

No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA, S.A.,
Respondent.

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

**BRIEF OF INTEL CORPORATION
AS *AMICUS CURIAE*
IN SUPPORT OF PETITIONER**

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**BRIEF OF INTEL CORPORATION
AS *AMICUS CURIAE*
IN SUPPORT OF PETITIONER**

INTEREST OF *AMICUS CURIAE*¹

The issue in this case is whether the Copyright Act’s first-sale doctrine, 17 U.S.C. § 109(a), applies to goods manufactured and sold abroad. *Amicus* has a substantial interest in the correct resolution of that issue not only for its implications for copyright law but also because of its potential consequences for patent law, which contains an analogous first-sale doctrine.

Intel Corporation is the world’s largest semiconductor manufacturer and is also a leading manufacturer of computer, networking, and communications hardware and software products. Among other things, it provides the “digital building blocks” at the heart of the worldwide digital economy, including desktop, mobile, and server computers, digital entertainment devices, and networking and communications products. The vast majority of Intel’s hardware products are subject not only to patent protection but also to mask work protection under 17 U.S.C. §§ 901 *et seq.*

The Ninth Circuit’s decision below parallels the reasoning of the Federal Circuit in holding that the

¹ Pursuant to this Court’s Rule 37.3(a), letters of consent from all parties to the filing of this brief have been submitted to the Clerk. Pursuant to this Court’s Rule 37.6, *amicus* states that this brief was not authored in whole or in part by counsel for any party, and that no person or entity other than *amicus* or its counsel made a monetary contribution intended to fund the preparation or submission of this brief.

first-sale doctrine does not apply to foreign sales of patented products because “the United States patent system does not provide for extraterritorial effect.” *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005); *see also* Pet. App. 11a (applying the first-sale doctrine to goods manufactured and sold abroad “would require an invalid extraterritorial application of the Copyright Act”). Intel is concerned that this decision misinterprets the extraterritoriality doctrine.

Intel has a uniquely balanced perspective on the issue in this case. As the owner of a vast array of patents, Intel is acutely aware of the importance of protecting intellectual property as an incentive to creativity. And as a manufacturer of innovative products that incorporate hundreds or even thousands of potential technologies, Intel and the purchasers of its products are also potential defendants in infringement suits.

Indeed, Intel is supporting petitioner before this Court even though it owns numerous copyrights and deploys thousands of software developers to write the software and firmware needed for its products to work. Each year, Intel’s copyright-protected software is loaded onto more than one hundred million personal computers built outside the United States and then shipped around the world, including into the United States. Under the Ninth Circuit’s extraterritoriality reasoning, Intel would apparently be able to block this code and the computer systems that contain it from entering the United States—even though Intel itself authorized the first sale. In this respect, Intel believes that the decision below results in a drastic reallocation of property rights for goods in international circulation.

SUMMARY OF ARGUMENT

The first-sale doctrine for patents, also known as the “patent exhaustion” doctrine, provides meaningful guidance for this Court in interpreting the analogous first-sale doctrine for copyrighted works under 17 U.S.C. § 109(a). Both doctrines share a foundation in the common-law rule against restraints on alienation of property, and Congress enacted Section 109(a) and its predecessor to codify the first-sale doctrine as it had developed at common law. Given the close connection between copyright law and patent law, and in particular the shared origin of the first-sale doctrines in these areas, the historical scope of the patent exhaustion doctrine is particularly informative in understanding Section 109(a).

When the predecessor to Section 109(a) was enacted in 1909, and also when Section 109(a) itself was enacted in 1976, the patent exhaustion doctrine was consistently understood as terminating the patentee’s ability to control post-sale use after the initial authorized sale of a patented article. The exhaustion doctrine applied even if that initial sale occurred abroad and involved a patented article that had been manufactured abroad; the only relevant inquiry was whether the sale had been authorized by the patentee. This consistent interpretation of the patent exhaustion doctrine makes clear that the background understanding when Congress acted was that the first-sale doctrine applies equally to goods manufactured and sold abroad.

The Ninth Circuit below attempted to cabin the first-sale doctrine in Section 109(a) by invoking extraterritoriality concerns. This is precisely the same reasoning that the Federal Circuit has invoked in holding that the patent exhaustion doctrine cannot

be applied to goods sold abroad without attaching impermissible extraterritorial effect to the patent laws. These recent decisions cannot undermine the consistent view of the federal courts at the relevant time—that is, when Congress codified the first-sale doctrine for copyrights—but in any event their extraterritoriality reasoning is foreclosed by *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008).

