

No. 11-708

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**

REPLY BRIEF FOR PETITIONER

JOHN T. MITCHELL
Interaction Law
1629 K Street, N.W.
Suite 300
Washington, DC 20006
(202) 415-9213

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
Robbins, Russell, Englert,
Orseck, Untereiner &
Sauber LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500
renglert@robbinsrussell.com

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REPLY BRIEF FOR PETITIONER

The Second Circuit held that a copy made abroad is not “lawfully made under” the Copyright Act – even if made by the U.S. copyright holder – and therefore not subject to the first-sale doctrine. The ramifications of that rule are breathtaking: Without the alienability protected by the first-sale doctrine, copyright holders are free to bar resales, rentals, *and even gifts* of all kinds of foreign-made copies of works. And they retain that right in perpetuity – *even after they sell copies made abroad into the United States* – because a copy not “lawfully made under this title” cannot otherwise become subject to the first-sale doctrine under the terms of 17 U.S.C. § 109(a). These far-reaching restraints on alienation inexplicably arise, however, *only* with respect to copies made abroad; identical copies made in the United States remain subject to the first-sale doctrine. *Quality King Distribs., Inc. v. Lanza Research Int’l, Inc.*, 523 U.S. 135 (1998). To avail themselves of this unprecedented control, many U.S. copyright holders will undoubtedly shift production overseas.

Respondents pretend that this case raises none of these issues. They argue that the Second Circuit merely followed what has been “the consensus view of courts and commentators for almost 30 years” (Opp. 13), and that “the supposedly adverse consequences of construing Section 109(a) to apply only to domestic copies * * * have yet to materialize” (*id.* at 26 n.6). They alone hold those views.

Following last Term’s affirmance by an equally divided Court in *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010), courts and commentators agree that the issue presented here is “an open question” with “substantial grounds for differences of

opinion” (Pet. App. 3a, 25a), a “close call” (*Kirtsaeng* Pet. App. 26a, 43a), and “now open for debate” (1 HOWARD B. ABRAMS, *THE LAW OF COPYRIGHT* § 5:178 (2011)). Nor is there any doubt about “the force of th[e] concern” that the opinion below will cause “American manufacturing [to] contract along with the protections of the first sale doctrine.” *Kirtsaeng* Pet. App. 28a n.44. “Courts have divided over what it means for a copy to be ‘lawfully made under this title,’” Pet. App. 12a, and the issue is important. Indeed, the national importance and need for this Court’s review are established by the decision to grant review in *Omega* – even before the confusion was compounded by the decisions below.

The Second Circuit’s position below is also wrong. It overlooks basic canons of statutory construction, ignores central aspects of legislative history, and recycles arguments considered – and rejected – in *Quality King*. The interpretation advanced by petitioner – that a copy is “lawfully made under this title” if it is made by the U.S. copyright holder, at home or abroad – has none of these flaws. Given the economic importance of the issue, the doctrinal importance of a correct reading of *Quality King*, and the uncertainty left in the wake of *Omega*, review by this Court is urgently needed. And, contrary to respondents’ suggestion, this petition faces no “antecedent jurisdictional issues” (Opp. 13) that counsel against a plenary grant of review.

I. The Second Circuit’s Decision Ignores The Plain Text Of The Copyright Act, Its Legislative History, And The Clear Lessons of *Quality King*

Section 109(a) of the Copyright Act extends the first-sale doctrine to all copies “lawfully made under this title.” As explained in the petition, the most natural reading of this language is that it applies to all copies made *according to, or as defined by*, “this title,” *i.e.*, Title 17, the Copyright Act. This encompasses copies made by the U.S. copyright holder, at home or abroad, and, as legislative history confirms (*see* Pet. 20-21), copies made pursuant to other licensing schemes contemplated under the Act.

A. Respondents’ sole textual critique of petitioner’s interpretation is that it “ignore[s] the statutory term ‘under.’” Opp. 19. The word “under,” however, is routinely understood to mean “according to.” In *New York Gaslight Club, Inc. v. Carey*, 447 U.S. 54 (1980), for example, this Court evaluated whether a state administrative claim required under 42 U.S.C. § 2000e-5(k) constituted a proceeding “under this title.” To do so, the Court looked at various aspects of Title 42, among them “the language and history of the statute.” *Id.* at 61. The Court’s mode of analysis was entirely uncontroversial; though its holding was not unanimous, there was no suggestion that the phrase “under this title” meant anything other than *according to Title 42*.

