

No. 08-1423

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IN THE  
**Supreme Court of the United States**

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COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

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ON WRIT OF CERTIORARI TO THE  
UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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**BRIEF OF FUJIFILM CORPORATION, SEIKO  
EPSON CORPORATION, EPSON AMERICA, INC.  
AND EPSON PORTLAND INC. AS *AMICI CURIAE* IN  
SUPPORT OF RESPONDENT**

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**INTEREST OF *AMICI CURIAE***<sup>1</sup>

The issue in this case is whether the Copyright Act’s first sale doctrine, which is codified at 17 U.S.C. §109(a), applies to goods that were both manufactured and sold abroad by the owner of the U.S. copyright and imported subsequently without its authorization.

*Amicus* Intel Corporation (“Intel”), while paying lip service to the issue before this Court, devotes the great bulk of its brief to the assertion that this Court should draw guidance from the way U.S. patent rights are exhausted by a U.S. patent owner’s first sale of a patented product under the U.S. patent laws. More significantly, Intel incorrectly argues that *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 128 S.Ct. 617 (2008), addressed the issue of whether a foreign sale, which would not infringe a U.S. patent, can nevertheless exhaust a U.S. patent that was not implicated in any way by the foreign sale. In so doing, Intel is improperly attempting to convert the instant case, which involves statutory construction of provisions of the Copyright Act, into a back-door treatment of an issue not even raised by Petitioner Costco Wholesale Corp. (“Costco”), the scope and applicability of a court-developed doctrine not codified in the U.S. patent laws (the patent first sale doctrine). *Amicus* American

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

Intellectual Property Law Association (“AIPLA”), while devoting most of its brief to the Copyright Act construction issue, makes a similar argument. AIPLA Br. at 36-38.

FUJIFILM Corporation (“Fujifilm”) is the world’s largest photographic and imaging company. Fujifilm operates the imaging and information businesses previously operated by Fuji Photo Film Co., Ltd., founded in 1934. Fujifilm’s products and industries include cameras, film, electronic imaging, photofinishing equipment, medical systems, life sciences, graphic arts, flat panel display materials, and office products. Fujifilm or its predecessor was the successful plaintiff in *Jazz Photo Corp. v. Int’l Trade Comm’n*, 264 F.3d 1994 (Fed. Cir. 2001), cert. denied, 536 U.S. 950 (2002) (“*Jazz v. ITC*”), *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005) (“*Fuji v. Jazz*”) and *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010) (per curiam) (“*Fujifilm v. Benun*”), which *Intel* alleges were all overruled *sub silencio* by this Court’s decision in *Quanta*. Fujifilm has a substantial interest in maintaining those cases in force.

Fujifilm was among the top twenty-five companies around the world in obtaining U.S. patents in 2009, and has a substantial portfolio of copyrighted works. Fujifilm manufactures and sells products covered by its U.S. patents and copyrights in the United States. Fujifilm also has manufacturing facilities and sales outside the United States.

Seiko Epson Corporation is a global innovation leader that invents, manufactures and sells a wide array

of consumer, commercial, and industrial products. Its high-precision technology products include inkjet printers, LCD monitors, semiconductors, and factory automation robots. In 2009 alone, the United States Patent and Trademark Office granted over 1,300 U.S. patents to Seiko Epson Corporation. Epson America, Inc. and Epson Portland Inc. are the exclusive licensees of the rights to distribute and manufacture, respectively, under some of those U.S. patents.<sup>2</sup>

Like *Amicus* Fujifilm, Epson manufactures and sells products covered by its U.S. patents both inside and outside of the United States. As a leading technology innovator, Epson has a strong interest in ensuring that its rights under its U.S. patents are given full effect, and Epson has vigorously enforced its intellectual property rights in federal courts and the United States International Trade Commission to do so. As a global company participating in international markets, Epson joins this *Amicus* brief to urge that this Court reject Intel's invitation to address common law patent issues when no such issue is before it.

As companies built on innovation, *amici* Fujifilm and Epson have an interest that the Constitution's requirement that the laws of this country "promote the progress of science and useful arts," (Art. I Sect. 8, cl. 8), be given its full effect, and that U.S. copyright and patent owners be permitted to both enjoy the constitutionally based benefits of those patents and copyrights in the United States, while also selling goods

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2. *Amici* Seiko Epson Corporation, Epson America, Inc., and Epson Portland Inc. are referred to herein as "Epson."

in foreign markets, where those U.S. copyrights and patents have no impact.

Accordingly, *amici* Fujifilm and Epson's interest is also to ensure that this Court resolve the copyright issue presented, which is whether the making and selling of a copyrighted work overseas by the owner of the United States copyright is nevertheless, "lawfully made under [Title 17]" and is therefore covered by Section 109(a)'s exception to the general ban on unauthorized importation.

### SUMMARY OF ARGUMENT

This Court rejected resort to patent law in resolving a copyright first sale doctrine issue in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345-46 (1908). The question before this Court is *not* whether *Quanta* overruled the Federal Circuit's patent first sale doctrine, stated and applied in *Jazz v. ITC*, *Fuji v. Jazz* and *Fujifilm v. Benun*. Accordingly, this Court's decision should not include any *dicta* regarding the state of the law of foreign exhaustion of patents, because that issue is not before it. It is both improper and inequitable for Intel to ask this Court to expressly overrule these cases, which span nine years of jurisprudence, in a case where neither it nor Fujifilm is a party and the patent first sale doctrine was neither argued nor considered below.

