute copies lawfully made *in* the United States that share space on the same

tangible medium cannot be ignored. The works of non-party copyright holders that share space on the same tangible medium are effectively being censored in the meantime. Likewise, 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 is, according to the Ninth Circuit, concurrently not protected by § 109 by virtue of having had another work reproduced onto it outside of the United States.

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### CONCLUSION

Because the judgment below is so irreconcilable with the views of the Third Circuit, so inconsistent with the first sale doctrine's purpose and roots, and so likely to usher in recurrent chaos in the marketplace and for noncommercial distributions by consumers, this Court should grant the Petition.

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