Quanta reaffirmed that the patent exhaustion doctrine applies to any authorized sale of an article that substantially embodies the patent. Even though the Court was aware that *Quanta* involved foreign sales, it applied patent exhaustion to the United States patents at issue without even hinting that the exhaustion doctrine was subject to any geographical limitation. To the contrary, it cautioned against imposing exceptions that would permit an “end-run” around exhaustion—yet this is precisely what would occur if patentees were permitted to avoid exhaustion simply by manufacturing and selling their products abroad. *Quanta* thus forecloses extraterritoriality-based limitations on the patent exhaustion doctrine and, as a result, undermines the Ninth Circuit’s effort to impose such limitations on the analogous doctrine for copyrights.

ARGUMENT

I. THE FIRST-SALE DOCTRINE IN THE PATENT CONTEXT PROVIDES HELPFUL GUIDANCE FOR THIS COURT IN INTERPRETING THE PARALLEL DOCTRINE FOR COPYRIGHTS.

The first-sale doctrine is recognized in several areas of intellectual property. Indeed, it operates to “limi[t] the three principal forms of intellectual property rights: (1) copyright, (2) patent, and (3) trade-

mark.” *Allison v. Vintage Sports Plaques*, 136 F.3d 1443, 1448 (11th Cir. 1998) (citations omitted). In the patent context, the patent exhaustion doctrine provides that an “authorized sale of an article embodying [an] invention . . . exhausts the monopoly in that article[,] and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article.” *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942).

In each of these areas of intellectual property, “[t]he first sale doctrine has its roots in the English common law against restraints on alienation of property.” H.R. Rep. No. 98-987, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2898, 2899. Intellectual-property law “promote[s] the Progress of Science and useful Arts’ by rewarding innovation with a temporary monopoly.” *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730 (2002) (quoting U.S. Const. art. I, § 8, cl. 8). But “this monopoly is no longer needed” to protect a patented, copyrighted, or trademarked article once “the owner has received the desired compensation” from selling that article. *Brilliance Audio, Inc. v. Hights Cross Commc’ns, Inc.*, 474 F.3d 365, 373 (6th Cir. 2007). In that circumstance, “[t]he first sale doctrine ensures that the [intellectual property] monopoly does not intrude on the personal property rights of the individual owner, given that the law generally disfavors restraints of trade and restraints on alienation.” *Id.* at 374.

Congress has, of course, codified the first-sale doctrine for copyrights in 17 U.S.C. § 109(a). But, as Costco has explained, Section 109(a) was designed to “give effect to . . . th[e] common law policy in the copyright realm.” Br. for Pet’r 27. Thus, “[t]he first sale rule [for copyrights] is statutory, but finds its origins in the common law aversion to limiting the

alienation of personal property.” *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988).

Where, as here, a “statute covers an issue previously governed by the common law,” this Court “interpret[s] the statute with the presumption that Congress intended to retain the substance of the common law.” *Samantar v. Yousuf*, 130 S. Ct. 2278, 2289 n.13 (2010) (citing *Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952)); see also *Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104, 108 (1991) (noting that “Congress is understood to legislate against a background of common-law . . . principles”). Nothing in the text or legislative history of Section 109(a) undermines this presumption; there is no indication whatsoever that Congress intended to depart from—rather than codify—the first-sale doctrine as it existed at common law.

Moreover, there is no reason for this Court to consider only the common-law understanding of the first-sale doctrine for *copyrights*. To the contrary, this Court has acknowledged the “historic kinship between patent law and copyright law.” *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (looking to patent cases to analyze the scope of contributory copyright infringement); cf. *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 657 (1834) (“In what respect does the right of an author differ from that of an individual who has invented a most useful and valuable machine?”). Although “there are differences between the patent and copyright statutes in the extent of the protection granted by them,” *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345 (1908), those differences are inapplicable here given the common origin and shared historical foundation

of the first-sale doctrine in both copyright law and patent law.

