

No.

In the Supreme Court of the United States

GANGHUA LIU,

Petitioner,

v.

PEARSON EDUCATION, INC., ET AL.,

Respondents.

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

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Copyright Act's first-sale doctrine, as codified in 17 U.S.C. § 109(a) – under which the owner of any particular copy “lawfully made under this title” may resell that copy without the authority of the copyright holder – applies to copies lawfully manufactured abroad by the holder of U.S. copyright, or whether the redistribution of such copies remains under the U.S. copyright holder's perpetual control simply because those copies were manufactured abroad.

**PARTIES TO THE PROCEEDING
AND RULE 29.6 STATEMENT**

Petitioner is Ganghua Liu, the defendant-appellant below. Jian Liu, Allen Air Conditioning Company, and a John Doe were defendants in the district court, but were not appellants in the court of appeals and are not petitioners here. Jian Liu and Allen Air Conditioning Company were voluntarily dismissed in the district court.

Respondents are Pearson Education, Inc., and John Wiley & Sons, Inc., both of which were plaintiffs-appellees below.

No parent or publicly held corporation owns more than 10% of the stock of Allen Air Conditioning Company.

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PETITION FOR A WRIT OF CERTIORARI

OPINIONS BELOW

The district court's order denying petitioner's motion to dismiss (App., *infra*, 3a-22a) is reported at 656 F. Supp. 2d 407. The district court's order certifying that order for interlocutory review under 28 U.S.C. § 1292(b) (App., *infra*, 23a-28a) is unreported. The order of the court of appeals denying petitioner's motion for interlocutory review (App., *infra*, 1a-2a) is unreported.

JURISDICTION

The order of the court of appeals was entered on November 18, 2011. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1). This Court's jurisdiction is further discussed at pages 30-32, *infra*.

STATUTORY PROVISIONS INVOLVED

17 U.S.C. §§ 109(a), 202, and 602(a) (renumbered as § 602(a)(1) in 2008) are reproduced at App., *infra*, 31a.

STATEMENT

Respondent textbook publishers claim that petitioner committed copyright infringement by purchasing and reselling in the United States textbooks those publishers made abroad and first sold there at deeply discounted prices. The Second Circuit held that the Copyright Act grants U.S. copyright holders complete and perpetual control over the importation, resale, and redistribution in the United States of any lawfully made copy of a copyrighted work – *even if that copy was made by the U.S. copyright holder and then sold to others, inside or outside the United States* – so long as it is manufactured abroad.

In doing so, the Second Circuit went further than any federal appellate court has gone before – further, even, than the Ninth Circuit did in *Omega, S.A. v. Costco Wholesale Group*, 541 F.3d 982 (9th Cir. 2008), *aff'd by an equally divided Court*, 131 S. Ct. 565 (2010). The Second Circuit gutted the venerable “first-sale doctrine,” well summarized by this Court more than 100 years ago: “[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose * * * a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.” *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908). “The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again.” *Ibid.*

The Second Circuit’s opinion is inconsistent with the text, history, and purpose of the Copyright Act. It grants copyright holders an unprecedented and unjustifiable power to restrain the alienation of copyrighted goods – but, inexplicably, does so only if copies of that good are made abroad. That rule – which both threatens to destroy longstanding and enormous secondary markets and limit the public’s access to science and useful arts, all while outsourcing American manufacturing jobs – cannot be what Congress intended.

Three courts of appeals now treat copies that a U.S. copyright owner makes abroad in three different ways. This Court’s grant of certiorari last Term in *Costco v. Omega* recognized the need for clarification (even before the Second Circuit added to the confusion), but its affirmance by an equally divided Court did not provide that clarification. For all those reasons, this Court should grant certiorari.

A. The Copyright Act, *Quality King*, and *Costco v. Omega*

1. The Copyright Act grants copyright holders certain exclusive rights, among them the right to distribute – or to authorize others to distribute – copies of their work by sale or other transfer of ownership. See 17 U.S.C. § 106(3). That distribution right is extended in 17 U.S.C. § 602(a) to include “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States.”

The exclusive rights in § 106 are subject to important limitations codified elsewhere in the Copyright Act, including the rights of fair use and educational use. See 17 U.S.C. §§ 107, 110. Also among those limitations is the “first-sale doctrine,” codified in 17 U.S.C. §§ 109(a) and 202.

Section 202 contains what was the introduction to the doctrine’s first codification, in the Copyright Act of 1909, and underscores that copies and copyrights are to be treated separately:

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.

Section 109(a) provides (emphasis added):

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

The Copyright Act does not explicitly define “lawfully made under this title,” although that phrase is used throughout the Act. *E.g.*, 17 U.S.C. §§ 109(e), 110, 1001, 1006.

2. In *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135 (1998), this Court analyzed the interaction of §§ 106(3), 602(a), and 109(a). Specifically, the Court addressed whether the first-sale doctrine limits the § 602(a) right to restrict importation. Following the “unambiguous[]” text of the statute, the Court held that “the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners” of lawfully made products that import and resell them in the United States. *Quality King*, 523 U.S. at 145. Once a lawful first sale has occurred, resales simply do not infringe the copyright owner’s exclusive right to distribute. *Id.* at 143. “The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” *Id.* at 152. Accordingly, this Court unanimously held that “the ‘first sale’ doctrine endorsed in § 109(a) is applicable to imported copies.” 523 U.S. at 138.

Central to the holding was an analysis of whether applying the first-sale doctrine to lawfully made imported copies would render § 602(a) superfluous or conflict with its purpose. 523 U.S. at 145. The Court found “several flaws” with the argument that it did (*id.* at 146), foremost among them a faulty “assumption that the coverage of [§ 602(a)] is coextensive with the coverage of § 109(a)” (523 U.S. at 148). Section 602(a) is “broader because it encompasses copies that are not subject to the first sale doctrine.” *Ibid.*

The Court identified three categories of copies covered by § 602(a) but not by § 109(a). The first was “piratical copies, of course, because such copies were not ‘lawfully made.’” 523 U.S. at 146 n.17. The second was copies in the possession of a “nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful”; such copies fall outside the first-sale doctrine because § 109(a) protects only “*the owner* of a particular copy or phonorecord lawfully made under this title.” 523 U.S. at 147 (citing 17 U.S.C. § 109(a) (emphasis added)).

Finally, the Court noted that, because § 109(a) applies only to goods that are “lawfully made *under this title*,” the importation right in § 602(a) would still apply to “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” 523 U.S. at 147 (emphasis added). “[T]o demonstrate that the category is not a merely hypothetical one,” the Court gave an example from “[a] participant in a 1964 panel discussion” (*ibid.*):

If the author of [a] work gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

Id. at 148. The Court’s example does not specify where the various editions were manufactured. Moreover, the example *did not involve copies made by the holder of the U.S. copyright*, as is the case here.

3. In 2010, this Court granted certiorari to review the Ninth Circuit’s holding that the first-sale doctrine does not apply to imported goods manufactured abroad – unless the copyright holder authorizes those foreign-made goods for sale in the United States. *Costco Wholesale Corp. v. Omega, S.A.*, 130 S. Ct. 2089 (2010) (granting review of *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008)). After oral argument, the Ninth Circuit’s decision was affirmed by an equally divided Court. 131 S. Ct. 565 (2010).

B. Factual Background

Respondents publish educational textbooks that are distributed for sale and use worldwide. App., *infra*, 4a. Some of those textbooks are published in multiple versions, some of which are intended for sale in the United States (the “U.S. Editions”), and others of which are intended for sale abroad (the “Foreign Editions”). *Ibid.* The record does not reflect whether all U.S. Editions are actually made in the United States, or whether some or all are made abroad. Respondents claim that Foreign Editions are uniformly made abroad. App., *infra*, 5a.

There are cosmetic, and at times minor substantive, differences between U.S. and Foreign Editions. With respect to the U.S. Copyright Act, however, it is undisputed that books from either edition are copies of a singular work of authorship registered with the United States Copyright Office. That is, the separate “editions” do not have separate copyrights. The primary substantive difference is price: Textbooks in-

tended for the sale in the United States are typically priced far higher than their analogues intended for sale abroad. App., *infra*, 4a-5a.

Many students in the United States cannot afford the prices charged for the U.S. Editions and are largely indifferent to the minor differences between editions. Petitioner Ganghua Liu therefore legally purchased genuine Foreign Editions of respondents' works abroad and resold them in the United States through a variety of internet websites. App., *infra*, 5a.

C. Proceedings Below

1. Respondents filed suit alleging copyright infringement under 17 U.S.C. § 501. App., *infra*, 3a. Petitioner moved to dismiss on the basis of § 109(a), arguing that respondents' initial foreign sale of their books precluded claims of infringing distribution in connection with subsequent sales. App., *infra*, 5a-6a.

The district court denied the motion to dismiss, but did so "*dubitante*." App., *infra*, 21a. The court observed that, if it "were to limit its consideration to the traditional tools of statutory interpretation, it likely would" agree with Liu that "the first-sale doctrine [is] applicable when a copy of a copyrighted work is manufactured abroad and imported into the United States." App., *infra*, 11a-12a. "[T]he language of the statute" supports the view that "lawfully made under this title" refers not to the place a copy is manufactured, but to the lawfulness of its manufacture as a function of U.S. copyright law." App., *infra*, 12a-13a. "[N]othing in § 109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies of a work manufactured in the United States." App., *infra*, 18a.

The court nevertheless concluded that *dicta* in *Quality King* required holding the first-sale doctrine inapplicable to copies made abroad. The court believed that the conclusion followed from this Court’s example involving an author’s distribution of rights to U.S. and British publishers. App., *infra*, 19a. Though it characterized the example as *dicta* – indeed, *dicta* based on “extratextual sources” – the court worried that treating it as such might be disrespectful. *Ibid.*

The court certified its order for interlocutory appeal. App., *infra*, 28a. The court again noted that it “found [petitioner’s] argument * * * persuasive.” App., *infra*, 24a. The court explained that a “proper interpretation of § 109(a) [is] dispositive of [petitioner’s] motion to dismiss” and that, “[a]ccordingly, further [proceedings] would likely be rendered moot” if petitioner prevailed on appeal. App., *infra*, 26a. “Proceeding without appellate review, then, would be inefficient, and immediate appeal would materially advance the ultimate termination of the litigation.” *Ibid.*

2. Initially, the Second Circuit stayed proceedings pending a decision in another case “which involves the same issues.” App., *infra*, 30a. That case was *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011), *petition for cert. pending*, No. 11-697, which the Second Circuit ultimately decided on August 15, 2011.