Nonetheless, this Court's decision in *Quanta* did not decide the issue of patent exhaustion resulting from sales outside the United States. Therefore, the law of patent exhaustion resulting from foreign sales is governed by *Boesch v. Graff*, 133 U.S. 697 (1890), *Keeler*

*v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), *Fujifilm v. Benun*, *Fuji v. Jazz*, *Jazz v. ITC* and other cases discussed herein. These cases confirm that when a sale takes place outside the United States and the patent owner has not authorized importation into the U.S., the sale does not exhaust any U.S. patents, even when the seller is the owner of that U.S. patent, because that seller obtained no royalty and derived no benefit from his or her U.S. patent. Accordingly, if it were appropriate to use the U.S. patent laws for guidance, then that guidance would dictate that when copies of copyrighted works are made and sold outside the United States and the U.S. copyright holder has not obtained any benefit from his or her U.S. copyright when the copies were made and sold, then the U.S. copyright holder has not exhausted their U.S. copyright, and the importation of such works is an infringement of the U.S. copyright.

The copyright first sale doctrine's reference to "lawfully made under this title," as stated in Section 109(a) (17 U.S.C. § 109(a)), plainly means that only the owner of a particular copy or phonorecord made in the United States may sell or otherwise dispose of the possession of that copy or phonorecord in the United States, unless the copyright owner authorizes the sale or distribution in the United States or one of the exceptions set forth in 17 U.S.C. § 602(a)(3) applies. This interpretation is consistent with former Section 602(a) (now Section 602(a)(1), 17 U.S.C. § 602(a)(1)), and *Quality King Distributors, Inc. v. Lanza Research Int'l*, 523 U.S. 135, 145 (1998).

**ARGUMENT****I. PATENT EXHAUSTION SHOULD NOT BE CONSIDERED BY THE COURT****A. The Patent Exhaustion Question Raised By *Amicus* Intel Is Not “Fairly Included” In The Question Presented**

Supreme Court Rule 14.1(a) states that the Court will consider “[o]nly the questions set out in the petition, or fairly included therein . . . .” Supreme Court Rule 14.1(a). *Amicus* Intel raises a patent exhaustion question that is neither the question presented nor “fairly included therein,” and therefore should not be reviewed by this Court.

In the present matter, the question presented is limited to the Copyright Act’s first sale doctrine, codified as 17 U.S.C. § 109(a). As set forth in Costco’s Brief, the question presented on certiorari is:

Under the Copyright Act’s first-sale doctrine, 17 U.S.C. § 109(a), the owner of a copy “lawfully made under this title” may resell that copy without the authority of the copyright holder. In *Quality King Distribs., Inc. v. Lanza Research Int’l, Inc.*, 523 U.S. 135, 138 (1998), this Court held that “the ‘first sale’ doctrine endorsed in § 109(a) is applicable to imported copies.” In the decision below, the Ninth Circuit held that *Quality King* is limited to its facts, which involved goods manufactured in the United States, sold

abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

While Costco cites *Quanta* twice, it never advances the argument that *Quanta* dictates the result in this case argued by Intel. Costco Br. at 4, 47, n.23. The most that Costco argues is that: “Analogous concerns are present here.”

Despite this narrow question presented, *Amicus* Intel improperly urges the Court to consider an unrelated and unrepresented question relating to patent exhaustion. Intel’s patent exhaustion question is clearly neither the question presented nor “fairly included therein.”

In *Yee v. City of Escondido*, this Court explained its approach in determining whether a question is “fairly included” in the question presented. 503 U.S. 519, 537 (1992). In performing its analysis, this Court considered whether either question was subsidiary to the other by examining whether the questions exist “side by side,” or encompass each other. *Id.* In *Yee*, the question presented was “[d]id the court below err in finding no physical taking?” *Id.* The petitioners argued the Court should also determine whether a regulatory taking occurred. This Court found that while whether a regulatory taking occurred was perhaps “*complementary*,” it was not fairly included because:

Consideration of whether a regulatory taking occurred would not assist in resolving whether a physical taking occurred as well: neither of the two questions is subsidiary to the other. Both might be subsidiary to a question embracing both – Was there a taking? – but they exist side by side, neither encompassing the other.

*Id.* (citations omitted).

Similarly here, although copyright exhaustion and patent exhaustion may be subsidiary to a question embracing both — *e.g.*: Was there exhaustion where both a patent and a copyright covered the product at issue? — they certainly are not subsidiary to each other in a case where a patent is not involved.

While Intel’s issue of patent exhaustion, in theory and in an appropriate case, may exist side-by-side with copyright exhaustion, it is not subsidiary to, nor encompassed by, the copyright question presented here. The question presented on *certiorari* is limited to statutory interpretation of the Copyright Act. However, Intel’s unrepresented question concerns a separate and distinct body of law, i.e., patent law. This Court has made it clear that questions of patent law and copyright law are generally not subsidiary to each other:

There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which



relate to the one subject are not altogether controlling as to the other.

*Bobbs-Merrill*, 210 U.S. at 346 (quoting *John D. Park & Sons Co. v. Hartman*, 153 Fed. 24, 28 (6th Cir. 1907)).

It is telling that *Bobbs-Merrill* involved the issue of whether there was a first sale doctrine in copyrights, a question that this Court answered by statutory construction. 210 U.S. at 346. Specifically, neither the patent nor copyright first sale doctrine question is subsidiary to the other, i.e., interpretation of the patent first sale doctrine is not necessary to address the question presented regarding the first sale doctrine with respect to copyrights, and *vice-versa*. Thus, Intel's patent exhaustion question is not subsidiary to the question presented, and is therefore not "fairly included therein."

Furthermore, Intel argues that its unrepresented patent exhaustion question exists "side-by-side" with the copyright question presented. Intel argues that "The First-Sale Doctrine In The Patent Context Provides Helpful Guidance For This Court In Interpreting The *Parallel* Doctrine For Copyrights." Intel Br. at 4 (emphasis added). The very definition of "parallel" implies a "side-by-side" existence. In declining to address the unrepresented question in *Yee*, this Court found that a question that was "*related* to the one petitioners presented, and perhaps *complementary* to the one petitioners presented" was not "fairly included therein." *Yee*, 503 U.S. at 537 (emphasis in original). Similarly, although Intel's unrepresented patent first sale question may arguably (although *amici* Fujifilm and

Epson contend it is not) be “related” or “complementary” to the copyright question presented, it is clearly not “fairly included therein,” and therefore should not be addressed by this Court.

