

No.

In the Supreme Court of the United States

NINESTAR TECHNOLOGY CO., LTD.,
NINESTAR TECHNOLOGY COMPANY, LTD.,
AND TOWN SKY, INC.,

Petitioners,

v.

INTERNATIONAL TRADE COMMISSION,
EPSON PORTLAND INC., EPSON AMERICA, INC.,
AND SEIKO EPSON CORPORATION,

Respondents.

**On Petition for a Writ of Certiorari to
the United States Court of Appeals
for the Federal Circuit**

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.” *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). In *Holiday v. Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), the court held that foreign sales authorized by U.S. patentees exhaust U.S. patent rights. That decision was followed for more than a century. In *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), however, the Federal Circuit concluded that foreign sales do *not* exhaust U.S. patent rights. The question presented is:

Whether the initial authorized sale outside the United States of a patented item terminates all patent rights to that item.

CORPORATE DISCLOSURE STATEMENT

Petitioners Town Sky, Inc. and Ninestar Technology Company, Ltd. are wholly owned subsidiaries of petitioner Ninestar Technology Co., Ltd. No publicly held company owns 10% or more of Ninestar Technology Co., Ltd.

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PETITION FOR A WRIT OF CERTIORARI

Petitioners Ninestar Technology Co., Ltd., Ninestar Technology Company, Ltd., and Town Sky Inc. (collectively, “Ninestar”) respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-21a), is reported at 667 F.3d 1373. The public opinions of the United States International Trade Commission (“ITC”) (*id.* at 33a-91a) and the Administrative Law Judge (“ALJ”) (*id.* at 98a-256a) are reported in USITC Pub. No. 4196 (*id.* at 22a-272a).

JURISDICTION

The court of appeals entered its judgment on February 8, 2012. It denied a timely petition for rehearing on June 6, 2012. App., *infra*, 273a. On August 24, 2012, the Chief Justice extended the time for filing a petition for a writ of certiorari until November 2, 2012. This Court’s jurisdiction rests on 28 U.S.C. § 1254(1).

STATEMENT

The first authorized sale of a patented good exhausts a patentee’s rights to that item, meaning that the patentee is unable to assert controls on later uses or sales of the item. This case presents the question of whether that doctrine applies to sales a U.S. patentee authorizes abroad.

Ninestar remanufactures inkjet printer cartridges. It purchases spent, but genuine, Epson cartridges, refills them with ink, and then imports them

into the United States for sale. Epson brought an ITC enforcement action against Ninestar claiming that, although the products were genuine and Epson had authorized their initial sale abroad, Epson could nonetheless restrict their import. The Federal Circuit agreed, concluding that, because the cartridges were first sold abroad, Epson had not exhausted its patent rights.

For over a century, courts consistently held that authorized sales abroad exhaust U.S. patent rights. In *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), however, the Federal Circuit reversed course. That decision—the operative portion of which was two sentences in length—did not acknowledge the preexisting law. The court relied solely on *Boesch v. Graff*, 133 U.S. 697, 701-703 (1890), but, as lower courts and commentators alike have noted, the Federal Circuit’s reading of *Boesch* was wrong.

Any uncertainty about international patent exhaustion should have been put to rest by this Court’s decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). There, the Court indicated that products sold abroad exhaust U.S. patent rights. Yet the Federal Circuit has refused to reconsider *Jazz Photo* in light of *Quanta*, and it continues to apply *Jazz Photo*’s rule, as it did in this case.

This Court should grant review to settle the rule governing international patent exhaustion. Not only is *Jazz Photo* wrong, but it has substantial and baleful practical implications for global trade. The U.S. import market for patented goods sold abroad is enormous, and barring importation of these goods causes U.S. consumers to pay inflated prices. The rule of *Jazz Photo* also restricts growth of the domes-

tic remanufacturing industry, which relies on imports of patented goods suitable for repair. Yet more troubling, the rule encourages U.S. patent holders to move production facilities overseas. And *Jazz Photo* has been shown to restrict innovation.

Alternatively, the Court should hold this petition pending resolution of *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697 (cert. granted Apr. 16, 2012), and *Bowman v. Monsanto Co.*, No. 11-796 (cert. granted Oct. 5, 2012), two cases that present questions bearing some relationship to the issue here.