In *Kirtsaeng*, a divided panel held that the first-sale doctrine applies “specifically and exclusively to copies that are made in” the United States. 654 F.3d at 222. The majority acknowledged that “a textual reading of § 109(a) does not compel [that] result,” and that, “if Congress had intended the first sale

doctrine * * * to apply only to copies of works made in the United States, it could have easily written the statute to say precisely that.” *Id.* at 220. Nevertheless, the majority concluded that it was “[c]onfronted with an utterly ambiguous text” that was “simply unclear” and “could plausibly be interpreted to mean any number of things.” *Ibid.* As a result, it “adopt[ed] an interpretation of § 109(a) that [it believed] best comports with both § 602(a)(1) and the Supreme Court’s opinion in *Quality King*.” *Ibid.*

The majority expressed a belief that Congress in § 602(a) “obviously intended to allow copyright holders some flexibility to divide or treat differently the international and domestic markets for the particular copyrighted work.” To hold otherwise, the court said, would leave that provision with “no force in the vast majority of cases.” 654 F.3d at 221.

The majority, like the district court here, cited this Court’s publishing example in *Quality King* and stated that, “[i]n these passages, the [Supreme] Court suggests that copyrighted material manufactured abroad cannot be subject to the first sale doctrine contained in § 109(a).” 654 F.3d at 218. Though the example was “admittedly * * * *dicta*” (*id.* at 221), the court conjectured (*id.* at 218) that this Court “seemed poised to transform th[ose] *dicta* into holding” in *Costco v. Omega*.

The panel majority “acknowledge[d] the force of [the] concern” that its “decision may allow a copyright holder to completely control the resale of its product in the United States by producing its goods abroad and then immediately importing them for initial distribution,” effectively creating “an incentive to ‘outsource’ publication to foreign locations to circumvent the availability of the first sale doctrine.” 654

F.3d at 222 n.44. It conceded that its holding “leads to policy consequences that were not foreseen by Congress” and that Congress now might find “unpalatable.” *Id.* at 222. Yet it maintained that the profound effects of its opinion should “not affect or alter [the Court’s] interpretation of the Copyright Act” (*id.* at 222 n.44), because Congress could “correct our judgment” (*id.* at 222).

District Judge Murtha, sitting by designation, dissented. He noted that “[t]he statutory text does not refer to a place of manufacture: It focuses on whether a particular copy was manufactured lawfully under title 17.” 654 F.3d at 226. Given its natural meaning, the statutory text thus provides that, “regardless of place of manufacture, a copy authorized by the U.S. rightsholder is lawful under U.S. copyright law,” and therefore subject to the first-sale doctrine. *Ibid.* To hold otherwise would be to conclude that “Congress intended to provide an incentive for U.S. copyright holders to manufacture copies of their work abroad.” *Id.* at 228. Judge Murtha found the majority’s structural argument unpersuasive because, as the Court explained in *Quality King*, even if the first-sale doctrine applies to copies made abroad, “§ 602(a) will always apply to copies of a work that have not been sold or are piratical copies,” and will “also appl[y] * * * to copies not in the possession of the ‘owner.’” *Ibid.* (citing *Quality King*, 523 U.S. at 147-148). And this Court’s example in *Quality King* involving U.S. and British publishing rights, he noted, did not “make[] [any] reference to the place of manufacture,” and, at most, stated only that “the first sale doctrine would not provide a defense to the publisher who sold copies in the American market[,] * * * where[as] the issue [here] is whether the first

sale doctrine is available as a defense *to the subsequent purchaser.*” *Ibid.* (second emphasis added).

Judge Murtha also noted that three courts of appeals have now opined on the issues raised here, and each reached a different conclusion. 654 F.3d at 225-226. In *Omega*, the Ninth Circuit reaffirmed its own circuit law that, although the first-sale doctrine should not apply to copies made abroad, the defense should nevertheless be applicable if the copy was imported and sold in the United States with the copyright holder’s permission. *Id.* at 228. The Second Circuit here rejected that exception, noting that it relies on “precedents not adopted by other courts of appeals.” *Id.* at 221, 228. The Third Circuit, on the other hand, rejects the entire proposition that the first-sale doctrine turns on the place of manufacture, “confess[ing] some uneasiness with this construction’ and suggesting [that] ‘lawfully made under this title’ refers not to the place a copy is manufactured but to the lawfulness of its manufacture as a function of U.S. copyright law.” *Id.* at 226 (quoting *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988)). In neither circuit is it the case – as it now is in the Second – that copyright holders maintain perpetual control over copies they manufacture abroad, even if they authorize sale of those copies in the United States.

After deciding *Kirtsaeng* and denying rehearing, the Second Circuit denied petitioner’s motion for leave to appeal. “[A]n immediate appeal is” now “unwarranted” in light of *Kirtsaeng*. App., *infra*, 2a.

REASONS FOR GRANTING THE PETITION

The decision of the court of appeals conflicts with the text, history, and purpose of the Copyright Act, and with the decisions of two other courts of appeals. The phrase “lawfully made under this title” is used throughout the Act, and makes sense when given its literal meaning of *according to, or as defined by, this title*. Under that definition, the first-sale doctrine will apply, as here, “if [a] copy was manufactured by the U.S. rightsholder [or] if the U.S. rightsholder authorized the copy to be manufactured.” App., *infra*, 13a. Indeed, the Second Circuit conceded that this definition is “consistent with a textual reading of § 109(a),” and makes sense of the phrase’s use “in other provisions of Title 17.” *Kirtsaeng*, 654 F.3d at 220 n.38.

In contrast, the Second Circuit’s holding – that the phrase means *made in the United States* “specifically and exclusively” (654 F.3d at 222) – makes little sense. Moreover, the Second Circuit’s definition lacks any basis in the legislative history of the statute and *eliminates the first-sale doctrine altogether* with respect to works made abroad. No court has ever gone that far – not even the Ninth Circuit, whose ruling on the issue was before this Court last Term.

When the Second Circuit acknowledged these infirmities in its interpretation, it failed to reconcile them, mistakenly asserting that its “holding is supported by the structure of Title 17 as well as the Supreme Court’s opinion in *Quality King*.” *Kirtsaeng*, 654 F.3d at 222. The Second Circuit was wrong on both counts. Indeed, that court’s structural arguments are foreclosed by *Quality King*. While contradicting the *holding* of *Quality King*, the Second Cir-

cuit relied on questionable *dicta* from the same opinion – which, in any event, it misconstrued.

The effect of the Second Circuit’s decision is even more dramatic than that of the Ninth Circuit’s *Omega* decision. If the first-sale doctrine does not apply to a particular copy, the lawful owner of that copy cannot transfer it to another – by sale, rental or even gift – without infringing the copyright holder’s exclusive right to distribution under 17 U.S.C. § 106(3). That would be true even if the copyright holder had earlier voluntarily sold the copy in the United States and been compensated for that sale. Under the Second Circuit’s *Kirtsaeng* opinion, if that copy was made overseas it would *never* be considered “lawfully made under this title” and thus *never* subject to the first-sale doctrine, no matter how many times, by whom, or for what value it had been sold or given away.

The practical implications of such a rule are breathtaking: Copyright holders would possess the unilateral right to eliminate all secondary markets for books, DVD movies, music CDs, magazines, and any other copies of copyrighted works. Such secondary markets include resale (whether by commercial enterprises or informally, such as at yard sales), and also rental markets, library lending, and gifts. To presume that Congress intended to confer that power – but then *only* for copies made abroad – creates a perverse incentive for U.S. copyright owners to reproduce copies of their copyrighted works outside the United States, thereby eliminating American manufacturing jobs.

Only this Court can prevent those erroneous outcomes and resolve the confusion that plagues the lower courts.

I. THE SECOND CIRCUIT'S OPINION IS INCONSISTENT WITH THE TEXT, HISTORY, AND PURPOSE OF THE COPYRIGHT ACT

The first-sale doctrine, codified in 17 U.S.C. § 109(a), limits distribution (including importation) liability for owners of copies “lawfully made under this title.” The scope of the doctrine thus turns on the interpretation of those five words.

A. The phrase “lawfully made under this title” means “lawfully made” *according to, or as defined by, “this title,” i.e., Title 17, the Copyright Act.* “Stated differently, § 109(a) teaches that for first-sale purposes, the lawfulness of a particular copy or phonorecord should be judged by U.S. copyright law no matter where the copy or phonorecord was manufactured.” App., *infra*, 13a. Under that definition, the first-sale doctrine will apply, as is the case here, “if the copy was manufactured by the U.S. rightsholder [or] if the U.S. rightsholder authorized the copy to be manufactured.” *Ibid.*; accord *Red Baron-Franklin Park, Inc. v. Taito Corp.*, No. 88-0156-A, 1988 WL 167344, at *3 (E.D. Va. Aug. 29, 1988) (noting that §§ 106, 109(a) and 602(a) do not refer to the place of manufacture at all, rendering the place where the copies are made “irrelevant” to the analysis), *rev’d on other grounds*, 883 F.2d 275 (4th Cir. 1989).

The Second Circuit conceded that this definition is “consistent with a textual reading of § 109(a).” *Kirtsaeng*, 654 F.3d at 220 n.38. The United States advanced an identical definition in *Quality King*. Brief for the United States as *Amicus Curiae* 30 n.18 (No. 96-1470) (U.S. *Quality King Br.*) (“The correct and more natural reading of the phrase ‘lawfully made under this title’ refers simply to any copy made

with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17.”). In *Omega*, the United States argued that this definition “is no longer tenable,” but only because of *dicta* in *Quality King*. Even so, the United States still conceded that, as a textual matter, “the phrase ‘lawfully made under this title’ could bear th[e] meaning” advanced by petitioner here. Brief for the United States as *Amicus Curiae* 5, 17 (No. 08-1423) (U.S. *Omega Br.*).

