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Supreme Court Grants Certiorari To Better Define The First Sale Doctrine

On April 19th, 2010, the United States Supreme Court granted certiorari to consider whether, in the context of a copyright infringement claim, the first sale doctrine applies to imported goods manufactured abroad. The first sale doctrine, codified at 17 U.S.C. § 109(a), works as a defense to a copyright infringement claim where the copyright owner consents to the first sale of its copyrighted work.

In Omega v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2008), the Ninth Circuit grappled with the extent to which the first sale doctrine may be used as a defense when the copyrighted work is manufactured and first sold abroad (as opposed to domestically). In this case, Omega's copyrighted work - a globe design - was affixed to watches manufactured in Switzerland and first sold to authorized distributors abroad. The watches were then purchased by third parties, and ultimately sold to Costco. Thereafter, Costco then offered for sale and sold the "gray market" watches to consumers in California. Omega sued Costco for copyright infringement, alleging that Costco's acquisition and sale of the watches bearing the copyrighted work constituted copyright infringement, under 17 U.S.C. §§ 106(3) and 602(a), because Omega had not authorized the sale of the watches in the United States.

Costco asserted the first sale doctrine as a defense to Omega's infringement claim, and prevailed in the district court. However, on appeal, the Ninth Circuit reversed, accepting Omega's argument and Ninth Circuit precedent that the phrase "lawfully made under this title" "grants first sale protection only to copies legally made and sold in the United States." The court explained its rationale for this restriction on the first sale doctrine as twofold: (1) to avoid impermissible extension of the Copyright Act extraterritorially, and (2) to avoid undercutting a copyright owner's rights against unauthorized importation of copies of its work.

In reaching its conclusion, the Ninth Circuit distinguished the Supreme Court's decision in Quality King Distributors, Inc. v. L'anza Research International, Inc., 523 U.S. 135 (1998). In Quality King, the Supreme Court held that the first sale doctrine could provide a defense to an action for unauthorized importation (§ 602(a)) where the copyrighted product was manufactured in the United States, exported to an authorized foreign distributor, sold overseas, shipped back to the United States without the copyright owner's permission and ultimately sold to consumers in California by unauthorized retailers. The Ninth Circuit distinguished from this decision on the ground that the Quality King products were manufactured in the United States: "because the facts involved only domestically manufactured copies, the Court did not address the effect of [the first sale doctrine] on claims involving unauthorized importation of copies made abroad."

Costco asserted that the Ninth Circuit's interpretation of the first sale doctrine, limiting the defense only to copyrighted products manufactured in the United States, would have the perverse effect of encouraging copyright owners to outsource manufacturing overseas so that the first sale doctrine would never apply. The Ninth Circuit dismissed Costco's argument based on precedent holding the first sale doctrine applicable, despite foreign production of the copyrighted products, because such products were first sold in the United States with the copyright owner's authorization. The Ninth Circuit, however, declined to decide whether this precedent was still valid following the Quality King decision, basing its decision as to Costco entirely on the fact that the Omega watches were manufactured abroad and therefore not "lawfully made under this title."

In conclusion, the Supreme Court is now set to determine the scope of the first sale doctrine – whether it applies to copyrighted products arriving in the U.S. market following manufacture and sale abroad. This decision will have significant impact for companies on both sides of the issue. For sellers of gray market goods, a decision in favor of Costco will remove the potential threat of litigation for copyright infringement that currently exists. Alternatively, a decision in Omega's favor will solidify the importation rights of U.S. copyright holders and subject importers of gray market goods to copyright infringement claims. Only time will tell what result the Court will reach.

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