Equally important is that Intel ignores the admonition in *Bobbs-Merrill* that:

If we were to follow the course taken in the argument [of appellant] and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that that character shall be presented to this court.

210 U.S. at 345. Intel would have this Court not merely “embarrass” the consideration of the patent first sale doctrine as repeatedly stated by the Federal Circuit over a nine-year period, that patent exhaustion requires an authorized first sale in the United States. *Fujifilm v. Benun*, 605 F.3d at 1371 (expressly considering the effect of *Quanta*); *Fuji v. Jazz*, 394 F.3d at 1376; *Jazz v. ITC*, 264 F.3d at 1105. Intel would have this court, by *dicta*, overrule the Fujifilm line of Federal Circuit cases, which were not at issue in *Quanta*, without full exploration of the issue below and in the absence of Fujifilm as a party.

**B. This Court Should Not Disregard Its Rule 14.1(a)**

Supreme Court Rule 14.1 (a) creates a heavy presumption against consideration of questions not properly before the Court. The present matter is not an exceptional case that merits disregarding Rule 14.1(a). *Id.* As noted above, Rule 14.1(a) states that the Court will consider “[o]nly the questions set out in the petition, or fairly included therein . . . .” Supreme Court Rule 14.1(a). This Court has explained that although this “rule is prudential in nature,” it is to be disregarded “only in the most exceptional cases,’ where reasons of urgency or of economy suggest the need to address the unrepresented question in the case under consideration.” *Yee*, 503 U.S. at 535 (quoting *Stone v. Powell*, 428 U.S. 465, 481, n.15 (1976)). The instant action is clearly not such an “exceptional case.”

There are no reasons of urgency or economy that would suggest a need for this Court to address the unrepresented question regarding the patent first sale doctrine raised by *amicus* Intel. As this Court also pointed out in *Yee*, prudence dictates awaiting a case in which the issue was fully litigated below, so that the Court will have the benefit of developed arguments on both sides and the lower court opinion squarely addressing the question. *Yee*, 503 U.S. at 535-36. Neither party has briefed this question or asked the Court to address this unrepresented question. Furthermore, Intel has not set forth any arguments detailing why the present matter is an “exceptional case” that warrants consideration of an unrepresented question. There is nothing exceptional about the instant matter, and the

Court should not review any questions beyond the question presented by Costco.

Further, review of this unrepresented patent first sale doctrine question would be a waste of this Court's resources. This Court has explained that a purpose of Rule 14.1(a) is to ensure that the Court's resources are used "most efficiently" by discouraging parties from wasting "briefing space and argument time with discussion of issues other than the one on which certiorari was granted" so that the parties can "focus on the questions the Court has viewed as particularly important . . . ." *Yee*, 503 U.S. at 536. This Court also has noted that Rule 14.1(a) serves to "inform those who seek review here that we continue to strongly 'disapprove of the practice of smuggling additional questions into a case after we grant certiorari.'" *Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp.*, 510 U.S. 27, 34 (1993) (quoting *Irvine v. California*, 347 U.S. 128, 129 (1954)). In its *Amicus* brief, Intel attempts to "smuggle" the patent first sale issue and whether it was decided by *Quanta* into this appeal. This Court has granted certiorari solely on the question regarding the copyright law's first sale doctrine, and the Court should not waste its resources addressing the unrelated and unrepresented patent first sale doctrine questions raised by *amicus* Intel.

Finally, it has been the routine practice of this Court not to consider unrepresented questions raised by an *amicus*. See, e.g., *Lopez v. Davis*, 531 U.S. 230, 244 n.6 (2001) (declining to address a matter urged by *amici* because it was "not raised or decided below, or presented in the petition for certiorari."); *United Parcel*

*Service, Inc. v. Mitchell*, 451 U.S. 56, 61 n.2 (1981) (declining to consider an argument raised by an *amicus* “since it was not raised by either of the parties here or below.”); *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 25 n.2 (1991) (declining to address a question raised by several *amici* because it was not raised in the courts below, and was not among the questions presented). In the rare instances that this Court has considered unrepresented questions raised by an *amicus*, there were factors that justified disregarding Rule 14.1(a). For example, in *Teague v. Lane*, this Court considered an unrepresented question of retroactivity raised only by an *amicus* because it was “not foreign to the parties, who have addressed retroactivity with respect to petitioner’s Batson claim.” 489 U.S. 288, 300 (1989). Additionally, in *Capital Cities Cable, Inc. v. Crisp*, the Court considered an unrepresented question raised by an *amicus* because it “was plainly raised in petitioners’ complaint, it was acknowledged by both the District Court and the Court of Appeals, the District Court made findings on all factual issues necessary to resolve this question, and the parties have briefed and argued the question pursuant to our order.” 467 U.S. 691, 697-98 (1984). Here, no such special circumstances exist to warrant disregarding Rule 14.1(a).

## II. THE STATE OF THE LAW OF FOREIGN EXHAUSTION

Even if the Court decides to use patent exhaustion in determining whether the copyright first sale doctrine applies to copies that were both made and sold abroad, U.S. patent law would mandate a finding that the

copyright owner's right has not been exhausted by a first sale outside the United States.