The Second Circuit also correctly noted that the phrase “‘lawfully made under this title’ appears in other provisions of Title 17 where it is at least arguable that Congress intended this language to apply to copies of works manufactured outside of the United States.” *Kirtsaeng*, 654 F.3d at 220. Indeed, in two other instances in which the phrase is used in Title 17, the definition advanced by petitioner makes perfect sense. In contrast, construing the phrase to mean *made in the United States*, as did the Second Circuit, makes no sense in those provisions.

In 17 U.S.C. § 110, the contemporaneously enacted provision adjacent to the first-sale doctrine, the Copyright Act exempts from liability copies that are “lawfully made under this title” for educational use. Under petitioner’s reading of that phrase, § 110 would permit teachers to use lawful copies of books, recordings, and other media, while barring their use of piratical copies, which are obviously not “lawfully made.” Under the Second Circuit’s contrary understanding, teachers are now liable for copyright infringement for exposing their students to genuine musical performances or instructional videos if the particular, fully-paid-for copy of the recording played happened to be made abroad. For a Viennese waltz embodied in a CD in Austria, an American how-to-

drive video copied by an authorized manufacturer in Malaysia, or a Justin Bieber music video copied in Australia, § 110's safe harbor would be inapplicable. That result cannot be what Congress intended.

Nonsensical consequences also result from applying the Second Circuit's definition to requirements introduced by the Audio Home Recording Act (AHRA), 17 U.S.C. §§ 1001 *et seq.* Section 1006 of that act provides for the payment of royalties by blank-media manufacturers to "any interested copyright party whose musical work or sound recording has been embodied in a * * * musical recording *lawfully made under this title* that has been distributed" (emphasis added). The Second Circuit's interpretation compensates U.S. copyright owners *only* if their work was reproduced into phonorecords in the United States, and then distributed. Unsurprisingly, as the Second Circuit recognized (*Kirtsaeng*, 654 F.3d at 220), the Copyright Office does not take this position; copyright holders are entitled to royalties for any work (musical work or sound recording) for which the phonorecords have been "lawfully made and distributed," whether or not the phonorecords were reproduced in the United States.¹

Concluding that the text of § 109(a) was "utterly ambiguous," the Second Circuit stated that "lawfully made under this title" could plausibly be interpreted to mean any number of things," including both petitioner's definition and its own. *Kirtsaeng*, 654 F.3d at 220. Only petitioner's definition, however, creates no absurdity in these sections of the Copyright Act (or any other).

¹ See <http://www.copyright.gov/carp/dartfact.html>.

The Second Circuit also acknowledged that, “if Congress had intended the first sale doctrine * * * to apply only to copies of works made in the United States, it could have easily written the statute to say precisely that.” *Kirtsaeng*, 654 F.3d at 220. That point, which the United States emphasized in *Quality King*, is undoubtedly true: “When * * * Congress wishes to make the location of manufacture relevant to Copyright Act protection, it does so expressly.” U.S. *Quality King* Br. 30. Indeed, among the many places where Congress *has* made the place of manufacture relevant is the AHRA, § 1004(b) of which provides for a royalty payment “for each digital audio recording medium imported into and distributed in the United States, or *manufactured and distributed in the United States*” (emphasis added). If, as in the AHRA, Congress meant to limit § 109(a) to goods manufactured in the United States, it would have done so explicitly.

In the Copyright Act’s now-expired “manufacturing provision,” Congress used the phrases “under this title” and “manufactured in the United States” *in the very same sentence*. 17 U.S.C. § 601 (“the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States or Canada*”) (emphasis added). This sentence makes it clear that copies of works protected “under this title” can be manufactured in Canada, as well as in places other than the United States and Canada. Likewise, “under this title” cannot refer to location, because that would result in two different and inconsistent

provisions regarding the location of manufacture of goods, in the same sentence.

Finally, when one considers the effect of simply omitting “under this title,” it becomes evident that the clause was simply intended to limit the specific law to be used for determining lawfulness for purposes of the first-sale doctrine. Had Congress not limited the question of lawfulness to the Copyright Act, it is conceivable that infringement of the distribution right might be claimed whenever the replicator was found to be in violation of child-labor laws, was unlicensed to do business by the State in which it was operating, or used toxic materials banned from use in consumer products.

B. The origins and legislative history of the first-sale doctrine further confirm that “lawfully made under this title” simply means *according to the Copyright Act* rather than *made in the United States*. Accord U.S. *Quality King* Br. 30 n.18 (“That reading is also consistent with the legislative history.”).

In *Quality King*, this Court characterized the first-sale doctrine currently codified in § 109(a) as providing “comparable limitation[s]” to those established by both the common law and earlier versions of the Copyright Act. 523 U.S. at 142. As the district court here well explained, “the common law policy against restraints on trade and alienation is not limited by the place a chattel is manufactured; a prohibition against selling books manufactured in China is just as much a restraint on trade and alienation as a prohibition against selling books manufactured in Chicago.” App., *infra*, 14a.

In *Bobbs-Merrill*, this Court applied the common law policy against restraints on alienation. There, as here, a publisher attempted to prevent retailers from

reselling genuine books, lawfully obtained in the stream of commerce, for prices less than the manufacturer preferred. 210 U.S. at 341-343. The retailers' activity did not violate the exclusive right to "vend" under § 1(a) of the 1891 Act (210 U.S. at 343), because the copyright owner had already "s[old] copies of the book in quantities and at a price satisfactory to it" when it made its first sale into the stream of commerce (*id.* at 351).

After *Bobbs-Merrill*, Congress codified the first-sale doctrine. See H.R. Rep. No. 2222, 60th Cong., 2d Sess. 19 (1909) ("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"). The codification provided in part that "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*." Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660 (codifying and amending Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084) (emphasis added). The statute on its face did not limit the first-sale doctrine to goods made in the United States. The rationale that it would be "unwise" to perpetuate the "proprietor[s]" control shows that no such limitation would have accorded with the legislators' intent.

Congress was no more interested in making the place of manufacture a relevant factor when it rephrased the first-sale doctrine in 1976. The words "lawfully made under this title" were introduced into the Copyright Act through a proposal circulated in 1964. See S. 3008, H.R. 11947, 88th Cong., 2d Sess. (1964). As explained upon its introduction:

Section [109(a)] restates an existing principle * * * firmly established by the court decisions: that, when the copyright owner has sold or otherwise transferred ownership of a copy of the work, the person who has acquired ownership of that copy is entitled to dispose of it. * * * For example, once the owner of copyright in a book has sold a copy he cannot control the resale price or impose any other conditions on its future disposition.

Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 28-29 (Comm. Print 1965).

As Barbara Ringer, subsequently Register of Copyrights, added, the phrase “lawfully made under this title” was used to clarify that the doctrine would encompass not only copies “made under the authority of the copyright owner,” but also other types of copies “lawfully made by virtue of a compulsory license.” Copyright Law Revision Part 5: 1964 Revision Bill with Discussions and Comments 66–67 (Comm. Print 1964). No one suggested that the new articulation of the first-sale doctrine should be limited to goods “made under the authority of the copyright owner” *in the United States*. Rather, the debate was whether the doctrine would cover circumstances where, for example, pursuant to a compulsory license “someone could * * * make a tape recording of musical compositions without the authority of the copyright owner, and then engage in the business of renting the tapes while retaining ownership in them, thus making a continuous profit from the musical works without paying additional royalties.” *Ibid.* The panel believed that the first-sale doctrine should cover such situations, and “lawfully made under this title” was the

most natural way to express that breadth. The phrase has nothing to do with place of manufacture.

Consistent with Ringer's comments, the House Report on the bill passed a decade later notes that "lawfully made under this title" includes some types of copies that were "not necessarily [made] with the copyright owner's authorization," among them, copies "legally made under the compulsory licensing provisions of section 115." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79 (1976) [House Report].² The report, like the panel discussions before it, makes no mention of place of manufacture.

Congress's 1976 codification captures the judicial gloss applied to the original codification of the first-sale doctrine, which, taken literally, would have granted the redistribution right to a thief or pirate in possession of the copy. Judge Friendly had summarized that judicial gloss only a few years earlier:

If lawful possession by another sufficed to deprive the copyright proprietor of his right to control the transfer of the copyrighted objects, any bailee of such objects could sell them without infringing the copyright, whatever his liability for conversion might be. * * * A literal reading of the clause would mean, moreover, that an innocent purchaser of a copy from a conceded pirate would be free to resell it without liability for infringement. Yet the cases to the contrary are legion.

² Section 115 provides that, once a copyright holder records a composition and distributes it to the public, others are also entitled to record and distribute copies of that composition, subject to the payment of statutory royalties and other minimal requirements.

Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 851 (2d Cir. 1963). In 1976, Congress simply made clear, as had the courts, that the copies must be “lawfully made” as opposed to infringing, and the right of redistribution applies to the “owner” of the non-infringing copy rather than a mere possessor.

Congress reaffirmed that “lawfully made under this title” does not refer to place of manufacture when it enacted 17 U.S.C. § 109(e) as part of the Computer Software Rental Amendments Act of 1990. Pub. L. No. 101-650, § 803, 104 Stat. 5089. That section was a response to the Fourth Circuit’s holding that playing a copyrighted video game in public is an infringement of a copyright holder’s rights under 17 U.S.C. §§ 106(4)-(5) to control the public performance and display of its works. See *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275 (4th Cir. 1989); see also MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.15[I], at 8-192 (2008) (NIMMER). Although bearing U.S. copyrights, the particular video games at issue in *Red Baron-Franklin Park*, 1988 WL 167344, at *1, and contained a notice that the “game[s] [were] for use in Japan only,” 883 F.2d at 277. In enacting Section 109(e) to reverse the Fourth Circuit’s holding, Congress provided that “the owner of a particular copy of [a video] game *lawfully made under this title*, is entitled, without the authority of the copyright owner of the game, to publicly perform or display that game” (emphasis added). It is inconceivable that Congress intended the phrase “lawfully made under this title” to mean “made in the United States” because then § 109(e) would have been ineffective with respect to

the very copy of the video game, made in Japan, that gave rise to the amendment in the first place.