Indeed, it would make little sense to analyze the first-sale doctrine for copyrights *without* being informed by the analogous doctrine for patents. The same product can—and often does—embody both copyrights and patents. Interpreting the first-sale doctrine to apply differently in these two contexts would therefore lead to the bizarre result in which the sale of a patented and copyrighted article could exhaust one intellectual property right while leaving the other intact. To take one example, a camera may be patented while the software that controls it is protected by copyright. Yet if the patent exhaustion doctrine were applied to foreign sales but Section 109(a) were not, an American tourist who purchased the camera abroad would be forced to strip the software from the camera before returning home, thus rendering the camera unusable, or else commit copyright infringement by importing the software—even though the tourist would be fully permitted to import the patented camera itself.

II. WHEN THE FIRST-SALE DOCTRINE WAS ENACTED IN THE COPYRIGHT ACTS OF 1909 AND 1976, THE ANALOGOUS DOCTRINE IN THE PATENT CONTEXT WAS CONSISTENTLY UNDERSTOOD AS APPLYING WHENEVER THE PATENTEE HAD BEEN FULLY COMPENSATED FOR ITS UNITED STATES PATENT RIGHTS.

The “ultimate question embodied in the ‘first sale’ doctrine” is “whether or not there has been such a disposition of the article that it may fairly be said that the patentee . . . has received his reward for the use of the article.” *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963)

(quoting *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942)). Thus, for over a century, the federal courts recognized that it was irrelevant to the patent exhaustion doctrine whether the manufacture and sale of the patented article occurred in the United States or abroad. See, e.g., *Dickerson v. Matheson*, 57 F. 524, 527 (2d Cir. 1893). This understanding prevailed when the first-sale doctrine was codified in the Copyright Act of 1909 and also when the doctrine was restated in the Copyright Act of 1976, and it provides additional support for interpreting the first-sale doctrine in the copyright context to apply regardless of whether the goods were manufactured and sold abroad.

A. The patent exhaustion doctrine is “triggered . . . by a sale *authorized* by the patent holder.” *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2121 (2008) (emphasis added). The holder of a United States patent is entitled to “receiv[e] his reward for the use of the [patented] article,” *Masonite Corp.*, 316 U.S. at 278, but the patentee has exhausted its interest in a patented article once it has been compensated for its United States patent rights. Thus, “when the patentee . . . sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use.” *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873); see also, e.g., *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863) (“[Patentees] are entitled to but one royalty for a patented machine, and consequently when a patentee has himself constructed the machine and sold it, . . . he . . . cease[s] to have any interest whatever in the machine so sold . . .”).

This Court’s decision in *Boesch v. Gräff*, 133 U.S. 697 (1890), is instructive. The issue in *Boesch* was

“whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, *without the license or consent of the owners of the United States patent.*” *Id.* at 702 (emphasis added). Because the foreign seller lacked any authority under the United States patent, this Court concluded that “purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent.” *Id.* at 703. That is, the exhaustion doctrine was inapplicable because “neither the [American] patentee nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States.” *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 665 (1895); see also, e.g., *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp.*, 266 F. 71, 77 (2d Cir. 1920) (noting that the foreign sale in *Boesch* involved “no participation whatever by the owner of the patent, either as a party or as a privy”).

B. Because the relevant issue for patent exhaustion is authorization, it is unsurprising that the federal courts long regarded as irrelevant whether the patented article was manufactured or sold abroad. The leading early decision in this area is *Holiday v. Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885). The issue in *Holiday* was:

whether the owner of a patent in the United States for an invention, who has sold the patented article in England without restriction or conditions, can treat as an infringer one who has purchased the article in England of a vendee of the patentee, and can re-

strain him from using or selling the article here.

Id. at 185.

Holiday's reference to a sale “without restriction or conditions” acknowledges that a patentee may impose otherwise lawful contractual limitations at the time of sale. 24 F. at 186 (noting that, “where a license accompanies the transfer, the purchaser’s rights are limited to the extent of the monopoly granted to him”); *see also, e.g., Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127 (1938) (“As the restriction [in the license] was legal and the [patented articles] were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted . . .”). But the issue in *Holiday* was whether, in the absence of such restrictions, the fact that the sale occurred abroad prevented application of the exhaustion doctrine.²

At the time, the English courts had held that their equivalent of the patent exhaustion doctrine applied equally to foreign sales. In *Betts v. Willmont*, for instance, Lord Hatherley held that, “inasmuch as [the patentee] has the right of vending the goods in *France or Belgium or England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser

² Omega has argued that some of the watches at issue in this litigation were “sold overseas under distribution agreements that restricted resale to specific geographic territories outside the United States.” BIO 3 n.1. The Ninth Circuit did not, however, invoke these alleged contractual limitations in ruling against Costco but instead held that the first-sale doctrine *never* applies to goods manufactured and sold abroad. Intel takes no position on the relevance *vel non* of any alleged contractual limitations in this case.

pleases.” 6 Law Reports 239, 245 (Ch. App. 1871) (emphases in original), *available at* 1871 WL 12598.