### **A. The Symmetry Between Exhaustion And Infringement**

There is a necessary symmetry to many aspects of the patent law. That which infringes if later, anticipates if before.<sup>3</sup> Insignificant differences between an accused product and a literal patent claim do not prevent the product from infringing under the doctrine of equivalents<sup>4</sup> and insignificant differences between a prior art reference and a claim do not prevent the prior art from invalidating the claim under the doctrine of obviousness.<sup>5</sup> A sale that infringes a patent, if sold by one unauthorized by the patent owner, exhausts the patent if sold by one authorized by the patent owner.<sup>6</sup> A sale that causes contributory infringement (because the product has no substantial noninfringing use) of a patent if unauthorized by the patent owner, exhausts the patent if sold by one authorized. *Quanta*, 128 S.Ct. at 2116-7, 2119.

The symmetry implicit in this Court's holding in *Quanta*, that sales that would cause contributory infringement if unauthorized, exhaust patent rights if authorized, confirms why foreign sales by the U.S.

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3. *Peters v. Active Mfg. Co.*, 129 U.S. 530, 537 (1889).

4. *Voda v. Cordis Corp.*, 536 F.3d 1311, 1326 (Fed. Cir. 2008).

5. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 401-02 (2007)

6. *Jazz v. ITC*, 264 F.3d at 1105.

patent owner do not exhaust U.S. patent rights. Section 271(c) of the U.S. Patent Law establishes that for a sale to be a contributory infringement, that sale must occur in the United States:

Whoever offers to sell or sells **within the United States** or imports **into the United States** a component of a patented machine . . . . knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c) (emphasis added). Therefore, because sales outside the United States of a non-staple component of a patented product do not infringe U.S. patents, they cannot exhaust U.S. patent rights if importation into the U.S. is not authorized by the patent owner.

In accordance with the foregoing, it clearly follows: sale of a product that does not infringe a U.S. patent because the sale occurred outside of the United States, does not exhaust the U.S. patent even if sold by one authorized by the U.S. patent owner, unless the patent owner also authorized resale of that product in the United States. A foreign sale does not confer the U.S. patent owner with any benefit, such as a royalty, monopoly profit or otherwise under his U.S. patent. A U.S. patent owner cannot use its U.S. patent to enjoy the exclusive right to its invention in foreign markets. The owner cannot exact royalties from its competitors

on foreign sales that would have infringed the U.S. patent if sold in the United States, unless it owns a patent in that foreign market. Accordingly, there is no basis for holding that a foreign sale by the U.S. patent owner exhausted his or her patent rights.

**B. Only Authorized Sales In Or To The U.S. Exhaust A U.S. Patent Because Only Such Authorized Sales Provide A Benefit To The U.S. Patent Owner**

This Court has never held that a foreign sale, authorized by the U.S. patent owner, exhausts the U.S. patent if resale in the U.S. is not also authorized. The law in this country has always been that the patent laws are not extraterritorial. *E.g. Microsoft*, 550 U.S. at 454-55. Moreover, three times, over nine years, the Federal Circuit has confirmed that foreign sales of a product under the authority of the U.S. patent owner do not exhaust a U.S. patent, absent the patent owner authorizing the importation of the patented article.<sup>7</sup> *Fujifilm v. Benun*, 605 F.3d at 1371; *Fuji v. Jazz*, 394 F.3d at 1376; *Jazz v. ITC*, 264 F.3d at 1105. These rulings unequivocally state that U.S. patent rights are only exhausted when the patentee (or its authorized licensee) sells or authorizes the sale of the patented article in the United States. They explain that the patent owner

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7. This is the patent first sale rule that Intel would have this Court overrule by *dicta*. Intel improperly equates this patent first sale rule with “patent exhaustion.” Intel Br. 3. In fact, this patent first sale rule defines a circumstance where exhaustion of a U.S. patent does **not** occur. There is no dispute that an authorized sale of a patented product in the United States does exhaust the patent as to that specific product.



derives a benefit from their U.S. patent rights only by virtue of such authorized U.S. sale and that an unauthorized sale of the product in the U.S. is an infringement of the U.S. patent. The first sale doctrine remains the controlling rule of law to be applied in patent cases and this doctrine was not affected by the holding in *Quanta*.

Intel's Brief confirms that the basis for patent exhaustion is the benefit derived from the U.S. patent. Intel Br. at 8. Intel explains that under *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942), patent exhaustion results "once [the patent owner] has been compensated for its United States patent rights." *Id.* Clearly, the sale of a patented product by the patent owner in the United States permits the patent owner to be compensated by charging higher prices due to the lack of competition or to receive a royalty from a licensee. However, when the owner of a U.S. patent sells a product overseas, it is in no way compensated for its U.S. patent. The U.S. patent owner must compete head-to-head with its competitors and it cannot charge higher prices as a benefit of its U.S. patent. It is manifestly unfair to permit a foreign purchaser, who bought products at a low price because the U.S. patent owner had no benefit of his U.S. patent, to resell the products in the United States with no concern for the U.S. patent.

The cases of this Court are consistent that while a U.S. patent owner is entitled to but one benefit from their U.S. patent, it is nevertheless entitled to that one benefit. *See, e.g. Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863); *United States v. Masonite Corp.*, 316

U.S. at 278; *Boesch*, 133 U.S. at 702-703; *Keeler*, 157 U.S. at 664-65; *Microsoft*, 550 U.S. at 454-56.

Our decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article . . . . Whether the licensee sells the patented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it, he has . . . . parted with his patent monopoly in either case, and has received in the purchase price every benefit of that monopoly which the patent law secures to him.

*United States v. Univis Lens Co.*, 316 U.S. 241, 251-52 (1942).

When the U.S. patent owner sells a product covered by its own U.S. patent in the United States, it obtains no royalty, but derives the benefit of monopoly pricing from the lack of competition from unlicensed infringing products. *See Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 434, 450 (D.N.J. 2003). Granting the patentee the right to a benefit, such as obtaining royalties or monopoly profits from restricted competition, is what the Constitution refers to as “promot[ing] the progress of science and useful arts,” Art. I, Sect. 8, Cl. 8.