C. The Second Circuit’s interpretation of “lawfully made under this title” also conflicts with the purposes of both the first-sale doctrine and the distribution right it is meant to limit. The distribution right protected by § 106(3) “accords the copyright owner the ‘right to control the *first* public distribution’ of his work, echo[ing] the common law’s concern that the author or copyright owner retain control throughout th[e] critical stage” before a good goes to market. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 555 (1985) (quoting House Report, *supra*, at 62) (emphasis added).

Whereas § 106(3) is meant to protect a good *before* its entrance into the market, “[t]he whole point of the first sale doctrine is that” after a first sale the copyright owner “has exhausted his exclusive statutory right to control its distribution.” *Quality King*, 523 U.S. at 152. At that moment “the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation.” 2 NIMMER § 8.12[A], at 8-155.

II. THE SECOND CIRCUIT’S OPINION CONFLICTS WITH THE HOLDING OF *QUALITY KING* AND MISCONSTRUES ITS *DICTA*

The Second Circuit acknowledged that petitioner’s view of the first-sale doctrine is “consistent with a textual reading of § 109(a).” *Kirtsaeng*, 654 F.3d at 220 n.38. Rather than adopt that view, however, the Second Circuit looked to “the structure of Title 17 as well as the Supreme Court’s opinion in *Quality King*.” *Id.* at 222. But it misread both.

A. The Second Circuit assumed that the Copyright Act “obviously intended to allow copyright holders some flexibility to divide or treat differently the international and domestic markets for [a] particular copyrighted work.” *Kirtsaeng*, 654 F.3d at 221. That proposition, however, does not follow from either the text of the Act or its legislative history, and directly conflicts with this Court’s opinion in *Quality King*: “[W]hether or not we think it would be wise policy to provide statutory protection for such price discrimination is not a matter that is relevant to our duty to interpret the text of the Copyright Act.” 523 U.S. at 153. The Second Circuit’s assumption cannot be squared with that direction.

The Second Circuit also suggested that the first-sale doctrine must be limited to works made in the United States because, if it is not, then the importation provisions of § 602(a) “would have no force in the vast majority of cases.” *Kirtsaeng*, 654 F.3d at 221. But *that exact argument* was considered and rejected by this Court in *Quality King*. Section 602(a) does not have to have force in the “vast majority” of cases; it is sufficient that the section is not rendered “superfluous” and that it “retain significant independent meaning.” *Quality King*, 523 U.S. at 148, 149. As the *Kirtsaeng* dissent explained, this will always be the case – even if the first-sale doctrine applies to works made abroad – because § 602(a) will always apply both to pirated works and to works in the possession of non-owners. 654 F.3d at 228. The Second Circuit characterized the decision to rely on this argument about the scope of § 602(a) as a “close call” (*id.* at 221), but it is not: This Court has already held that there are “several flaws” in the argument (*Quality King*, 523 U.S. at 146).

B. In addition to structural arguments about the purpose and function of § 602(a), the Second Circuit was “guide[d]” by “instructive *dicta*” from *Quality King. Kirtsaeng*, 654 F.3d at 218. The Second Circuit, however, not only gave too much weight to those *dicta* but misinterpreted them, as well.

The Second Circuit’s reliance on *Quality King* proceeded from this Court’s explanation that among the roles played by § 602(a) is preventing the importation of “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” 654 F.3d at 221 (quoting *Quality King*, 523 U.S. at 147). That is true but irrelevant to the question presented here because § 602(a) plays that role *even under petitioner’s definition* of “lawfully made under this title.” Indeed, it is not difficult to identify circumstances where a copy is *not* lawfully manufactured under the standards of Title 17 but *is* lawfully manufactured under the standards of some other source of law. A copy, for example, might be manufactured pursuant to a compulsory license required by foreign law, see, e.g., *T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575, 1577 (D.N.J. 1987) (compulsory license under New Zealand Copyright Act). Moreover, it was not until 1996 that Congress established statutory authority to make certain copies for the blind without the consent of the copyright holder. See 17 U.S.C. § 121. Until then, no owner of copies made under authority of a comparable provision of any other nation, but without permission of the U.S. copyright holder, could have enjoyed § 109(a) protection.

The *Quality King dicta*, however, provided a different example of the category, one where “the author of [a] work gave the exclusive United States distribution rights – enforceable under the Act – to the

publisher of [a] United States edition and the exclusive British distribution rights to the publisher of [a] British edition.” 523 U.S. at 148. The Court noted that “presumably only those made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a)” and that, as a result, “[t]he first-sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a).” *Ibid.*

The court of appeals, like other lower courts, read those *dicta* to mean “that copyrighted material *manufactured abroad* cannot be subject to the first sale doctrine contained in § 109(a).” *Kirtsaeng*, 654 F.3d at 218 (emphasis added). Indeed, the example has proven so powerful that, even though the district court here “would not [otherwise] limit the doctrine to copies manufactured in the United States,” it nevertheless felt compelled to do so *dubitante* rather than be perceived to have “disregard[ed] the Supreme Court’s views” in those *dicta*. App., *infra*, 21a.

But this view of the *dicta* is plainly wrong. Cf. IRVING JANIS, VICTIMS OF GROUPTHINK (1972). First, as Judge Murtha noted in dissent, the example “makes no reference to the place of manufacture.” *Kirtsaeng*, 654 F.3d at 228. The *dicta* refer only to rights granted and the grantor of those rights. They “do[] not speak directly to the issue of applicability of the doctrine to *foreign made* copies.” *Ibid* (emphasis added). Second, the example concludes only that “the first sale doctrine would not provide a defense *to the publisher* who sold copies in the American market,” an unexceptional conclusion “because in that situation there has been no first sale.” *Ibid.* The issue here, in contrast, “is whether the first sale doctrine is available as a defense *to the subsequent purchaser*.”

Ibid. (emphasis added). Thus, the Second Circuit placed dispositive weight on *dicta*, and misread those *dicta* to reach an erroneous holding.

Those *dicta* have also been given weight disproportionate to their pedigree. The example in question is drawn from one of the least useful sources imaginable: a statement made by “[a] participant in a 1964 panel discussion.” *Quality King*, 523 U.S. at 148 n.20. The comment in question was made more than a decade before Congress revised the Copyright Act, and – unlike the comment regarding § 109(a)’s phrasing cited earlier (*supra* pp. 19-21) – was not cited in any House or Senate Report preceding that revision. There is no evidence that *anyone* had it in mind when §§ 109(a) and 602(a) were enacted. Moreover, the Court meant the example only to serve a limited purpose: “simply to demonstrate that the category [of copies not made under Title 17] is not a merely hypothetical one” (523 U.S. at 147). It was not meant to be an excuse for failing to “[r]ead literally” the “unambiguous[]” text of the Copyright Act. *Quality King*, 523 U.S. at 145.

III. THE ISSUE IS OF GREAT IMPORTANCE AND REQUIRES THIS COURT’S REVIEW

A. “[I]nterpretations of a statute which would produce absurd results are to be avoided if alternative interpretations consistent with the legislative purpose are available.” *Griffin v. Oceanic Contractors, Inc.*, 458 U.S. 564, 575 (1982). The Second Circuit ignored that sensible principle, rejecting an interpretation of § 109(a) that reflects the text, history, and purpose of the first-sale doctrine in favor of one that has profound negative implications for both businesses and consumers.

If the first-sale doctrine does not apply to a particular copy, the lawful owner of that copy cannot transfer it to another – by sale, rental, or even gift – without infringing the copyright holder’s exclusive right of distribution under 17 U.S.C. §106(3). This would be true *even where the copyright holder chose to sell the copy in the United States and was compensated for that sale*. Under the Second Circuit’s opinion, if that copy was made overseas it would *never* be considered “lawfully made under this title” and thus *never* subject to the first-sale doctrine.

As the *Kirtsaeng* dissent noted, “[g]ranting a copyright holder unlimited power to control all commercial activities involving copies of her work would create high transaction costs and lead to uncertainty in the secondary market.” 654 F.3d at 227. But that understates the point: The Second Circuit’s holding makes it substantially easier for copyright holders to *eliminate* secondary markets – which total a *quarter-trillion dollars* in lawful U.S. sales annually – and the jobs and tax revenues that flow from them.³ A copyright holder could stay silent on the first sale of a good made abroad but then bring an action for infringement if it disagreed with terms of the good’s resale. See, e.g., *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011) (first-sale doctrine protects resale of lawfully obtained promotional items even over objection of copyright holder). Copyright holders would also suddenly gain the right to restrict

³ See, e.g., Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Accounting & Management Unit Working Paper No. 09-098, at 1 (Feb. 2009) (secondary market for new goods is \$40 to \$60 billion annually); Lyle E. Davis, *The Thrill of the Hunt!*, THE PAPER (San Diego, CA) (Jan. 8, 2009) (market for used goods is \$200 billion annually).

rental-, lease- and other lending-based markets. That would be an exceptional development because, historically, such restrictions are tailored by Congress for only a few types of goods and only in very specific instances.⁴ The Second Circuit’s opinion disrupts all of those legitimate forms of commercial transaction.

The core holding of *Quality King* was that copyright holders do not have the power to divide geographic markets for copies of their works, at least when such copies are made in the United States. Congress could, of course, have simply stated that copyright holders have such power, if that was indeed the intention. But to presume that Congress intended to confer that power, but then *only* for goods made abroad, makes particularly little sense because the primary effect of such a rule is to create a perverse incentive for U.S. copyright owners to produce their copyrighted works outside the United States, thereby eliminating American manufacturing jobs. The Ninth Circuit recognized that this is just one of the many “absurd and unintended results” of the rule that the Second Circuit later adopted. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994).