A. Legal Background.

1. Under “[t]he longstanding doctrine of patent exhaustion” (also known as the first-sale doctrine), “the initial authorized sale of a patented item terminates all patent rights to that item.” *Quanta*, 553 U.S. at 625. Thus, “the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.” *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917). Patent exhaustion accordingly permits secondary markets for patented goods. See *United States v. Univis Lens Co.*, 316 U.S. 241, 251-252 (1942).

Beginning in the late 1800s (see, *infra*, at 10-13), courts consistently held that sales abroad authorized by a U.S. patentee exhausted U.S. patent rights. But in *Jazz Photo*, 264 F.3d at 1105, the Federal Circuit held otherwise. The court reasoned, in whole:

United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doc-

trine, the authorized first sale must have occurred under the United States patent. See *Boesch v. Graff*, 133 U.S. 697, 701-703 (1890) (a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States).

Ibid. Subsequently, in *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005), the Federal Circuit confirmed its view that “[t]he patentee’s authorization of an international first sale does not affect exhaustion of that patentee’s rights in the United States.”

2. Because of patent exhaustion, the purchaser of a patented good possesses authority to repair it. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961). Permissible repair, therefore, constitutes a defense to patent infringement. See *Husky Injection Molding Sys. Ltd. v. R&D Tool Eng’g Co.*, 291 F.3d 780 (Fed. Cir. 2002). A purchaser may not, however, “reconstruct” the good, as reconstruction constitutes patent infringement. See *Aro Mfg.*, 365 U.S. at 342-343.

In *Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp.*, 123 F.3d 1445 (Fed. Cir. 1997), the Federal Circuit held that refilling inkjet printer cartridges constitutes a permissible repair rather than an unlawful reconstruction. The court thus concluded that it is not patent infringement to purchase spent inkjet printer cartridges, refill them, and then resell them. *Id.* at 1455.

3. The Patent Act prohibits selling, making, using, or importing into the United States a patented invention “without authority.” 35 U.S.C. § 271(a).

And 19 U.S.C. § 1337 (“Section 337”) authorizes the International Trade Commission (“ITC” or “Commission”) to issue orders excluding from importation into the United States, among other things, certain products that infringe a patent. *Id.* § 1337(a)(1)(B).

B. Factual Background.

Ninestar manufactures inkjet printer cartridges and imports them for sale in the United States. App., *infra*, 2a. These cartridges are aftermarket replacement products for use in printers manufactured by other companies—insofar as is relevant here, printers made by respondents Epson Portland Inc., Epson America, Inc., and Seiko Epson Corporation (collectively, “Epson”). *Id.* at 38a. Epson has patented certain aspects of the cartridges it sells for use in its printers. *Id.* at 2a-3a.

This proceeding involves “remanufactured” ink cartridges—that is, “genuine” products originally manufactured by Epson. App., *infra*, 38a, 138a-139a.¹ Ninestar purchased spent Epson cartridges (primarily outside the United States), refilled them with ink, and then imported them to the United States for sale. *Id.* at 38a, 138a-139a & n.9.

C. Proceedings Below.

1. The Commission’s Exclusion Orders. In the underlying Section 337 action, the ITC concluded that certain inkjet printer cartridges manufactured by Ninestar infringed Epson’s U.S. patents. App., *infra*, 2a-3a. The ITC thus issued a general exclusion order, limited exclusion orders, and cease-and-desist

¹ Ninestar also manufactures new ink cartridges that are compatible with Epson printers, i.e., “compatible” cartridges. App., *infra*, 38a. Those products are not at issue here.

orders. *Id.* at 3a. The orders barred Ninestar from “importing * * * ink cartridges that are covered by one or more” of Epson’s patents (*ibid.*), but they did not specifically address remanufactured cartridges (*id.* at 38a). The Federal Circuit affirmed the orders without opinion. *Ninestar Tech. Co. v. Int’l Trade Comm’n*, 309 F. App’x 388 (Fed. Cir. 2009) (per curiam), cert. denied, 129 S. Ct. 2759 (2009).²

2. ITC Enforcement Proceedings. Following the exclusion orders, Epson initiated an ITC enforcement action against Ninestar. App., *infra*, 39a.