A U.S. patent owner derives no benefit from its U.S. patent when it competes in foreign markets. “United

States patent laws ‘do not, and were not intended to, operate beyond the limits of the United States[.]’ *Fuji v. Jazz*, 394 F.3d at 1376 (quoting *Int’l Rectifier Corp. v. Samsung Elecs. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004) and *Brown v. Duchesne*, 60 U.S. 183, 195 (1856)). “[F]oreign sales can never occur under a United States patent.” *Fuji v. Jazz*, 394 F.3d at 1376 (emphasis added).

This Court has confirmed that foreign sales do not occur “under” a U.S. patent, given that U.S. patent rights generally do not apply extraterritorially. For example, in *Microsoft*, 550 U.S. at 441 and in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972), the Supreme Court recognized that U.S. patents are not infringed when operations covered by a U.S. patent occur outside U.S. borders. *See also, Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000). For this reason, foreign sales are not benefitted by U.S. patents and therefore, do not exhaust U.S. patent rights.

A foreign first sale, even if by the patent owner or its licensee, does not involve the exercise of any rights under a U.S. patent. Even if the overseas seller possessed the power to sell the product or non-staple component in the United States, the foreign sale would not be an “authorized sale” within the meaning of the patent-exhaustion doctrine unless the foreign first sale was coupled with the patent owner’s authorization to sell the patented product in the United States. *See Fuji v. Jazz*, 394 F.3d at 1376.

Interestingly, Intel’s explanation of the holding in *Boesch* (Intel Br. at 8-9) (relied upon by the Federal Circuit in *Jazz v. ITC*, 264 F.3d at 1105, when it first stated the patent first sale doctrine), establishes exactly why foreign sales outside the reach of the U.S. patent laws do not exhaust U.S. patent rights. Intel explains that in *Boesch*, there was no exhaustion because the U.S. patent owner had never received any benefit from the use of the patented product outside the United States. *Accord, Keeler*, 157 U.S. at 665. As this Court explained in *Keeler*, “neither the patentee [in *Boesch*] nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States” and therefore, the foreign sale did not exhaust the U.S. patent rights. *Id.* Thus, in *Keeler*, this Court confirmed that “no article can be unfettered from the claim of [the patentee’s] monopoly without paying its tribute.”<sup>8</sup> *Id.* at 666-67. Accordingly, it is well settled that enjoying the benefit of a U.S. patent, whether by a royalty or the ability to raise prices because there is no unlicensed competition, is what leads to patent exhaustion, not mere revenue from sales that were in no way benefitted by the U.S. patent.

Intel agrees that patent exhaustion is based on the theory that while a patent owner is entitled to a benefit from his or her patent, the owner is only entitled to one benefit per product sold under that patent, without

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8. In *Keeler*, the patent defendant purchased wardrobe bedsteads from the patent owner in one state and sold them in another where the rights were held by a third party. Nonetheless, the sale exhausted the patent rights in the entire United States.

regard to where the sale takes place. Intel implies that a patent owner does obtain a benefit under its U.S. patent when the owner sells a patented product overseas. However, Intel has not explained how the patent owner benefits from that foreign sale any more than if it had no U.S. patent. For example, when a patent owner with only U.S. and European patents makes a product in China and sells it in Japan, the owner competes with every other manufacturer for that Japanese sale. Having the U.S. patent does nothing to restrict the patent owner's competition in Japan. The U.S. patent owner cannot charge patent monopoly prices in Japan, nor can it demand royalties from the Chinese sales of its competitors. It can charge patent monopoly prices in Europe where it has a patent and demand royalties on sales there, but that is a result of the European patent laws, not the U.S. patent. Rather, the U.S. patent owner obtains no benefit under its U.S. patent for its foreign sales.

Intel contends that this Court's decision in *Boesch* is instructive, but would have this Court draw an unsupported conclusion that is not found anywhere in that decision. Intel correctly states the issue in *Boesch*:

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.

Intel Br. at 9 (*quoting Boesch*, 133 U.S. at 702 (Intel’s emphasis omitted)). This Court in *Boesch* held that because the importer did not have any license or consent from the owners of the U.S. patent, the importation was an infringement of the U.S. Patent.

As Intel suggests, a basis for that holding was that the U.S. patentee never received any royalty under their U.S. patent. However, Intel makes the unsupported leap that if the foreign seller had been the U.S. patent owner, then, this Court would have ruled that there *was* patent exhaustion, even though the U.S. patent owner would remain without any royalty or benefit from his U.S. patent. This surmise finds no support in the *Boesch* decision.

### **III. QUANTA DID NOT ADDRESS FOREIGN PATENT EXHAUSTION**

This Court’s ruling in *Quanta*, may have addressed many issues, but foreign exhaustion was not one of them. *Quanta*, not surprisingly, confirmed earlier Court precedent (*Univis*) that the sale of less than all of the components of a patented combination, that have no substantial noninfringing use, can exhaust a patent. 128 S.Ct. at 2120. It held that patent exhaustion can apply to method patents. *Id.* at 2117-18. It also held that the type of restrictions in LG Electronics Inc.’s (“LG”) license to Intel were ineffective to preclude exhaustion when products were sold under that license. *Id.* at 2121-22. However, it did not hold that foreign sales exhaust U.S. patent rights.