Even the United States, urging this Court in *Omega* to read “lawfully made under this title” to refer to place of manufacture, acknowledged the complete absence of any possible policy rationale for such a construction. “Taken together, the decision below and this Court’s ruling in *Quality King* create the anomalous result that a copyright holder can produce copies for distribution abroad, while exercising

⁴ See, e.g., Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, § 802, 104 Stat. 5089 (amending § 109 to prohibit the rental of records).

its statutory right to bar unauthorized importation of the copies into the United States, only by producing the relevant copies in a foreign country. That differential treatment of domestic- and foreign-manufactured goods has no evident policy justification, and it could at least in theory provide an artificial incentive for outsourcing.” U.S. *Omega* Br. 28. The Second Circuit has now taken that nonsensical result and carried it still further. This Court should not allow such irrationality to be attributed to Congress, especially not when text, history, and structure all support a contrary interpretation.

Instead of reflecting an intent to favor foreign workers, the Copyright Act of 1909 took note of the place of manufacture for the *opposite* purpose: § 107 of that Act 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 House Committee Report, also adopted in the Senate, explained that the aim was the “protection of the men engaged in the work of setting type, making plates, printing and binding.” H.R. Rep. No. 2222, 60th Cong., 2d Sess. 18 (1909). Although Congress has abandoned its punitive stance toward foreign-made copies, it has certainly not embraced the exact opposite extreme.

B. The posture of this case is no impediment to review by this Court. The “Court has unquestioned jurisdiction to review interlocutory judgments of federal courts of appeals and other federal courts whose judgments are reviewable pursuant to [28 U.S.C.] § 1254(1),” which provides, in pertinent part, that, this Court can grant certiorari “before or after rendition of judgment or decree.” GRESSMAN ET AL.,

SUPREME COURT PRACTICE 280 (9th ed. 2007). Under that authority, this Court has regularly reviewed decisions that, as here, reached the courts of appeals under 28 U.S.C. § 1292(b). See, e.g., *Norfolk Southern Railway v. Kirby*, 543 U.S. 14 (2004); *Jones v. R.R. Donnelley & Sons Co.*, 541 U.S. 369 (2004); *Breuer v. Jim's Concrete of Brevard, Inc.*, 538 U.S. 691 (2003).

It is immaterial that the lower court here denied leave to appeal on the basis of its decision in *Kirtsaeng* – as opposed to granting leave and affirming the district court's order on the same basis – for reasons this Court explained in *Nixon v. Fitzgerald*, 457 U.S. 731 (1982). There, the petitioner sought to appeal an interlocutory district court order denying a motion to dismiss. The D.C. Circuit dismissed the appeal for want of jurisdiction because that court felt it did not “present a serious and unsettled question” of law, *id.* at 742, in light of its decision in *Halperin v. Kissinger*, 606 F.2d 1192 (D.C. Cir. 1979).

This Court found no impediment to its own review, however, explaining that “[t]here can be no serious doubt concerning our power to review a court of appeals’ decision to dismiss for lack of jurisdiction – a power we have exercised routinely.” *Nixon*, 457 U.S. at 743 n.23. See also *Hohn v. United States*, 524 U.S. 236, 241 (1998) (“There can be little doubt that Hohn’s application for a certificate of appealability constitutes a case under § 1254(1).”). Having taken jurisdiction in *Nixon v. Fitzgerald*, the Court then proceeded to review the issues raised by the district court’s denial of the petitioner’s motion to dismiss, noting that the “question is a pure issue of law, appropriate for our immediate resolution.” 457 U.S. at 743 n.23.

The Court found it neither necessary nor preferable first to review the lower court’s decision in

Halperin even though there was already a petition for certiorari pending in that case, 457 U.S. at 743. “[I]n light of the Court of Appeals’ now-binding decision of the issue presented, concerns of judicial economy fully warrant[ed]” this Court’s “decision of the important question presented” through the case of its choosing. *Id.* at 743 n.23. Here, *Liu* raises the exact same question regarding the scope of the first-sale doctrine as *Kirtsaeng*, and *Liu* is an appropriate vehicle for this Court’s review of the issue.

C. The issues raised in this case can be resolved only by this Court. As set forth above, *supra* p. 11, three courts of appeals have considered this issue and they have reached three different results. This creates uncertainty for courts and litigants in other jurisdictions, and potentially forces national retailers to make different merchandising decisions in different parts of the country.

The lower courts cannot resolve this issue themselves, in part because even the most reflective courts feel obliged to follow this Court’s *dicta* from *Quality King*. The result, as one court put it, is that judgments are being entered against defendants based on reasoning that is being followed “unenthusiastically.” *Pearson Educ., Inc. v. Arora*, 717 F. Supp. 2d 374, 379 (S.D.N.Y. 2010) (Scheidlin, J.), *appeal pending*, No. 10-2829 (2d. Cir.).

This Court’s disposition of *Omega* did not end the confusion. Rather than focusing on the Copyright Act itself, lower courts – as here – are now merely guessing how this Court currently views its own *dicta*. Compare *Kirtsaeng*, 654 F.3d at 218 (“[t]he Supreme Court recently seemed poised to transform this *dicta* into holding”), with *id.* at 228 (“four justices presumably did not agree the *Quality King dicta* directly addresses [goods manufactured abroad] or constitutes the Court’s current view”). By reviewing the

decision below, this Court can put focus back on the text, history, and purpose of the statute and resolve the problems associated with the Second Circuit's departure from it.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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December 2011

APPENDIX

APPENDIX A

United States Court of Appeals
For The
Second Circuit

At a stated term of the United States Court of Appeals for the Second Circuit, held at the Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, in the City of New York, on the 18th day of November, two thousand eleven,

Present:

José A. Cabranes,
Robert A. Katzmann,
Circuit Judges,
J. Garvan Murtha,*
District Judge.

Pearson Education, Inc., John Wiley & Sons, Inc.,

Plaintiffs-Respondents,

v.

10-894-mv

Ganghua Liu,

Defendant-Petitioner.

Petitioner, through counsel, moves, pursuant to 28 U.S.C. § 1292(b), for leave to appeal an interlocutory order of the district court. Upon due consideration, it is hereby ORDERED that the petition is DENIED be-

cause an immediate appeal is unwarranted. *See John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 222 (2d Cir. 2011) (holding that the first sale doctrine, codified at 17 U.S.C. § 109(a), does not apply to copies of copyrighted works produced outside of the United States); *Klinghoffer v. S.N.C. Achille Lauro*, 921 F.2d 21, 23-25 (2d Cir. 1990) (discussing the requirements that a petitioner must satisfy under 28 U.S.C. § 1292(b)). Additionally, the stay of the district court proceedings imposed in our May 19, 2010 order is hereby VACATED.

FOR THE COURT:
Catherine O'Hagan Wolfe, Clerk

* Judge J. Garvan Murtha, of the United States District Court for the District of Vermont, sitting by designation.

APPENDIX B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PEARSON EDUCATION, INC.,
Plaintiffs,

- against -

GANGHUA LIU, ET AL.,
Defendants.

1:08-cv-06152-RJH

MEMORANDUM OPINION AND ORDER

Richard J. Holwell, District Judge:

Through this action, two U.S. copyright holders seek to prevent the importation and resale of copies of their works that have been lawfully manufactured and purchased outside the United States, a form of arbitrage sometimes referred to as “parallel importation” through the “grey market.” Defendants have moved to dismiss the complaint on the ground that their activities are protected by the first-sale doctrine, the rule that the purchaser of a physical copy of a copyrighted work may give or sell that copy to someone else without infringing the copyright owner’s exclusive distribution rights. Although the question of whether the first-sale doctrine applies to copies of a copyright work that have been lawfully manufactured abroad is an open question in this circuit, the Supreme Court has said, in unanimous dicta, that the doctrine does not apply to copies of a copyrighted work manufactured abroad. Because the case for a contrary interpretation is not so strong as to justify

disregarding the Supreme Court's considered views, defendants' motion to dismiss will be denied.

I.

As the case is before the Court on defendants' motion to dismiss, the Court takes the allegations of the complaint as true and draws all reasonable inferences in plaintiffs' favor. *E.g.*, *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 124 (2d Cir. 2009).

Plaintiffs, Pearson Education, Inc. and John Wiley & Sons, Inc., publish educational books throughout the world. (Compl. ¶¶ 10, 14-15.) As part of their regular business, plaintiffs require authors to assign them copyrights for works they publish, or to grant to them the exclusive right to reproduce and distribute their works in the United States. (*Id.* ¶ 11.) Plaintiffs also own a number of well-known trademarks, which they use to differentiate their products in the marketplace. (*Id.* ¶¶ 17-19.)

The textbooks plaintiffs publish are customized for the geographical markets in which they are sold. Editions authorized for sale in the United States are of the highest quality, and are printed with strong, hard-cover bindings with glossy protective coatings. (*Id.* ¶ 14.) Sometimes, plaintiffs include academic supplements, such as CD-ROMs or passwords to restricted websites, with these books. (*Id.*) Editions authorized for sale outside of the United States, by contrast, have thinner paper, different bindings, different cover and jacket designs, fewer ink colors, and lower-quality photographs and graphics. (*Id.* ¶ 15.) These foreign editions are not bundled with academic supplements such as CD-ROMs. (*Id.*) The cover of a foreign edition may include a legend indicating that

the book is a “Low Price Edition” or only authorized for sale in a particular country or geographic region. (*Id.*) The foreign editions are uniformly manufactured outside the United States. (*Id.*)

Defendants can reasonably be described as small-time internet entrepreneurs. They purchase plaintiffs’ low-priced foreign editions abroad, import them into the United States, then sell them to U.S. customers using websites maintained by third parties. (*Id.* ¶¶ 6-9, 20.) Plaintiffs allege that “Defendants have without permission purchased Foreign Editions of plaintiffs’ books manufactured outside of the United States and resold them to purchasers in the United States through the Internet using the username ‘JMBooks’ at . . . websites including, but not limited to, Valorebooks.com.” (*Id.* ¶ 20.)¹

The complaint does not allege that any of the copies sold by defendants are piratical (i.e., unauthorized or counterfeit), manufactured without plaintiffs’ consent, or not owned by defendants. Plaintiffs demand preliminary and permanent injunctions enjoining defendants from selling foreign editions of their copyrighted books in the United States, damages, and attorneys’ fees.

