

Keywords: first sale doctrine; Copyright Act of 1976; 17 U.S.C. §§ 106(3), 602(a), and 109(a)

General: A defendant in a copyright infringement action may not claim the “first sale doctrine” as a defense when the claims involve non-domestically made copies of U.S. copyrighted works.

Omega S.A. v. Costco Wholesale Corp.

88 U.S.P.Q.2d 1102 (9th Cir. 2008)

Decided September 3, 2008

I. Facts

Omega manufactures watches in Switzerland and sells them globally through a network of authorized distributors. The watches include a U.S. copyrighted engraving of “Omega Globe Design.” Omega first sold the Swiss manufactured watches to authorized distributors overseas. Costco then obtained the watches having the U.S. copyrighted mark through a number of parties and eventually sold them to consumers in California. Although Omega authorized the initial foreign sale of the watches, it did not authorize their importation into the United States or the sales made by Costco.

Omega filed a lawsuit alleging that Costco’s acquisition and sale of the watches in California constitute copyright infringement under 17 U.S.C. §§ 106(3) and 602(a). Costco filed a cross-motion on the basis of 17 U.S.C. § 109(a) arguing that, under the first sale doctrine, Omega’s initial foreign sale of the watches precludes claims of infringing distributions and importation in connection of the subsequent, unauthorized sale. The district court granted summary judgment without explanations in favor of Costco.

On appeal, Omega concedes that § 109(a) generally limits §§ 106(3) and 602(a) but contends that § 109(a) does not apply in this case. More specifically, Omega argued that § 109(a) provides no defense to the infringement claims in this instance because, although “Omega Globe Design” was copyrighted in the U.S., the watches bearing the design were manufactured and first sold overseas. Accordingly, Omega claims that the copies of the design are not “lawfully made under [title 17],” as is required under the defense provided under § 109(a).

II. Issues

- A. Did *Quality King* invalidate the general rule that § 109(a) can provide a defense against §§ 106(3) and 602(a) claims only if the claims involve domestically made copies of U.S. copyrighted works?
- B. Does § 109(a) provide a defense to copyright infringement in the instant circumstances?

III. Discussion

- A. No. Because the court held that *Quality King* did not invalidate prior Ninth Circuit precedent, the court found that the first sale defense under § 109(a) is still only available when the activities involve domestically made copies of U.S. copyrighted works.

Omega’s infringement claims involve three sections of the Copyright Act of 1976:

§ 602(a):

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

§106(3):

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights...to distribute copies...of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

§109(a):

Notwithstanding the provisions of section 106(3), the owner of a particular copy...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.

§ 109(a) of the “First Sale Doctrine” holds that once a copyright owner consents to the sale of particular copies of his work he may not thereafter exercise the distribution right with respect to those copies. Thus, § 109(a) provides a defense to infringement where “the owner of the particular copy... *lawfully made under this title*” imports and sells that copy without the authority of the copyright owner.

The court began by discussing the state of the law in the Ninth Circuit before *Quality King*. In *BMG Music*, and *Drug Emporium*, the Ninth Circuit held that U.S. copyrighted but foreign manufactured or produced copies does not allow for the first sale defense under § 109(a) because the phrase “lawfully made under this title” provides protection only to copies legally made and sold in the United States. Because the copies at issue in those two cases were sold abroad the court held that the defense under § 109(a) was not available. The court provided two rationales for this finding. First, a contrary interpretation would impermissibly extend the Copyright Act extraterritorially. Second, the application of § 109(a) after foreign sales would render § 602(a) virtually meaningless as a tool against the unauthorized importation of nonpiratical copies because importation is almost always preceded by at least one lawful foreign sale that will have exhausted the distribution right on which § 602(a) is premised. The Ninth Circuit further carved out an exception to the *BMG Music* and the *Drug Emporium* decisions in concluding that § 109(a) can apply to copies made outside the United States so long as an authorized first sale occurs in the United States. The Ninth Circuit concluded its discussion of its pre-*Quality King* precedent by discussing *Denbicare* which involved copies made in Hong Kong and voluntarily sold by the U.S. copyright owner within the United States, and applied the exception created by *Drug Emporium*.

The court then discussed the impact of the Supreme Court’s decision in *Quality King* and whether it invalidated the Ninth Circuit precedent relating to the construction of § 109(a). The court held that *Quality King* did not directly overrule the general rule of the Ninth Circuit because *Quality King* involved “round trip” sales. That is, *Quality King* is distinguishable over the instant facts in that the U.S. copyrighted label was manufactured in the U.S., exported to an authorized foreign distributor, sold to third parties overseas, shipped back into the U.S. without the copyright owner’s permission, and then sold in California by an unauthorized retailer. The Supreme Court held that in *Quality King*, § 109(a) can provide a defense because the copies were made domestically, and thus “lawfully made under [Title 17].” By distinguishing the facts of *Quality King* from the facts of previous Ninth Circuit precedent, the instant court held that *Quality King* did not directly overrule the precedent previously provided, and thus found that because § 109(a) explicitly refers

to the copies “lawfully made under this title,” that the defense is only available for domestically made copies and not for copies made abroad.

The court further stated that to characterize the making of copies overseas as “lawful...under [Title 17]” would be to describe the legality under copyright conduct that occurs entirely outside the United States, not withstanding the absence of a clear expression of congressional intent in favor of extraterritoriality. The court also cited Justice Ginsburg’s concurrence in the *Quality King* case citing a copyright treatise for the proposition that “lawfully made under this title” means “lawfully made in the United States.” The majority opinion did not dispute this interpretation, which aligns closely with the one adopted by the Ninth Circuit.

The court also pointed out that parties can raise the § 109(a) as a defense in cases involving foreign made copies so long as a lawful domestic sale has occurred.

- B. No. The court held that the general rule that § 109(a) refers “only to copies legally made....in the United States,” is not clearly irreconcilable with *Quality King*, and therefore, remains valid law. Because the Omega watches bearing the Omega Globe Design were manufactured in Switzerland, Costco cannot use § 109(a) as a defense to Omega’s claims.