Holiday reached the same conclusion as the English courts. Deeming it “quite immaterial whether the thing sold is a patented article or not,” the court held that, “if the [patentee] sells without reservation or restriction, he parts with his monopoly so far as it can in any way qualify the rights of the purchaser.” 24 F. at 185. Thus, the original purchaser “acquire[d] the right of unrestricted ownership in the article he buys as against the [patentee], including, as an inseparable incident, the right to use and enjoy it, and to transfer his title to others.” *Id.* at 186.

The Second Circuit subsequently adopted *Holiday*’s reasoning. In *Dickerson*, the court held:

A purchaser in a foreign country of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions upon the extent of his use or power of sale, acquires an unrestricted ownership in the article, and can use or sell it in this country.

57 F. at 527; *see also Curtiss Aeroplane*, 266 F. at 78 (holding that “where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country.”). The court explained that, “[a]s the [patentee] has already been paid for [the patented article], it is no longer concerned about the price at which the article is sold, or whether the article is kept in Canada, or in Great Britain, or in the United States.” *Curtiss Aeroplane*, 266 F. at 79.

The patented articles in both *Dickerson* and *Curtiss Aeroplane* were manufactured and sold outside

the United States. See *Dickerson*, 57 F. at 525 (involving imported “benzo-purpurine, made under . . . letters patent by the Berlin Company” in Germany); *Curtiss Aeroplane*, 266 F. at 72 (noting that the “aeroplanes which are said to infringe were made in Canada for the British government . . . , and that after the war defendant purchased them from the British government, and . . . is now proceeding to sell them in the United States”). But neither decision regarded the location of manufacture or sale as relevant to the patent exhaustion doctrine. Instead, both cases held that exhaustion was triggered by the initial authorized sale—even though it occurred abroad and involved items manufactured abroad.

The decisions in *Holiday*, *Dickerson*, and *Curtiss Aeroplane* remained authoritative throughout the twentieth century. See, e.g., *Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (holding that the patent exhaustion doctrine “applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States”); *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 937–38 (D.N.J. 1983) (relying on the patent exhaustion doctrine to deny an “injunction against distribution in this country of the product that [the patentee] sold in France without restriction”). And, consistent with these decisions, the leading commentators on patent law recognized that “exhaustion of United States patent rights may occur if a sale in a foreign country is unrestricted and the seller holds the patent rights to sell in the United States as well

as in the foreign country.” 5 Donald S. Chisum, *Chisum on Patents* § 16.05[3][a][ii], at 16-242 (2001).³

C. When the first-sale doctrine was enacted in the Copyright Act of 1909 and again in the Copyright Act of 1976, the federal courts recognized that the exhaustion doctrine applied to authorized sales by the United States patentee, regardless of whether the goods were manufactured and sold abroad. The Court should construe the Copyright Act’s first-sale doctrine in light of this contemporaneous understanding of the analogous doctrine in patent law.

This Court has emphasized that “[s]tatutory construction . . . is a holistic endeavor,” and therefore “[a] provision that may seem ambiguous in isolation is often clarified . . . because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law.” *United Sav. Ass’n of Tex. v. Timbers of Inwood Forest Assocs.*, 484 U.S. 365, 371 (1988). Congress codified the common-law first-sale doctrine for copyrights at a time when the parallel doctrine in patent law was consistently understood as applying equally to goods manufactured and sold abroad. Nothing in Section 109(a) or

³ See also, e.g., 3 Peter D. Rosenberg, *Patent Law Fundamentals* § 18.05[1], at 18-56 (2d ed. 2001) (noting that the patent exhaustion doctrine “applies to an authorized first sale abroad by a patent owner or licensee that also has the right to sell in the United States”); David S. Safran, *Protection of Inventions in the Multinational Marketplace: Problems and Pitfalls in Obtaining and Using Patents*, 9 N.C. J. Int’l L. & Com. Reg. 117, 126 (1983) (“It has long been recognized that th[e] [patent exhaustion] doctrine is not restricted to situations when a U.S. patentee has sold his goods within the United States, but also applies to the unrestricted sale of goods outside of the United States.”).

its legislative history indicates that Congress intended to create a different first-sale regime for copyrights from the one that was well settled in a related area of intellectual-property law. This Court should not interpret Section 109(a) as doing so *sub silentio*.