Defendants have moved to dismiss the complaint. They principally contend that their importation and sale of plaintiffs’ foreign editions does not infringe plaintiffs’ copyrights, because their actions are pro-

¹ The referenced website describes itself as “the student’s #1 marketplace to buy cheap textbooks for college.” Valorebooks homepage, <http://www.valorebooks.com/> (last visited Sep. 19, 2009).

tected by the first-sale doctrine codified in § 109 of the Copyright Act, 17 U.S.C. § 109 (2006). Defendants further contend that because plaintiffs' trademark claims are derivative of their copyright claims, those claims fail as a matter of law.

II.

Defendants' motion raises the question whether the importation and sale of copies of a copyrighted work that were lawfully manufactured abroad violates a U.S. copyright owner's exclusive rights. Three sections of the Copyright Act are relevant to that question: (i) § 106(3), the Act's rights-granting provision; (ii) § 109(a), the Act's codification of the first-sale doctrine; and (iii) § 602(a), which is entitled "Infringing importation of copies or phonorecords."

A. Section 106(3)

Section 106(3) grants the owner of a U.S. copyright, "[s]ubject to sections 107 through 122," the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending" In contrast to the core copyright rights of reproduction and adaptation, the distribution right is a right to control use. See John M. Kernochan, *The Distribution Right in the United States of America: Review and Reflections*, 42 Vand. L. Rev. 1407, 1416-17 (1989). It primarily protects a copyright owner's ability to control the terms on which her work enters the market by providing a remedy against persons who distribute copies of her work without permission. See 2 Neville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[A], at 8-154 (2008) ("Nimmer"). Thus, although the language of § 106(3) seemingly gives a copyright

owner unlimited control over commercial transactions involving copies of her work, it has long been recognized that the principal effect of the distribution right is to give a copyright holder “a right to control the work’s publication.” *Id.* § 8.11[A], at 8-148 (emphasis added).

B. Section 109(a)

This limitation on scope of the distribution right, known as the first-sale doctrine, is codified in § 109(a) of the Act. The doctrine originates in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), a case decided under the Copyright Act of 1891. There, a publisher attached a notice to the copyright page of a book which provided that the book could not be sold for less than a dollar. *Id.* at 341. Acting in defiance of this price control, defendants bought copies of the book at wholesale and resold them for eighty-nine cents. *Id.* at 342. The publisher sued, arguing that defendants’ “unauthorized” (albeit procompetitive) sales of the book violated its exclusive right to “vend” under § 1(a) of the 1891 Act. *Id.* at 343.

The Supreme Court rejected the publisher’s argument, holding that “[t]he purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.” *Id.* at 350. As the Court explained, a copyright owner who purposefully transfers ownership of a copy of her work chooses the terms on which the work enters the market. *See Bobbs-Merrill*, 210 U.S. at 351; *see also Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963). The purpose of the distribution right thus having been satisfied, “the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of

trade and restraints on alienation.” 2 Nimmer § 8.12[A], at 8-155. Accordingly, the Court ruled that the publisher’s right to “vend” copies of its work did not encompass the right to control the terms of subsequent sales. *Bobbs-Merrill*, 210 U.S. at 351.

The outcome reached by the Court can also be justified by considering the prohibitive transaction costs of affording a copyright holder an unlimited right to control the terms under which her work is sold. “[S]uccessive possessors of the copy or phonorecord should not be put to the trouble of having to negotiate with the owner each time they contemplate a further sale or other transfer of the copy or phonorecord.” 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1, at 7:131 (2005). If a copyright owner wishes to control future sales, she can lease or rent copies of her work rather than selling them, *see id.*, or, if copies are sold, contractually limit their distribution (consistent with provisions of the antitrust laws).

Congress codified the first-sale doctrine in the Copyright Acts of 1909, 1947, and 1976. Section 41 of the 1909 Act, which appears in identical form in § 27 of the 1947 Act, provides in relevant part that “nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.” Pub. L. No. 60-349, 35 Stat. 1075, 1084 (1909); Pub. L. No. 80-281, 61 Stat. 652, 660 (1947). Section 109 of the 1976 Act provides in relevant part that,

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the author-

ity of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109. In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the Supreme Court noted that “[t]here is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope.” *Id.* at 152. This understanding is consistent with the House Committee on the Judiciary’s report on the 1976 Act. See H.R. Rep. No. 1476, at 79 (1979) (“Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means.”), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

C. Section 602(a)

Section 602(a) addresses the extent to which the distribution right allows a copyright owner to also control the importation of copies of her work. It provides in part that,

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

17 U.S.C. § 602(a).

In view of § 602(a)'s position in a separate chapter of the Copyright Act, as well as the statute's unqualified reference to *all* copies acquired outside the United States, one might suppose that Congress intended to give copyright owners authority to restrict the importation of copies of a work without regard to the first-sale doctrine, and without regard to the other limitations on a copyright owner's exclusive rights in sections 107 through 122 of the Act. The Supreme Court, however, has rejected this broad reading of the statute.

In *Quality King*, a California-based manufacturer, L'Anza Research International, sold several tons of beauty products bearing its copyrighted labels to a distributor in Malta with the apparent understanding that the products would only be offered for sale outside the United States. 523 U.S. at 138-39. Like plaintiffs here, L'Anza charged different prices for its goods depending on the market they would be sold in. *See id.* at 139. After the shipment made its way back to the United States, L'Anza sued salons that had purchased and resold its "unauthorized" products. It contended that "the importation and subsequent distribution" of its copyrighted labels violated its exclusive rights under §§ 106, 501, and 602 of the Copyright Act. *Id.* at 139-40.

The Supreme Court rejected this argument and held that a copyright owner's § 602 right to control the importation of copies of her work is a species of § 106(3)'s distribution right, which is subject to the first-sale doctrine. *See id.* at 149. The Court reasoned that the plain text of § 602(a) provides that "importation is an infringement of the exclusive right to distributed copies 'under section 106.'" *Id.* at 144 (quoting § 602(a)). Because § 106 grants a copyright owner

exclusive rights “[s]ubject to sections 107 through 122,” the copyright owner’s power to limit importation is qualified by the first-sale doctrine. *Id.* at 144-45.

Although *Quality King* clarified that the first-sale doctrine was not limited by the place where an initial transfer of ownership occurred, the Court did not resolve whether the place a copyrighted good was manufactured mattered for first-sale purposes. As Justice Ginsburg noted in a brief concurrence, the case “involve[d] a ‘round trip’ journey, travel of the copies in question from the United States to places abroad, then back again.” *Id.* at 154 (Ginsburg, J., concurring). Thus, the Court’s decision did not “resolve cases in which the allegedly infringing imports were manufactured abroad.” *Id.* In dicta, however, the Court suggested that the first-sale doctrine did not extend to copies of a work manufactured abroad. *Id.* at 148 (opinion of the Court); *see infra* § IV.

III.

In view of *Quality King*’s holding that § 602(a)’s “distribution right” is subject to the first-sale doctrine in cases involving a “round trip” transaction, the question presented by defendants’ motion is narrow: Is the first-sale doctrine also applicable when a copy of a copyrighted work is manufactured abroad and imported into the United States?

If the Court were to limit its consideration to the traditional tools of statutory interpretation, it likely would answer that question in the affirmative. Section 109(a) provides that “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled,

without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy” By § 109(a)’s terms, the first-sale doctrine applies if two conditions are satisfied. First, the person claiming the doctrine’s protection must hold title to a particular copy: that person must be “*the owner*” of the copy. And second, the copy must have been “lawfully made under this title.”

Courts have divided over what it means for a copy to be “lawfully made under this title.” § 109(a); *compare Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983) (Green, J.), *aff’d without op.*, 738 F.2d 421 (3d Cir. 1984), *with Sebastian Int’l Inc. v. Consumer Contacts (Pty) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988). On one hand, some courts have held that because a U.S. copyright holder cannot sue a foreign manufacturer for violating her exclusive right to reproduce a copyrighted work in copies, see 17 U.S.C. § 106(1); *Update Art, Inc. v. Modiin Publ’g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988), a copy manufactured abroad is born in a state of legal limbo, neither legal nor illegal as a matter of U.S. law. On this view, a copy of a copyrighted work is not “lawfully made under this title” unless it also is “legally manufactured . . . within the United States.” *Scorpio*, 569 F. Supp. at 49. Other courts have “confess[ed] some uneasiness with this construction,” implicitly suggesting that “lawfully made under this title” refers not to the *place* a copy is manufactured, but to the *lawfulness* of its manufacture as a function of U.S. copyright law. *See Sebastian Int’l*, 847 F.2d at 1098 n.1.

In this Court’s view, the second interpretation is the better one. Starting with the language of the statute, the focus of § 109(a) is on whether a particular copy

was manufactured lawfully. The statute provides that to be subject to the first-sale doctrine, “a particular copy or phonorecord” must be “lawfully made.” It then specifies which jurisdiction’s law controls this determination. For the first-sale doctrine to apply, a copy must be “lawfully made under this title”—that is, lawfully made under the standards of Title 17 of the United States Code. A copy is not “lawfully made under this title,” by contrast, if its manufacture was only lawful under some other source of law. Stated differently, § 109(a) teaches that for first-sale purposes, the lawfulness of a particular copy or phonorecord should be judged by U.S. copyright law no matter where the copy or phonorecord was manufactured. In the normal run of cases, this condition will be satisfied if the copy was manufactured by the U.S. rightsholder, *see* § 106(1); if the U.S. rightsholder authorized the copy to be manufactured, *see Graham v. James*, 144 F.3d 229, 236 (2d Cir. 1998); or if the manufacturer’s activities would be privileged under U.S. concepts of fair use, *see* § 107.