The Administrative Law Judge (“ALJ”) concluded that Ninestar violated the exclusion orders, and recommended a civil penalty of \$20,504,974. App., *infra*, 98a-256a. Ninestar stipulated that it imported compatible and remanufactured cartridges. *Id.* at 145a. But Ninestar maintained that remanufactured products were permissible repairs, which is a defense to patent infringement. *Id.* at 165a-175a. Thus, Ninestar contended that its imports of remanufactured products did not infringe Epson’s products and, accordingly, did not violate the exclusion orders. *Ibid.* Relying on *Jazz Photo*, the ALJ determined “that the permissible repair defense to a claim of infringement of a U.S. patent only applies following a patent-exhausting sale *in the United States.*” *Id.* at 170a. And the ALJ concluded that Ninestar failed to

² Because remanufactured cartridges were not at issue in the exclusion order (App., *infra*, 38a), the question of international patent exhaustion was not presented in that proceeding. See Pet. for Writ of Cert., *Ninestar Tech. Co. v. Int’l Trade Comm’n*, 129 S. Ct. 2759 (2009) (No. 08-1261), 2009 WL 1009829; Non-Confidential Br. of Appellants, *Ninestar Tech. Co. v. Int’l Trade Comm’n*, 309 F. App’x 388 (Fed. Cir. 2009) (No. 2008-1201), 2008 WL 2790292.

prove that the accused products “were first sold in the United States, as required for the permissible repair defense.” *Id.* at 171a-172a.³

The ITC affirmed the ALJ’s conclusion that Ninestar violated the exclusion order, but reduced the civil penalty to \$11,110,000. App., *infra*, 33a-91a. The ITC rejected Ninestar’s argument that authorized sales abroad exhausted Epson’s patent rights; “[i]n order for remanufactured cartridges to be permissibly repaired and not infringing, they must have first been sold in the United States, the ‘first sale’ requirement.” *Id.* at 38a. Like the ALJ, the ITC invoked the rule of *Jazz Photo*. See *id.* at 46a-48a.⁴

3. Federal Circuit. Ninestar appealed the Commission’s enforcement order to the Federal Circuit, which affirmed. App., *infra*, 1a-21a. Ninestar again contended “that the manufacture and sale of a product in any country ‘extinguishes all patent rights, regardless of the physical location where the sales occur.’” *Id.* at 6a-7a.

Epson and the ITC both argued that Ninestar’s permissible repair argument was barred by the

³ The ALJ also found that Ninestar waived the permissible repair defense by failing to reference it in its pre-hearing statement, in the post-hearing brief, or at the evidentiary hearing. App., *infra*, 170a-171a. But the ALJ noted that Ninestar raised “the affirmative defense of permissible repair in their response to complainants’ complaint and reiterated the defense in Motion No. 86 to amend the response to the complaint.” *Ibid.* And Ninestar pressed this argument before the ALJ in conjunction with the Enforcement Decision. *Ibid.* As we will explain, the Federal Circuit chose to disregard the waiver contention.

⁴ The ITC also affirmed the ALJ’s decision with respect to waiver. App., *infra*, 47a.

agency’s finding of waiver. See Non-Confidential Br. of Appellee ITC at 25-27, *Ninestar Tech. Co. v. Int’l Trade Comm’n*, 667 F.3d 1373 (Fed. Cir. 2012) (No. 2009-1549), 2010 WL 1393761; Non-Confidential Br. of Intervenors at 38-40, *Ninestar*, 667 F.3d 1373 (No. 2009-1549), 2010 WL 1393766. But the Federal Circuit disregarded these contentions and decided the issue solely on the basis of *Jazz Photo* and its progeny. App., *infra*, 6a-8a.⁵

Applying *Jazz Photo*, the court found that “United States patents are not exhausted as to products that are manufactured and sold in a foreign country.” App., *infra*, 7a. Instead, “[t]o invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.” *Ibid.* (quoting *Jazz Photo*, 264 F.3d at 1105). Because “Ninestar does not dispute Epson’s statement that the vast majority of Ninestar’s remanufactured Epson cartridges were of Asian or European origin,” *Jazz Photo* resolved the issue. *Id.* at 8a.