So, too, here. Respondents nevertheless suggest that this interpretation “makes little sense.” Opp. 18. They are alone in that view. The Second Circuit conceded that it was “consistent with a textual reading of § 109(a).” *Kirtsaeng* Pet. App. 24a n.38. The United States has made the same concession. *See* Pet. 14-15 (collecting sources).

The same cannot be said of respondents' reading of the text. Even if "lawfully made under this title" *could* mean "made in the United States" in the context of § 109(a), that phrase is also used in multiple other parts of the Copyright Act, where respondents' reading cannot possibly be correct. Furthermore, when Congress was concerned with the place of manufacturing – as it is in §§ 601 and 1004(b), for example – it said so explicitly. *See* Pet. 15-18. Respondents' failure to address any of these points is particularly remarkable because the Second Circuit acknowledged them explicitly. *See Kirtsaeng* Pet. App. 23a.

B. Lacking any credible response to these textual arguments, respondents rehash claims made and rejected in *Quality King*. They first suggest that the presumption against extraterritoriality shields copies made by U.S. copyright holders abroad from the first-sale doctrine. *See* Opp. 18-19. The United States disagrees. *See* Brief for the United States as *Amicus Curiae* 22 (No. 08-1423) ("U.S. *Omega Br.*") ("applying Section 109(a) to copies imported into the United States would not involve an extraterritorial application of domestic law"). And the Court in *Quality King* addressed – and rejected – a virtually identical argument: a defendant's invocation of the first-sale doctrine's "protection does *not* require the extraterritorial application of the Act any more than § 602(a)'s 'acquired abroad' language does." 523 U.S. at 145 n.14 (emphasis added). The first-sale doctrine does not purport to regulate foreign conduct. It simply limits the U.S. distribution right (which is stated in 17 U.S.C. § 106(3) and is expressly "[s]ubject to" other provisions including § 109) by entitling persons in the United States to alienate the copies they own, and to raise that right as a defense to an infringement action brought in a U.S. court by a U.S. copyright holder.

Nor is there any merit to respondents' argument that petitioner's interpretation renders § 602(a) "meaningless in the vast majority of cases." Opp. 22 (internal quotation marks omitted). That argument was *also* 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 148-49. As explained in the petition (at 24), 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.

Equally unpersuasive is respondents' reliance on legislative history to suggest that § 602 bars the unauthorized importation of any copy acquired abroad, even if it is "lawfully made." Opp. 22-24. That argument was also squarely rejected in *Quality King*, whose *core holding* is that § 602(a) does *not* bar the importation of copies if they are "lawfully made under this title." The legislative history cited by respondents sheds no light on the definition of this phrase, which is the only matter at issue here. By contrast, the petition (at 18-23) cites legislative history, including the 1976 House Report, bearing directly on the meaning of "lawfully made under this title" in § 109. In any event, if § 602(a) is to matter, respondents must explain why Congress would have intended to give U.S. copyright holders significantly more control over copies they manufacture abroad than over those they make in the United States. But they do not even acknowledge that dichotomy, let alone explain it.

C. Respondents completely fail to address Ms. Liu's argument (Pet. 22-23) that Congress reaffirmed that "lawfully made under this title" does

not refer to place of manufacture when it enacted 17 U.S.C. § 109(e) in 1990. The purpose of that provision was to “address[] [an] anomaly created by the *Red-Baron Franklin Park, Inc. v. Taito Corp.* decision,” which had held that playing a copyrighted video game in public infringed display and performance rights under 17 U.S.C. § 106(4)-(5). H.R. Rep. No. 101–735, 101st Cong., 2d Sess. 15 (1990). Congress was aware that the video games at issue were made overseas and that the lower court had held that “the first sale provisions of section 109(a) of the Copyright Act permitted a U.S. arcade game operator to purchase, in Japan, a circuit board containing the game and to then import the circuit board for insertion into a coin-operated arcade game in the United States.” *Id.* at 8. Congress nevertheless again used the phrase “lawfully made under this title” to expand the first-sale doctrine to cover the display and performance of those very video games, made and sold abroad by a U.S. copyright holder. If there was any doubt about whether § 109 applied to works made abroad, it was laid to rest in 1990.