III. THIS COURT’S DECISION IN *QUANTA* MAKES CLEAR THAT APPLICATION OF THE FIRST-SALE DOCTRINE TO GOODS MANUFACTURED AND SOLD ABROAD DOES NOT VIOLATE THE PRESUMPTION AGAINST EXTRATERRITORIAL EFFECT.

The Ninth Circuit below concluded that applying the first-sale doctrine to goods manufactured and sold abroad would result in an impermissible extraterritorial application of the Copyright Act. *See* Pet. App. 11a. The Federal Circuit has invoked the same reasoning to conclude that the patent exhaustion doctrine does not apply to patented goods sold abroad because “the United States patent system does not provide for extraterritorial effect.” *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005); *see also, e.g., Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (*per curiam*).

These recent decisions do not alter the background rule that applied when Congress enacted the first-sale doctrine for copyrights. More importantly, the Ninth Circuit’s extraterritoriality reasoning cannot be affirmed consistent with *Quanta*, which held—unequivocally and without any hint of geographic limitation—that “[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control postsale use of the article.” 128 S. Ct. at 2122. This Court

unanimously applied the patent exhaustion doctrine in *Quanta* even though the bulk of goods at issue were manufactured and sold outside the United States. The Ninth Circuit erred by holding that the analogous first-sale doctrine for copyrights could not be applied to goods manufactured and sold abroad.

A. In *Jazz Photo Corp. v. ITC*, the Federal Circuit held that the patent exhaustion doctrine does not apply to foreign sales. 264 F.3d 1094, 1105 (Fed. Cir. 2001). In that case, Fuji Photo Film charged Jazz Photo and other respondents with patent infringement for refurbishing Fuji’s single-use cameras in overseas facilities and then importing them into the United States for resale. *Id.* at 1098. The Federal Circuit held that Fuji’s patent rights were not infringed by repaired cameras “for which the patent right was exhausted by first sale in the United States,” *id.* at 1110, but reached a different conclusion for “imported [single-use] cameras [that] originated and were sold only overseas,” *id.* at 1105.

Fuji had also raised similar claims of patent infringement against Jazz Photo and others in a separate lawsuit. In that litigation, the defendants argued that “Fuji or its licensees authorized the international first sales” of the cameras, but the Federal Circuit concluded that this was irrelevant because “[t]he patentee’s authorization of an international first sale does not affect exhaustion of that patentee’s rights in the United States.” *Fuji Photo Film*, 394 F.3d at 1376. Instead, the court reaffirmed *Jazz Photo*’s holding that “only [cameras] sold within the United States under a United States patent qualify for the repair defense under the exhaustion doctrine.” *Ibid.* “Fuji’s foreign sales can never occur under a United States patent,” the court explained,

“because the United States patent system does not provide for extraterritorial effect.” *Ibid.*

B. The Federal Circuit’s decisions illustrate how the extraterritoriality reasoning invoked by the Ninth Circuit below has been applied to the patent context. But this Court held in *Quanta* that “[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item” without drawing *any* distinctions regarding the location of that “initial authorized sale.” 128 S. Ct. at 2115.

In *Quanta*, LG Electronics (“LGE”) licensed to Intel several method patents for computer technology. 128 S. Ct. at 2114. The licensing agreement “authoriz[ed] Intel to ‘make, use, sell . . . or otherwise dispose of its own products practicing the LGE Patents.” *Ibid.* (quoting Br. for Pet’rs 8). Intel produced microprocessors and chipsets that would practice the LGE patents when incorporated into computer systems following Intel’s specifications. *Id.* at 2119. It sold these components to Quanta, which in turn “manufactured computers [combining the Intel processors and chipsets] with non-Intel memory and buses in ways that practice the LGE Patents.” *Id.* at 2114. Quanta “d[id] not modify the Intel components and follow[ed] Intel’s specifications to incorporate the parts into its own systems.” *Ibid.* LGE sued Quanta, alleging that the “combination of the Intel Products with non-Intel memory and buses infringed the LGE Patents.” *Ibid.*