### A. Background: The Patents And Licenses At Issue In *Quanta*

LG is the owner of the three patents at issue in *Quanta* (collectively, the “LG Patents”). *Quanta*, 128 S.Ct. at 2113; see *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1377-78 (Fed. Cir. 2006). The LG Patents relate to systems whereby a microprocessor writes or reads data to or from memory units. *Id.* LG licensed Intel (the “License Agreement”) to make, use, or sell combination products practicing the LG Patents. *Quanta*, 128 S.Ct. at 2114. The License Agreement restricted Intel from passing a license under the LG Patents to any customer to make the patented combination by combining Intel’s unpatented chips with components acquired from a source other than Intel. *Id.* On the other hand, the License Agreement clearly stated that it did not “limit or alter the effect of patent exhaustion that would otherwise apply when [Intel] sells any of its Licensed Products.” *Id.*

Intel and LG also entered into a second “Master” agreement in which Intel agreed to provide written notice to its customers that its license from LG “does not extend, expressly or by implication, to any product that [a subsequent purchaser] make[s] by combining an Intel product with any non-Intel product. *Id.* However, the Master Agreement did not impose an affirmative restriction on Intel’s sales. *Id.* at 2121-22.

Intel sold chips and microprocessors (the “Intel Chips”) to *Quanta*, but not the standard hardware (*e.g.*, wires, buses and memory units) used to connect the Intel

Chips in a working computer, and gave the notice required by the Master agreement. *Id.* at 2114. None of the Intel Chips infringed the LG Patents until assembled with that standard hardware into a computer. However, the Intel Chips were “specifically designed to function only when memory or buses are attached.” *Id.* at 2120. The “only reasonable and intended use [for the Intel Chips] was to practice the [LG Patents].” *Id.* at 2119. In fact, “Intel all but practiced the patent itself by designing its products to practice the patents, lacking only the addition of standard parts.” *Id.* at 2120.

### **B. *Quanta* Did Not Involve Foreign Exhaustion**

The dispute arose after Quanta manufactured computers by combining the Intel Chips with non-Intel wires, buses and memory units, in a way that the assembled computer practiced the LG Patents. The issue this Court resolved was whether those computers infringed the LG Patents or whether Intel's sale of the Intel Chips exhausted LG's rights to patents covering a system containing those chips. Whether the LG Patents would be exhausted if Intel sold its chips outside the United States was **not** at issue and was not ruled on by this Court.

The district court granted Quanta's motion for partial summary judgment. It held that patent exhaustion applied to the sale of unpatented Intel Chips because they had no function except as components in the patented systems. *LG Elecs. Inc. v. Asustek Computer Inc.*, 65 U.S.P.Q.2d 1589, 1598-1600 (N.D. Cal. 2002). The Federal Circuit disagreed. *See LG Elecs., v.*



*Bizcom*, 453 F.3d 1364. It held that the sale of the Intel Chips was not authorized, because their sale was conditioned on an agreement not to combine those chips with non-Intel products. It concluded that the exhaustion doctrine does not apply to an expressly conditioned sale or license, nor to method patents. *Id.* at 1370. Exhaustion based on foreign sales was not addressed.

This Court held that *Univis* governed the case. In *Univis*, this Court found that exhaustion occurs when the only reasonable and intended use of the product sold is to complete the patented combination. *Quanta*, 128 S.Ct. at 2119. This Court found that as with the product at issue in *Univis*, the Intel Chips substantially embodied the patented invention and all but completely practiced the LG Patents because the “only step necessary to practice the patent is the application of common processes or the addition of standard parts.” *Id.* at 2120.

This Court ruled that patent exhaustion applied to method patents (*id.* at 2117),<sup>9</sup> and because Intel was authorized to sell components sufficient to contribute to the infringement of the LG Patents, the doctrine of patent exhaustion prevented LG from asserting its patent rights against Quanta’s computers. Importantly, nothing in *Quanta* in any way addresses the issue of foreign exhaustion.

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9. Unlike its earlier decisions, in *Jazz v. ITC*, the Federal Circuit correctly ruled that patent exhaustion applies to method patents, albeit subject to a method patent version of the first sale doctrine. 264 F.3d at 1108-09.

A careful review of the *Quanta* decision confirms that nowhere does it discuss whether any of Intel's allegedly patent exhausting sales were made outside the United States. The reason for this is clear. The issue of foreign sales was not before this Court. The issue of foreign sales was absent from Petitioner Quanta's opening brief to this Court. It is not until the last page of Respondent LG's 53 page brief, at footnote 19, that the issue of foreign sales even appears. LG merely suggested that "whether the sales of the components took place exclusively outside the United States" was an "open" issue. In its reply, Quanta confirms that the issue of foreign sales was not before this Court:

[LG] also suggests (RespBr-53 n.10) that it might still argue that exhaustion should not apply because these sales may have occurred outside the United States. [LG] has never made this argument before, never even requested discovery on the locus of Intel's sales to Quanta, and has clearly waived this issue.

Quanta Reply Br. at 3-4, n.2. Accordingly, *Quanta* did not involve the issue of foreign sales.

Nevertheless, in *Quanta*, this Court had an opportunity to address this precise issue and **did not hold that foreign sales exhaust U.S. patent rights**. Section "B" of the *Quanta* decision involved "the extent to which a [noninfringing] product must embody a patent in order to trigger exhaustion." *Quanta*, 128 S.Ct. at 2118. In *Univis*, this Court held that a sale of less than an entire patented combination will trigger exhaustion

when a product’s “only reasonable and intended use [is] to practice the patent.” *Id.* at 2119. LG argued that the Intel Chips did have a reasonable noninfringing use — use overseas — that would not infringe LG’s patents (LG’s “overseas” argument). *Id.* at 2119, n.6. However, this Court held that, for purposes of determining whether the sale of less than the patented combination triggers exhaustion, the analysis looks at whether the only reasonable use is one that practices the patent, even if not technically infringing the patent. Therefore, the Intel Chips were held to be the type of products that can exhaust a patent, even if they do not infringe the patent when sold overseas. *Id.* In other words, this Court ruled that foreign use was not an example of a reasonable noninfringing use sufficient to avoid a finding of contributory infringement, and therefore avoid a finding of patent exhaustion. *Id.*<sup>10</sup>

Intel argues here (Intel Br. at 17-18), and the defendants in *Fujifilm v. Benun* argued, that footnote 6 of this Court’s *Quanta* opinion represented a ruling that foreign sales can exhaust U.S. patent rights.