II. The Question Presented Has Troubled Lower Courts For Years And Is Of Great Economic Significance

Notwithstanding this Court’s prior decision to grant review of the identical issue and 4-4 split on the merits, respondents say that the issue is of minimal importance and the opinion below reflects a “broad consensus.” Opp. 15. They are wrong on both counts. As the district court explained, “[c]ourts have divided over what it means for a copy to be ‘lawfully made under this title.’” Pet. App. 12a. Indeed, at least three courts of appeals – the Second, Third, and Ninth – treat copies that a U.S. copyright

owner makes abroad in three different ways.¹ Respondents implausibly claim that these lower court opinions do not demonstrate “any disagreement among the circuits,” Opp. 14, but the logic employed by the three circuits is impossible to reconcile. See Pet. 11. The federal government, too, has taken two inconsistent positions on this issue, blaming its about-face on dicta in *Quality King*. See Pet. 14-15. The confusion and uncertainty have only increased with the decision below and this Court’s 4-4 decision in *Omega*.

Respondents also fail to acknowledge that much of the disagreement is attributable to confusion over how to interpret this Court’s hypothetical example in *Quality King* (523 U.S. at 148) – a problem that only this Court can resolve. See Pet. 32 (collecting sources). After this Court’s affirmance without opinion in *Omega*, lower courts are now literally guessing how this Court will resolve the question presented. See *Kirstaeng* Pet. App. 19a, 43a. There is thus nothing to be learned by having the matter “simmer” longer in the lower courts. See ALEXANDER

¹ Compare *Kirstaeng* Pet. App. 26a (“§ 109(a) is best interpreted as applying only to copies manufactured domestically”) with *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 989 (9th Cir. 2008) (“[P]arties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred.”), and *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) (“confess[ing] some uneasiness with [a] construction of ‘lawfully made’ that turns on the place of manufacturing). The Fourth Circuit in *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 278 (4th Cir. 1989) was also aware of, but did not address, “the district court’s ruling with respect to Red Baron’s right to purchase, import and even to sell [copyrighted] Double Dragon circuit boards [made abroad] without Taito’s consent,” a holding consistent with the Third Circuit’s views in *Sebastian*. See *supra* p. 6.

M. BICKEL, *THE LEAST DANGEROUS BRANCH* 176 (2d ed. 1962).

Nor is there merit to respondents' claim that the lower court's decision must be of little ill effect because "those consequences should already have occurred in response to earlier decisions." Opp. 27. The Second Circuit's *Kirtsaeng* opinion is the *first* to take the extreme position that *no* copy made abroad is subject to the first-sale doctrine.² The Ninth Circuit, in contrast, applies the first-sale doctrine to copies made abroad so long as there has been an authorized "first sale" in the United States. *Omega*, 541 F.3d at 989. The United States argued in this Court that "the relevant Copyright Act provisions taken together may reasonably be read to support that result." U.S. *Omega* Br. 29. Without that exception, a copyright holder "could seemingly exercise distribution rights after even the tenth sale in the United States of a [copy] lawfully made" abroad. *Omega*, 541 F.3d at 989.

As the petition notes (at 28-29), that power has implications that could not possibly reflect Congress's intent. No one but respondents disputes this. The Second Circuit recognized that its holding gives copyright holders "the proverbial 'best of both worlds'" and "an incentive to 'outsource' publication to foreign locations to circumvent the availability of the first sale doctrine as a defense for consumers wishing to re-sell their works in the domestic

² Respondents claim that the opinion below is "a far cry from [a] holding that foreign-made copies are *never* subject to Section 109(a)." Opp. 17. But they do not attempt to explain how it could be otherwise under their reading of the statutory text. The Second Circuit certainly thought that is what it held, as it distinguished itself from the Ninth Circuit. *Kirtsaeng* Pet. App. 26a.