This Court first held that the patent exhaustion doctrine applies to method patents, like the LGE patents at issue. 128 S. Ct. at 2117–18. The Court emphasized that “[e]liminating exhaustion for method patents would seriously undermine the exhaustion

doctrine,” as patentees “could simply draft their patent claims to describe a method rather than an apparatus.” *Id.* at 2117. This “end-run around exhaustion” was aptly illustrated in *Quanta*: “[A]lthough Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could [on LGE’s theory] nonetheless be liable for patent infringement.” *Id.* at 2118. The Court concluded that “[s]uch a result would violate the longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.’” *Ibid.* (quoting *Adams*, 84 U.S. (17 Wall.) at 457) (emphasis and second alteration in original).

The Court next considered “the extent to which a product must embody a patent in order to trigger exhaustion,” concluding that “exhaustion [is] triggered” by the authorized sale of a product that “embodie[s] essential features of [the] patented invention” and whose “only reasonable and intended use [is] to practice the patent.” 128 S. Ct. at 2118–19 (quoting *Univis*, 316 U.S. at 249–51) (third alteration in original). The Intel components “substantially embodie[d] the patent because the only step necessary to practice the patent is . . . the addition of standard parts.” *Id.* at 2119.

As for the Intel components’ potential uses, the Court concluded that “LGE has suggested no reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents.” 128 S. Ct. at 2119. LGE argued that the Intel components “would not infringe its patents if they were sold overseas,” but the Court emphasized that “the question is whether the product is ‘capable of use only in *practicing* the patent,’ not

whether those uses are infringing.” *Id.* at 2119 n.6 (quoting *Univis*, 316 U.S. at 249) (emphasis in original). Even if “outside the country,” “the Intel Products would still be *practicing* the patent, even if not infringing it.” *Ibid.* (emphasis in original).

C. This Court held in *Quanta* that the “authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control postsale use of the article.” 128 S. Ct. at 2122. This holding forecloses any effort to cabin the patent exhaustion doctrine to goods manufactured or sold in the United States. Because that is the necessary consequence of the Ninth Circuit’s extraterritoriality reasoning as applied to the patent context, the Ninth Circuit’s decision cannot be affirmed consistent with *Quanta*.

1. The Federal Circuit has attempted to reconcile extraterritoriality-based limitations with *Quanta* by asserting that *Quanta* “did not involve foreign sales.” *Fujifilm*, 605 F.3d at 1371. This factual claim is incorrect: Before the Federal Circuit, LGE had argued that the district court erred in failing to “restrict its ruling to U.S. sales,” noting that “[a] significant portion of the chips Intel sells are manufactured and sold abroad.” Br. for Appellant at 31 n.5, *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), available at 2005 WL 1397821. This Court was “aware that some sales under the license agreement were made overseas,” *LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1045 (N.D. Cal. 2009), and indeed LGE expressly argued in *Quanta* that “Intel Products would not infringe the patents if they were sold overseas,” 128 S. Ct. 2119 n.6. That this Court was “aware of foreign sales of the Intel parts, yet declined to limit its holding to sales in the

United States, suggests that interpreting *Quanta* so as to impose such a limitation would be incorrect.” *LG Elecs.*, 655 F. Supp. 2d at 1045.

There was no need for this Court to restrict its reasoning in *Quanta* to goods manufactured or sold domestically for a simple and obvious reason: Applying the exhaustion doctrine to goods manufactured and sold abroad “does not amount to giving extraterritorial effect to the patent law.” *LG Elecs.*, 655 F. Supp. 2d at 1047.

As this Court has recognized, the fact that “[o]ur patent system makes no claim to extraterritorial effect” means that United States patents are granted “only over the United States market” and thus do not provide an “inventor [with] protection in markets other than those of this country.” *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 523, 531 (1972); see also, e.g., *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915) (“The right conferred by a patent under our law is confined to the United States and its territories, and infringement of this right cannot be predicated of acts wholly done in a foreign country.” (citation omitted)). This Court explained in *Quanta*, however, that the “question [for patent exhaustion] is whether the product is ‘capable of use only in practicing the patent,’ not whether those uses are infringing.” 128 S. Ct. at 2119 n.6 (quoting *Univis*, 316 U.S. at 249) (emphasis in original). When a foreign-made product subject to a United States patent is sold abroad by the holder of that patent, it is not an infringement in the foreign country—but the product *can* practice the patent, and that is the relevant inquiry for exhaustion.