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10. The former Deputy Solicitor General who argued *Quanta* for the U.S. agrees that whether the LG Patents would be exhausted if Intel sold its chips outside the U.S. was *not* at issue and was not ruled on by this Court. Thomas G. Hungar, *Observations Regarding the Supreme Court’s Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, 49 IDEA 517, 543, n.128 (2009) (concluding that even after *Quanta* “the overseas sale of an article or component that is the subject of a U.S. patent cannot exhaust the patent holder’s rights, because no authorization under the U.S. patent would have been required or exercised in that overseas sale, given that U.S. patent rights generally do not apply extraterritorially.”).

Similarly, *amicus* AIPLA, also relying on footnote 6, misreads this Court’s decision in *Quanta* and erroneously states that LG argued to the Court in *Quanta* that exhaustion did not apply to the first sale of the patentee product overseas. AIPLA Br. at 36-38. The Federal Circuit rejected this argument, pointing out that the use of the phrase “[w]hether outside the country” in footnote 6:

emphasizes that Univis required the products only use to 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. Read properly, the phrase defendants rely on supports, rather than undermines, the exhaustion doctrine’s territoriality requirement.

*Fujifilm v. Benun*, 605 F.3d at 1371-72.

Accordingly, this Court’s analysis of what LG presented as a **foreign sales hypothetical** in footnote 6 confirms that it did not hold that foreign sales can exhaust U.S. patent rights. If patent exhaustion were triggered by authorized foreign sales, this Court very easily could have responded to LG’s foreign sales hypothetical by stating that the location of the authorized sale did not make any difference. If this Court believed, as Intel suggests, that the products at issue were sold overseas, then LG would not have been proposing a hypothetical involving foreign sales, but merely reciting the facts of the case. However, because patent exhaustion is not triggered by foreign sales, this

Court distinguished LG's hypothetical by noting that under *Univis*, LG has suggested no reasonable use for the Intel Chips other than incorporating them into computer systems that practice the LG Patents.

#### IV. THE OTHER CASES CITED BY INTEL ARE DISTINGUISHABLE

Intel cites the district court decision in *LG Electronics v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1045 (N.D. Cal. 2009) ("*Hitachi*"), as persuasive reasoning that *Quanta* supports finding that foreign sales of an item covered by a U.S. patent exhaust the U.S. Patent. Intel Br. at 18-20. However, the *Hitachi* case was considered and not followed in *Fujifilm v. Benun*, where the Federal Circuit reached the opposite conclusion. Moreover, the district court's supposedly persuasive reasoning in *Hitachi* includes two important flaws, as discussed below.

First, the *Hitachi* court incorrectly reasoned that limiting exhaustion to domestic sales would permit the patent owner to do an "end run' around the exhaustion doctrine by authorizing a sale, **thereby reaping the benefit of its patent**, then suing a downstream purchaser for patent infringement." *Hitachi*, 655 F. Supp. 2d at 1046. (emphasis added). Second, the court acknowledged that U.S. patent laws do not give U.S. patents any extraterritorial effect because there is no liability under a U.S. patent for sales occurring outside the U.S., but then erroneously reasoned that extraterritorial effect and triggering exhaustion are unrelated. *Id.* at 1047. These erroneous arguments were based, in large part, on a misreading of *Quanta's*

footnote 6 (*id.* at 1046), which, as discussed above, the Federal Circuit expressly rejected in *Fujifilm v. Benun*. The critical flaw in these arguments is that **the U.S. patent owner derives no benefit from its U.S. patent when it sells the patented product overseas**. It is precisely because foreign sales do not lead to liability under a U.S. patent that the patent owner cannot restrict competition or exact royalties. Therefore, the U.S. patent owner derives no benefit from his U.S. patent. Accordingly, limiting exhaustion to domestic sales does not permit any end run around the exhaustion doctrine.

Intel also cites *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920). Intel Br. at 11-12. However, *Curtiss* was clearly decided on implied license grounds, not exhaustion grounds. The defendant manufactured airplanes in Canada under a detailed license agreement between plaintiff and the British government. *Curtiss*, 266 F. at 73. The Second Circuit found that the British government received an implied license to use the aircraft worldwide as a matter of fact, because the patentee had to have expected the airplanes at issue to be used for their intended purpose. The Second Circuit reasoned that the parties to the transaction understood that an airplane is the most mobile article in existence and is susceptible of use anywhere in the world. *Id.* at 75. Nowhere in the decision did the Second Circuit hold that foreign sales exhaust U.S. patent rights as a matter of course, even if the U.S. patent owner obtained no benefit under his U.S. patent.

Intel also cites *Kabushiki Kaishi Hattori Seiko v. Refac Technology Dev. Co.*, 690 F. Supp. 1339, 1342

(S.D.N.Y. 1988), where the court based its decision on the language of the settlement agreement between the parties, not on an exhaustion theory. Intel Br. at 12. It held that the settlement agreement in question granted Hattori Seiko a license to sell anywhere in the world and that Hattori Seiko could pass that license along to its customers. *Seiko v. Refac*, 690 F.Supp. at 1343-44.

Intel's brief also misinterprets the holding in *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2005w), alleging that *MEMC* stands for the proposition that shipping goods via "free on board ships at a foreign port," could permit an "end run" around *Quanta*. Intel Br. at 22. In fact, *MEMC* confirms that the designation of a shipment "free on board" at a foreign port, does not mean that the sale did not take place in the United States. 420 F.3d at 1377. Rather, *MEMC* confirms that the location of a sale "is not necessarily where legal title passes; the 'more familiar places of contracting and performance' may take precedence over the passage of legal title." *Id.* (citation omitted).