market.” *Kirtsaeng* Pet. App. 28a n.44. The Ninth Circuit agrees, characterizing that state of affairs as “absurd and unintended,” *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994), as it could lead to liability for “every little gift shop in America” that doesn’t know the precise origin of its merchandise, *Diseños Artísticos e Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996). So does the United States, which concedes “[t]hat differential treatment of domestic- and foreign-manufactured goods has no evident policy justification, and it could * * * provide an artificial incentive for outsourcing.” U.S. *Omega Br.* 28. Respondents have no explanation or response, other than to assert that these logical consequences simply will not result.

III. There Is No “Antecedent Jurisdictional Issue” In This Case

A grant of certiorari in *Liu* (which has an extensive and thoughtful district court opinion), in *Kirtsaeng* (which resulted in a full opinion and dissent in the court of appeals), or in both would be appropriate. In a final aside, however, respondents manufacture a half-hearted claim that “*Liu* [is] an inappropriate vehicle” for addressing the question presented because it “raises antecedent jurisdictional issues that” would complicate or preclude “this Court’s consideration of the question.” Opp. 29, 13. But neither case cited by respondents (*id.* at 30) remotely supports their claim.³ Indeed, as

³ Neither *DTD Enters., Inc. v. Wells*, 130 S. Ct. 7 (2009), nor *Wrotten v. New York*, 130 S. Ct. 2520 (2010), reached the courts of appeals through § 1292(b). Both were petitions from intermediate *state* courts, and thus are irrelevant to this Court’s jurisdiction under 28 U.S.C. § 1254(1).

respondents are forced to concede, this Court has “previously exercised its jurisdiction in [the particular] circumstances” present here. *Ibid.* (emphasis omitted).

In *Tidewater Oil Co. v. United States*, 409 U.S. 151 (1972), for example, this Court granted certiorari where a district court had “certified [an] order denying defendant’s motion to dismiss for interlocutory appeal under Section 1292(b),” but the court of appeals “denied the application [by] relying solely on its previous decision in” a different case. *Id.* at 152-53. That is the *exact* posture of *Liu*. See *also* Pet. 31 (collecting other examples).

Notwithstanding the clear precedent for exercising jurisdiction in *Liu*, respondents say that the Court has never explicitly “addressed” the question of why such review is proper. Opp. 30. But there is no need to address or elaborate on a question the Court has already answered. As respondents concede (*id.* at 31), this Court has repeatedly addressed the scope of § 1254(1) and concluded that “[t]here can be no serious doubt concerning [this Court’s] power” to grant the review sought here. *Nixon v. Fitzgerald*, 457 U.S. 731, 743 n.23 (1982). This is “a power * * * exercised routinely.” *Ibid.* Indeed, as respondents acknowledge, in light of *Hohn v. United States*, 524 U.S. 236 (1998), the well-settled view is that “certiorari should be available in any * * * case in which it is claimed that a court of appeals has improperly denied leave to proceed on appeal,” as is the case here. 17 CHARLES ALAN WRIGHT ET AL., FEDERAL PRACTICE & PROCEDURE § 4036, at 17 (3d ed. 2007). There is nothing more this Court would be expected to say on the issue.

Nor would hearing *Liu* require a threshold resolution of the question of by which “standard (if any) * * * the decision to deny review should be

evaluated.” Opp. 31. Though this Court has commented in *dicta* that appellate courts should be given broad discretion to “deny [an] appeal [under § 1292(b)] for any reason,” *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 475 (1978), a “court by definition abuses its discretion when it makes an error of law.” *Koon v. United States*, 518 U.S. 81, 100 (1996). Here, the Second Circuit was explicit that its decision to deny review was based on *Kirtsaeng* (see Pet. App. 2a), and it is well within this Court’s power to ensure that such a denial was “not guided by erroneous legal conclusions.” *Koon*, 518 U.S. at 100.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

JOHN T. MITCHELL
Interaction Law
1629 K Street, N.W.
Suite 300
Washington, DC 20006
(202) 415-9213

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
Robbins, Russell, Englert,
Orseck, Untereiner &
Sauber LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

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