According to the Federal Circuit, *Quanta* “emphasizes that *Univis* required the product’s only use

be for practicing—not infringing—the patent; and a practicing use may be ‘outside the country,’ while an infringing use must occur in the country where the patent is enforceable.” *Fujifilm Corp.*, 605 F.3d at 1372. But this ignores that the relevant “infringing use” occurs only in the United States: *Quanta*—like this case—arose precisely because the defendants ultimately sold the allegedly infringing articles here. *See, e.g.*, J.A. 37.

The same is true in the copyright context. It does not attach extraterritorial effect to the copyright laws, as the Ninth Circuit believed, to apply the first-sale doctrine to goods manufactured and sold abroad when the alleged infringement—and thus the activity to which the copyright laws are being applied—occurs in the United States. *See Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 145 n.14 (1998) (noting that “the owner of goods lawfully made under the [Copyright] Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad” and that “[s]uch protection does not require the extraterritorial application of the Act”).

2. Reading an implicit exception into *Quanta* for goods manufactured and sold abroad would, moreover, “permit the type of ‘end-run around exhaustion’ disapproved in *Quanta*, because ‘any downstream purchasers’ of [a patented] product could be liable for infringement even though the product had been ‘once lawfully made and sold.’” *LG Elecs.*, 655 F. Supp. 2d at 1045 (quoting *Quanta*, 128 S. Ct. at 2118).

Intel manufactures substantial amounts of its products in foreign locations. On the Ninth Circuit’s extraterritoriality reasoning as applied to the patent context, the patent exhaustion doctrine would not

apply to *any* of the Intel microprocessors and chipsets that were manufactured in these foreign facilities and then sold to Quanta, a foreign manufacturer, in a foreign country. Thus, the American purchasers of Quanta's computers containing these microprocessors and chipsets could not use those computers without infringing LGE's patents—or, indeed, Intel's own patents. This is precisely the result that *Quanta* sought to avoid. 128 S. Ct. at 2118.

In this respect, shifting the focus of the exhaustion doctrine from authorization to the location of the manufacture or first sale would have dire consequences in the modern global economy. Particularly in high-tech industries, worldwide licenses are essential because of the number of countries involved in the manufacturing process and the number of components involved in complex electronic products. An individual computer can include components from a dozen or more companies. Any one of those components may be manufactured in one country, packaged in a second country, sold in a third country, and combined into third-party products in a fourth country before ultimately being imported into the United States for sale. For this reason, Intel and other companies often enter into license agreements that cover a licensor's worldwide patents (or some subset of them)—and, of course, pay a premium for those licenses. To hold that these worldwide licenses can never exhaust United States patent rights merely because the first sale occurred abroad would permit the ultimate “end-run around exhaustion” (128 S. Ct. at 2118), escalating the location of the first sale above even the express authorization of the patentee.

Yet this “end-run around exhaustion” (128 S. Ct. at 2118) is hardly the only untoward consequence that would flow from limiting patent exhaustion to

products made or sold in the United States. As in *Quanta*, the patentee could avoid the exhaustion doctrine altogether through relatively simple changes in its operations, such as manufacturing its goods in overseas factories and shipping them to the United States free on board ships at a foreign port. See *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1374 n.3 (Fed. Cir. 2005) (noting that “free on board” is a “method of shipment whereby goods are delivered at a designated location, usually a transportation depot, at which legal title and thus the risk of loss passes from seller to buyer”). Yet such an implicit reservation of seller’s rights in United States patents undermines the “longstanding principle,” reaffirmed in *Quanta*, “that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.’” 128 S. Ct. at 2118 (quoting *Adams*, 84 U.S. (17 Wall.) at 457) (emphasis omitted; alteration in original); see also, e.g., *Keeler*, 157 U.S. at 666 (“[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, *unrestricted in time or place.*” (emphasis added)).

In short, *Quanta* recognized the danger of creating limitations in the patent exhaustion doctrine that any patentee could exploit to defeat exhaustion altogether. Yet this is precisely the result that would occur if the Ninth Circuit’s extraterritoriality reasoning were affirmed and applied to the patent context, as the Federal Circuit has done. The Ninth Circuit’s decision therefore cannot be affirmed consistent with *Quanta*.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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