## V. INTEL'S DOOMSDAY PREDICTIONS DO NOT SURVIVE ANALYSIS

Many of the doomsday predictions concerning innocent importers of products specifically made for the U.S. market are easily resolved under express or implied license theories. Therefore, they should not affect the straightforward application of patent or copyright exhaustion principles. Thus, a license to sell patented or copyrighted products in the United States can result from the circumstances surrounding a

transaction. *See, e.g. Carborundum Co. v. Molten Metal Equip. Innov., Inc.*, 72 F.3d 872, 877-78 (Fed. Cir. 1995). Accordingly, if a book is printed in English and sold to a retailer in the United States by the copyright owner or his licensee, the circumstances of the transaction point to an implied license under the U.S. copyright. Likewise, if the U.S. patent owner knows that the purchaser of a patented chip overseas intends to incorporate that chip into products made overseas for sale the United States, the patent owner would be hard pressed to sue when the product reaches the United States.

It has been almost ten years since the Federal Circuit in *Jazz v. ITC* confirmed that foreign sales do not exhaust U.S. patents and there is no evidence in the record of companies moving manufacturing overseas to avoid the consequences of exhaustion. In fact, the distinctions between the goods from the U.S. manufacturing facility and foreign factories was helpful for Fujifilm to prove that certain products were infringements because they were not first sold in the United States. *Fuji Photo Film Co. v. Int'l Trade Comm'n*, 474 F.3d 1281, 1293-1294 (Fed. Cir. 2007); *Fuji Photo Film*, 249 F. Supp. 2d at 451, n.22. In fact, worldwide production of the single use cameras that were the subject of the Fujifilm cases has been consolidated in the United States. Clearly, it is much easier for a company to address the foreign exhaustion issues by contract than moving centers of manufacturing.

Intel's emotional appeal regarding consumers having their camera software excluded from the U.S. is yet another red herring. The copyright law itself



provides protection to consumers in Section 602(a)(3) (current), which provides that:

This subsection [602(a)(1) or (2)] does not apply to

...

(B) importation or exportation, for the private use of the importer or exporter and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time . . . .

17 U.S.C. § 602(a)(3). Further, Section 602(b) provides that, while copies or phonorecord that are infringements where made (i.e., piratical copies) cannot be imported, while copies or phonorecords that were lawfully made cannot be excluded by United States Customs and Border Protection. 17 U.S.C. § 602(b).

Moreover, the exclusion order at issue in *Jazz v. ITC* included a special exemption for consumers bringing infringing cameras into the U.S. for their own personal use. *In re Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406, 1999 WL 377277, General Exclusion Order (ITC June 2, 1999). Accordingly, speculation regarding the unrealistic plight of innocent consumers should have no bearing on this Court's ruling.

**VI. COPIES MADE AND SOLD OUTSIDE THE UNITED STATES ARE NOT MADE UNDER THE COPYRIGHT ACT UNLESS THE COPYRIGHT OWNER AUTHORIZES THEIR IMPORTATION**

The issue before this Court involves whether a copy of a copyrighted work that is both made and sold outside the United States is nevertheless lawfully made under Title 17. As argued by *amicus* United States, in its opposition to Costco’s petition for certiorari, to give merit to foreign exhaustion would be to misinterpret the extraterritorial effect of U.S. copyrights. As *amicus* United States explains, this Court’s decision in *Quality King*, 523 U.S. at 143-52, holds that the first sale doctrine only applies to copies that were lawfully made under “this title,” quoting 17 U.S.C. § 109(a). Because the imported copies at issue in *Quality King* were made in the United States by the copyright owner, they were made under the Copyright Act and the U.S. copyright was exhausted. U.S. Cert. Br. at 2.

In this case, the Ninth Circuit below concluded that copies covered by the phrase “lawfully made under [Title 17]” in Section 109(a) are copies made “within the United States,” because that is where the Copyright Act applies. *Id.* at 4; *Omega S.A. v. Costco Whole Corp.*, 541 F.3d 982, 988 (9th Cir. 2008). The Ninth Circuit decision is consistent with *Quality King*. U.S. Cert. Br. at 5-6; *Omega*, 541 F.3d at 990. Thus, the decision below is supported by the plain language of the statute. Nothing in Section 602(a) (as previously enacted or in its current form) conflicts with this statutory construction. That section recognizes that “importation” is governed by whether the copyright owner has expressly or implicitly

authorized the importation (as opposed to the making of the copy or phonorecord as provided in Section 109(a)). The Ninth Circuit recognized the role that such “authority” plays in stating its copyright first sale doctrine as applying to copies not made in the United States, so long as an authorized first sale of such copies does not occur here. *Omega*, 541 F.3d at 986. Title 17 does not apply to acts that occur outside the United States. *See, e.g. United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260 (1908). No aspect of the Copyright Act could have prevented one of *Omega*’s competitors from making or selling copies of its copyrighted design outside the United States. *Omega*’s making and selling of those copies outside the U.S. earned it no benefit derived from its U.S. Copyright. *Omega* did not authorize the sale of the copies at issue in the United States. *Omega* Br. at 3, 13. Accordingly, there is no reason to hold such foreign making and selling to have occurred under the act.

## CONCLUSION

Pursuant to Supreme Court Rule 14.1(a), this Court should refuse to consider the issue of patent exhaustion and the patent first sale doctrine in this matter as it is not the presented question. Should the Court decide that patent exhaustion is properly before the Court it should not rule based merely on its *Quanta* decision, since the patent first sale doctrine was not before the Court. In any event, if it does rule, this Court should find that sales of patented products made abroad and not imported into the U.S. with the authority of the patent owner, do not exhaust a U.S. patent.

In any event, this Court should affirm the decision below since the language of Section 109(a) of the Copyright Act (when read in light of Section 106(3)) limits copyright exhaustion to copies or phonorecords made in the United States or authorized to be imported into the United States by the U.S. copyright holder.

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Respectfully submitted

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