The structure of the statute confirms what its text suggests. Throughout the Copyright Act of 1976, Congress used “under this title” to describe the scope of the rights created by the Act, not the place a copy or phonorecord was manufactured. Thus, § 101 excludes from the definition of “[a] work of visual art” any work “not subject to copyright protection under this title”; § 104(a) provides that certain works, “while unpublished, are subject to protection under this title without regard to the nationality or domicile of the author”; § 105 provides that “[c]opyright protection under this title is not available for any work of the United States Government”; § 106 provides that “the owner of copyright under this title has the exclusive rights to do and to authorize any of the following

. . .”; and § 201(a) provides that “[c]opyright in a work protected under this title vests initially in the author or authors of the work.”

In contrast, “[w]hen Congress considered the place of manufacture to be important, . . . the statutory language clearly expresses that concern.” *Sebastian Int’l*, 847 F.2d at 1098 n.1. Most notably, § 601(a) of the Act, the so-called “manufacturing requirement,” provides that:

Prior to July 1, 1986, and except as provided by subsection (b), the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is *protected under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States or Canada*.

17 U.S.C. § 601(a) (emphasis added). Section 1001, added by the Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (1992), likewise refers to a copy’s place of manufacture. 17 U.S.C. § 1001(8) (“To ‘manufacture’ means to produce or assemble a product in the United States.”).

Turning to the history and purposes of the first-sale doctrine, nothing suggests that the doctrine should not apply when a copy is manufactured abroad. First, the common law policy against restraints on trade and alienation is not limited by the place a chattel is manufactured; a prohibition against selling books manufactured in China is just as much a restraint on trade and alienation as a prohibition against selling books manufactured in Chicago. The early Copyright Acts reflect this principle. Under the 1909 and 1947

Acts, the first-sale doctrine applied to “*any* copy of a copyrighted work the possession of *which has been lawfully obtained*.” Pub. L. No. 60-349, 35 Stat. 1075, 1084 (1909); Pub. L. No. 80-281, 61 Stat. 652, 660 (1947) (emphasis added). *Cf. Quality King*, 523 U.S. at 152 (“There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope.”).

Justifications for the first-sale doctrine that are framed in explicitly economic terms likewise argue against limiting the doctrine to copies manufactured in the United States. Granting a copyright holder the unlimited power to control commercial transactions involving copies of her work creates high transaction costs regardless of where a copy is manufactured; indeed, the transaction costs of negotiating the terms of future sales will almost certainly be *higher* when a copy is manufactured abroad. And when a copyright owner manufactures copies of her work abroad, the Copyright Act fully protects her right to bring her work to market on terms of her own choosing; it is only when someone else becomes the “owner” of a “particular copy or phonorecord” that the first-sale doctrine takes effect. To be sure, it might be objected that a copyright owner who sells her work abroad receives less than the “full” value of the work measured by the prices charged in more affluent markets. But the objection depends on the assumption, unknown to modern economic theory, that a voluntarily-negotiated sale is not “fair” because the seller could have exacted a higher price from an alternative buyer in a more affluent market. *Cf. Jamie S. Gorelick & Rory K. Little, The Case for Parallel Importation*, 11 N.C. J. Int’l L. & Com. Reg. 205, 207 (1986) (“Parallel importers only buy goods at prices that foreign manufacturers are willing to sell the

goods. Original trademark owners are not forced to sell in foreign markets at prices that encourage parallel importation.”).

The unusual consequences that follow from limiting the first-sale doctrine to copies manufactured in the United States further argue against limiting the doctrine based on the place a copy is manufactured. As the Ninth Circuit has acknowledged, a reading of § 109(a) that equates “lawfully made under this title” with “made in the United States” prevents the first-sale doctrine from ever applying to a copy or phonorecord manufactured outside the United States. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994). Because a copy must be “lawfully made under this title” for the first-sale doctrine to apply, a subsequent purchaser can never “sell or otherwise dispose of the possession of that copy or phonorecord” without the permission of the copyright owner. 17 U.S.C. § 109(a).

In *Parfums Givenchy*, the court suggested in dicta that the solution to this dilemma was to hold that a copy or phonorecord manufactured abroad is not subject to the first-sale doctrine “unless and until there has been a ‘first sale’ *in the United States*.” 38 F.3d at 481 n.8 (emphasis in original). Later Ninth Circuit cases adopted this dictum as a holding of the court. *Denbicare U.S.A. Inc. v. Toys R Us, Inc.*, 84 F.3d 1143, 1150 (9th Cir. 1996) (“[U]nder the law of the circuit, § 109 applies to copies made abroad only if the copies have been sold in the United States by the copyright owner or with its authority.”); *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 986 (9th Cir. 2008) (“§ 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here.”), *petition for cert. filed*, 77 U.S.L.W. 3657

(May 18, 2009). But the court has never explained how § 109(a)'s text supports a distinction based on where a first sale occurred. And the distinction it has drawn conflicts directly with *Quality King's* holding that place of sale is irrelevant for first-sale purposes. See *Quality King*, 523 U.S. at 145 (“After the first sale of a copyrighted item ‘lawfully made under this title,’ any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an ‘owner’ of that item” protected by the first-sale doctrine.”). Thus even if this Court were tempted to follow the Ninth Circuit’s interpretation of § 109(a) as a way of giving effect to the supposedly conflicting policies of §§ 109(a) and 602(a), it could not do so without disregarding an express holding of the Supreme Court.

Lastly, the frequently-repeated argument that applying the first-sale doctrine to copies of a copyrighted work manufactured abroad would render § 602(a) “virtually meaningless,” *Scorpio*, 569 F. Supp. at 49, provides scant support for limiting the first-sale doctrine to domestically-manufactured copies. The standard citation for that argument is a statement in the House Committee on the Judiciary’s report that “any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them” H.R. Rep. No. 1476, at 170. See, e.g., *Parfums Givenchy*, 38 F.3d at 482 n.8. But read as a whole, § 602(a)’s legislative history is at best ambiguous as to whether the drafters of the 1976 Act intended that § 602(a) would make the first-sale doctrine inapplicable to copies of a copyrighted work manufactured abroad. Kernochan, *supra*, at 1418 (“The legislative history . . . is rather ambiguous on the effect of section 602(a) in nonpiracy situations and contains material that could

support either [a broad or a narrow reading].”); *see also* William C. Tyson & Robert P. Parker, *Parallel Importation of Copyrighted Phonorecords*, 10 N.C.J. Int’l L. & Com. Reg. 397, 406 (1985); Stephen W. Feingold, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U. J. Int’l L. & Pol. 113, 138 (1984). In any event, § 602(a) continues to apply to copies of a work that are not the subject of a first sale, a scenario expressly contemplated by § 602(a)’s legislative history; and there clearly exist circumstances where a copy is *not* lawfully manufactured under the standards of Title 17 but is lawfully manufactured under the standards of some other source of law. A copy, for example, might be manufactured pursuant to a compulsory license required by foreign law, *see, e.g., T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575, 1577 (D.N.J. 1987) (compulsory license under New Zealand Copyright Act), or it might be manufactured in a country with no copyright law at all. In these circumstances, importation of copies without the copyright holder’s authorization remains actionable under § 602(a).

For these reasons, the Court provisionally is of the view that nothing in § 109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies of a work manufactured in the United States.

IV.

This analysis, however, overlooks an important piece of data: In *Quality King*, the Supreme Court spoke directly to whether the first-sale doctrine applies to copies manufactured abroad. In the course of addressing the argument that applying the first-sale doctrine to § 602(a) would render that section mean-

ingless, the Court noted that even limited by the first-sale doctrine, § 602(a) gives U.S. copyright holders an important bundle of rights. First, § 602(a) gives copyright owners a private remedy against importers of piratical copies, a power absent in previous versions of the Copyright Act. *Quality King*, 523 U.S. at 146. Second, because the first-sale doctrine is only available to the “owner” of a lawfully made copy, § 602(a) allows a copyright holder to prohibit imports by someone who does not hold title to the copies in question, such as a bailee, licensee or consignee, or a person who acquired possession of a copy unlawfully. *Id.* at 146-47. And third, “§ 602(a) applies to a category of copies that are neither piratical nor ‘lawfully made under this title.’” *Id.* at 147.

This last category clearly includes copies produced under a foreign compulsory license and copies produced in nations with no copyright law. But as a further example, the Court noted that § 602(a) gives a copyright owner the power to prohibit the importation of copies manufactured abroad with the U.S. rightsholder’s authorization. Citing a variety of extra-textual sources, the Court stated:

If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, . . . presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for

that matter, to an action under § 106(3), *if there was a distribution of the copies*).

Id. at 148 (emphasis added and footnote omitted) (citing *Copyright Law Revision Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law*, 88th Cong., 2d Sess., 119, 209 (H.R. Judiciary Comm. Print 1964) (statements of Mrs. Pilpel and Mr. Manges)). Thus, the Court appears to have specifically considered the fact pattern presented by this case: one in which books manufactured by a foreign publisher for sale abroad are imported into, and distributed within, this country without the consent of the U.S. copyright holder. The Court expressed the view that in these circumstances, the U.S. copyright holder is entitled to maintain an infringement action against the importer under § 602(a).

As this Court has reasoned previously, “if dicta this be, it is of the most persuasive kind.” *Arnold’s Wines, Inc. v. Boyle*, 515 F. Supp. 2d 401, 412 (S.D.N.Y. 2007) (Holwell, J.), *aff’d*, 571 F.3d 185 (2d Cir. 2009). When the Supreme Court addresses an unsettled question of federal law in unanimous dicta, respect for the Supreme Court as an institution and the dedicated jurists who serve on it mandates deference in all but the most exceptional circumstances. “[L]anguage the Supreme Court uses when it explicitly announces its holding must be assumed to have been crafted with care” *Kinstler v. First Reliance Standard Life Ins. Co.*, 181 F.3d 243, 250 (2d Cir. 1999). *See, e.g., Jones v. St. Paul Cos., Inc.*, 495 F.3d 888, 893 (8th Cir. 2007); *Sierra Club v. EPA*, 322 F.3d 718, 724 (D.C. Cir. 2003).