REASONS FOR GRANTING THE PETITION

The Federal Circuit’s rule in *Jazz Photo*—that foreign sales authorized by a U.S. patent holder do not exhaust U.S. patent rights in the product—is

⁵ The Federal Circuit’s conscious disregard of the waiver argument pressed by Epson and the ITC is consistent with its approach to a separate waiver contention. Below, Ninestar asserted certain constitutional challenges to the authority of the ITC. App., *infra*, 15a-21a. The ITC contended that “Ninestar waived any constitutional arguments, for they were not presented during the enforcement proceeding,” and the court agreed that the arguments were “tardily raised.” *Id.* at 15a. But the court noted that it has “discretion to consider issues not raised below ‘as justice may require,’” and it accordingly disregarded the waiver claim. *Id.* at 16a.

wrong. The court of appeals' only basis for departing from a century of common law that found exhaustion in such circumstances was a misreading of a decision from this Court. And *Jazz Photo* is irreconcilable with this Court's approach to patent exhaustion: *Quanta* compels the conclusion that foreign sales authorized by a U.S. patent holder exhaust U.S. patent rights. That conclusion is also required by the "single reward" approach this Court has adopted for patent exhaustion.

The question presented here is one of enormous practical importance that arises with great frequency, with substantial implications for global trade. And as the court below disposed of this case solely on the basis of *Jazz Photo*, it presents a suitable vehicle with which to resolve this question. The Court should grant review and bring certainty to the marketplace.

In the alternative, the Court should hold this petition for two cases that will be decided this Term.

I. The Federal Circuit's Decision Is Wrong.

The Federal Circuit's approach to international patent exhaustion is wrong in two fundamental respects. *First*, because the Patent Act is silent as to exhaustion, the common law controls. The Federal Circuit's creation in *Jazz Photo* of a territorial limit on exhaustion was an aberrant departure from over a century of contrary practice. *Second*, in *Quanta*, the Court unmistakably indicated that patent exhaustion has no territorial limitation. This principle is required by the "single reward" approach, whereby the first reward to the patentee exhausts the patent grant.

A. *Jazz Photo* Erroneously Departed From The Common Law.

1. In 1952, Congress updated the Patent Act, wholesale replacing existing statutes. *Bilski v. Kappos*, 130 S. Ct. 3218, 3236 (2010). Where the Patent Act “is silent” as to a particular issue, “it did not alter the common-law rule.” *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2254 (2011) (Thomas, J., concurring in judgment).

Adherence to the common law is particularly compelling here because, in examining the scope of the patent grant, the Court “require[s] a clear and certain signal from Congress” before finding that “the beachhead of privilege is wider, and the area of public use narrower, than courts had previously thought.” *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972). See also *Parker v. Flook*, 437 U.S. 584, 596 (1978). There is certainly no “clear and certain” signal from Congress that would justify *Jazz Photo*’s substantial broadening of the patent grant beyond the common law.

2. Prior to the Patent Act of 1952, the common law was clear: sales abroad authorized by the patentee exhausted patent rights. *Holiday v. Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), considered “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 restrain him from using or selling the article here.” The court found that, irrespective of the location of the purchase, the purchaser “acquire[d] the right of unrestricted ownership in the article he buys as against the vendor,” which includes “the right to use

and enjoy it, and to transfer his title to others.” *Id.* at 186.

Holiday derived, in substantial part, from English common law. See *Holiday*, 24 F. at 186. In *Betts v. Willmott*, [1871] 6 L.R. 239, 245 (Ch. App.) (Eng.), the Court of Appeal in Chancery held that a holder of both a French and English patent, who manufactured and sold an item in France, granted the purchaser of the good in France an implicit license to use and sell the item in England; “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 pleases.” Thus, “[w]hen a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his license to sell the article, or to use it wherever he pleases as against himself.” *Ibid.*⁶ See also *Société Anonyme des Manufactures de Glaces v. Tilghman’s Patent Sand Blast Co.*, [1883] 25 Ch. D. 1, 9 (Cotton, L.J.) (Eng.) (“When an article is sold without any restriction on the buyer * * * that * * * as against the vendor gives the purchaser an absolute right to deal with that which he so buys in any way he thinks fit, and *of course that includes selling in any country* where there is a patent in the possession of and owned by the vendor.” (emphasis