In this Court’s view, this case comes close to demonstrating such exceptional circumstances—but not quite. As demonstrated by the decades-old tension in circuit law, reasonable jurists can, and do, disagree about the first-sale doctrine’s application to copies manufactured abroad. While this Court would not limit the doctrine to copies manufactured in the United States, the case for this interpretation of § 109(a) is not so overwhelming as to justify disregarding the Supreme Court’s views. “Lawfully made under this title” can plausibly be read to refer to the jurisdiction in which a copy is manufactured. And as the Court noted in *Quality King*, this understanding of the first-sale doctrine is supported by at least some of § 602(a)’s legislative history. See 523 U.S. at 148. This Court therefore holds, *dubitante*, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad.

V.

Under this reading of the Copyright Act, the complaint states a claim upon which relief can be granted. It alleges that defendants purchased foreign editions of plaintiffs’ books manufactured abroad and resold them to purchasers in the United States after importing the books into this country. Because the foreign editions were manufactured abroad, defendants did not acquire ownership of copies “lawfully made under this title.” § 109(a). Indeed, defendants can *never* claim the protection of the first-sale doctrine as to plaintiffs’ foreign editions. *See supra* p. 12. Defendants’ activities therefore are actionable under §§ 106(3), 501, and 602(a) of the Act.

Defendants’ motion to dismiss [10] is denied.

22a

SO ORDERED

Dated: New York, New York
September 25, 2009

 /s/
Richard J. Holwell
United States District Judge

APPENDIX C

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PEARSON EDUCATION, INC.,
Plaintiffs,

- against -

GANGHUA LIU, ET AL.,
Defendants.

1:08-cv-06152-RJH

MEMORANDUM OPINION AND ORDER

Richard J. Holwell, District Judge:

Defendant Ganghua Liu moves for leave to file an interlocutory appeal of this Court's Memorandum Opinion and Order dated September 25, 2009 [24] ("Sept. 25 Opinion") denying her motion to dismiss plaintiffs' complaint. The plaintiffs in this case, two U.S. copyright holders, allege that defendants are involved in re-selling-at high prices in the U.S.-copyrighted books that they bought abroad-at lower prices in what is called the "grey market."¹ Defendants moved to dismiss the complaint on the grounds that their activities were protected by the first-sale

¹ In light of the transnational nature of the phrase, the Court is flummoxed as to whether "gray" or "grey" is the proper spelling. A brief review of recent opinions reveals that the courts of this district have not reached a single conclusion either. Rather than go on an etymological tangent, the Court arbitrarily elects the spelling used above.

doctrine, the rule that the purchaser of a physical copy of a copyrighted work may give or sell that copy to someone else without infringing the copyright owner's exclusive distribution rights. Although the Court noted an open question as to whether the first-sale doctrine applies to copies of a copyrighted work that have been lawfully manufactured abroad, it denied defendants' motion because it concluded that the Supreme Court's dicta in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), mandated that result. Because the Court found the arguments contrary to that position persuasive, it expressed its holding with doubt. The defendants subsequently filed this motion for leave to file an interlocutory appeal pursuant to 28 U.S.C. § 1292(b).

Interlocutory appeal is available when an order "involves a controlling question of law as to which there is substantial ground for difference of opinion [and] an immediate appeal from the order may materially advance the ultimate termination of the litigation." 28 U.S.C. § 1292(b). This section constitutes "a rare exception to the final judgment rule that generally prohibits piecemeal appeals." *Koehler v. Bank of Bermuda, Ltd.*, 191 F.3d 863, 865 (2d Cir. 1996). Thus courts should "exercise great care in making a § 1292(b) certification," *Westwood Pharm., Inc. v. Nat'l Fuel Gas Distrib. Corp.*, 964 F.2d 85, 89 (2d Cir. 1992). Furthermore, "district court judges have broad discretion to deny certification even where the statutory criteria are met." *National Asbestos Workers Medical Fund v. Phillip Morris, Inc.*, 71 F.Supp.2d 139 (E.D.N.Y. 1999) (Weinstein, J.). The Court will only grant certification, then, if the statutory criteria are met *and* the Court believes that immediate ap-

peal would best foster a simultaneously effective and efficient judiciary.

The criteria for interlocutory appeal are met here. As the Sept. 25 Opinion makes clear, the question of whether 17 U.S.C. § 109(a) entitles defendants to sell the “grey market” books without plaintiffs’ consent is a question of law that essentially controlled the disposition of the defendants’ motion to dismiss. A substantial portion of the opinion was devoted to explaining the substantial grounds for differences of opinion that exist on that issue, and the Court refers thereto for a full explication of those grounds. Briefly, the Court explained that:

Courts have divided over what it means for a copy to be “lawfully made under this title.” § 109(a); *compare Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F.Supp. 47, 49 (E.D.Pa. 1983) (Green, J.), *aff’d without op.*, 738 F.2d 421 (3d Cir. 1984), *with Sebastian Int’l Inc. v. Consumer Contacts (Pty) Ltd.*, 847 F.2d 1093, 1098 n. 1 (3d Cir. 1988). On one hand, some courts have held that because a U.S. copyright holder cannot sue a foreign manufacturer for violating her exclusive right to reproduce a copyrighted work in copies, see 17 U.S.C. § 106(1); *Update Art, Inc. v. Modiin Publ’g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988), a copy manufactured abroad is born in a state of legal limbo, neither legal nor illegal as a matter of U.S. law. On this view, a copy of a copyrighted work is not “lawfully made under this title” unless it also is “legally manufactured . . . within the United States.” *Scorpio*, 569 F.Supp. at 49. Other courts have “confess[ed] some uneasiness with this construction,” implicitly suggesting that “lawfully made under this title” refers not to the place a copy is manufac-

tured, but to the lawfulness of its manufacture as a function of U.S. copyright law. *See Sebastian Int'l*, 847 F.2d at 1098 n. 1.

Sept. 25 Opinion at 9.

Although this Court's statutory interpretation led it to conclude that the first-sale doctrine should not be limited to copies manufactured in the United States, *id.* at 8-15, it felt itself bound to the Supreme Court's *Quality King* dicta. *Id.* at 15-17. The Court therefore held, *dubitante*, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad. *Id.* at 17. Accordingly, defendant's motion to dismiss was denied. *Id.* at 18.

The Court certainly believes that there is a substantial ground for difference of opinion on the issue, a belief that it expressed by issuing its opinion *dubitante*. The only remaining question, then, is whether "[a]n immediate appeal from the order may materially advance the ultimate termination of the litigation." 28 U.S.C. § 1292(b).

The Court found the issue posed by the proper interpretation of § 109(a) dispositive of defendants' motion to dismiss. Accordingly, further motion practice, discovery, or trial in this matter would likely be rendered moot should the Circuit find that it disagrees with this Court's answer to the § 109(a) question. Proceeding without appellate review, then, would be inefficient, and immediate appeal would materially advance the ultimate termination of the litigation. *See In re Dynex Capital, Inc. Securities Litigation*, No. 05-1897, 2006 WL 1517580 (S.D.N.Y. June 2, 2006) (interlocutory appeal certified where denial of motion to dismiss turned on question, "and substan-

tial resources may be expended in vain both by the parties and this Court if my initial conclusion proves incorrect”).

Plaintiffs make two arguments to the contrary. First, they argue that they have trademark claims that could “entitle them to the same injunctive relief and a substantial portion of the monetary relief” that they seek from their copyright claims. (Pl. Opp. to Cert. 2.) However plaintiffs have not explained how they expect to recover pursuant to a trademark claim if they do not have a right under the Copyright Act to prohibit the resale of copies they sold. Perhaps defendants will surprise the Court and achieve that end, and admittedly their likelihood of doing so proportionately reduces the potential that future proceedings in this case will have been a waste. However even after considering that possibility there remains a substantial chance that such waste will occur.

Second, plaintiffs argue that an appeal will not materially advance the outcome of this litigation because the defendant still has counterclaims that “it has not committed to dismiss even if the copyright issue involving the First Sale Doctrine is resolved in [defendants] favor.” (*Id.*) Yet an important issue in the briefing on the motion to dismiss the counterclaims is the 109(a) question: defendant leads her opposition by arguing that “each argument is premised on the contested proposition that Pearson and Wiley have a right under the Copyright Act to restrict the resale of copies of their textbooks long after lawful ownership has passed to others, merely because they chose to print them outside of the United States.” (Def. Opp. to Pl. Mot. to Dismiss Counterclaims 1.) Without going so far as to rule on those

APPENDIX D

United States Court of Appeals
For The
Second Circuit

At a stated term of the United States Court of Appeals for the Second Circuit, held at the Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, in the City of New York, on the 19th day of May, two thousand ten,

Present:

José A. Cabranes,
Robert A. Katzmann,
Circuit Judges,
J. Garvan Murtha,*
District Judge.

Pearson Education, Inc., John Wiley & Sons, Inc.,

Plaintiffs-Respondents,

v.
mv

10-894-

Ganghua Liu,

Defendant-Petitioner.

Petitioner, through counsel, moves, pursuant to 28 U.S.C. § 1292(b), for leave to appeal an interlocutory order of the district court. Upon due consideration, it

is hereby ORDERED that decision on the petition is DEFERRED, and the Southern District proceedings in 08-cv-6152 are STAYED, pending our decision in *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 09 4896, which involves the same issues.

FOR THE COURT:
Catherine O'Hagan Wolfe, Clerk

* Judge J. Garvan Murtha, of the United States District Court for the District of Vermont, sitting by designation.

APPENDIX E

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 109(a) provides in pertinent part:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 202 provides in pertinent 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.

17 U.S.C. § 602(a) (renumbered as § 602(a)(1) in 2008) provides in pertinent part:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.