⁶ Courts outside the United Kingdom have called this principle of *Betts* “well established in patent law” (*Interstate Parcel Express Co. Proprietary Ltd. v. Time-Life Int’l (Netherlands) B.V.*, [1977] 138 C.L.R. 534, 540-541 (Austl.)) and a “well founded proposition in patent law” (*Creative Tech. Ltd. v. Aztech Sts. Pte Ltd.*, [1997] 1 SLR 621 (Sing.)).

added)); *Roussel Uclaf S.A. v. Hockley Int'l Ltd.*, [1995] R.P.C. 441, 444 (Pat.).

In the United States, courts followed *Holiday* for more than a century. The Second Circuit, for instance, 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.

Dickerson v. Matheson, 57 F. 524, 527 (2d Cir. 1893). See also *Becton, Dickinson & Co. v. Eisele & Co.*, 86 F.2d 267, 268-270 (6th Cir. 1936) (absent any contractual restrictions, “[o]nce having sold patented articles, neither the patentee nor its licensee may exercise future control over them,” even if the articles were “made abroad”); *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp.*, 266 F. 71, 78 (2d Cir. 1920) (“If the vendor’s patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and his domestic patents, and 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.”); *Dickerson v. Tinting*, 84 F. 192, 194-195 (8th Cir. 1897) (assuming, without having to decide, “that one who buys a patented article without restriction in a foreign country from the owner of the United States patent has the right to use and vend it in this country”).

This view of patent exhaustion continued until the close of the past century. See, e.g., *Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (patent exhaustion “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, 940 (D.N.J. 1983) (recognizing patent exhaustion “where the sale is one which the seller had the authority to make in this country”).

Commentators confirm that, prior to *Jazz Photo*, foreign sales exhausted patent rights. For example, in 1997, Chisum stated that exhaustion “[m]ay 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] (1997).

3. In departing from this consistent law, *Jazz Photo* relied solely on this Court’s decision in *Boesch v. Graff*, 133 U.S. 697, 701-703 (1890). It summarized *Boesch* as holding that “a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States.” *Jazz Photo*, 264 F.3d at 1105. This fundamentally mischaracterizes *Boesch*.

In *Boesch*, plaintiffs alleged that defendants imported infringing products. 133 U.S. at 698. Patentees held both U.S. and German patents and had licensed the U.S. rights to plaintiffs. *Id.* at 698-699. The defendants purchased the products in Germany, not from a licensee or patentee but instead from a third party whose sales in Germany were lawful because of a prior use defense under German law. *Id.* at 701-702. The Court concluded that, because the

third party was neither a U.S. patentee nor licensee, “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.

Boesch held, accordingly, that a foreign sale *unauthorized* by the U.S. patentee does not exhaust U.S. patent rights. *Boesch* says nothing about a foreign sale *authorized* by the U.S. patentee. Indeed, subsequent cases found *Boesch* entirely consistent with international patent exhaustion. The Second Circuit in *Curtiss Aeroplane*, 266 F. at 77, for example, explained that *Boesch* applies only where “there has been no participation whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which is alleged to infringe.” See also *Dickerson*, 57 F. at 527; *Sanofi*, 565 F. Supp. at 937 (“*Boesch* is distinguishable from this case. In *Boesch*, it was not the patentee who made the sale abroad.”).

More recently, a district court concluded that, contrary to *Jazz Photo*’s analysis, “*Boesch* does not speak to” whether “an *authorized* sale made pursuant to a license under a United States patent” exhausts U.S. patent rights. *LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009). Commentators, too, have acknowledged the error made by the Federal Circuit in finding that *Boesch* controls this question. See, e.g., John A. Rothchild, *Exhausting Extraterritoriality*, 51 Santa Clara L. Rev. 1187, 1211 (2011) (*Boesch* “does not stand for the proposition that a sale overseas can never exhaust U.S. patent rights, but only that no exhaustion occurs when the first sale did not result in a patent-based reward.”); Daniel Erlichman, Note, *Jazz Photo*

and the Doctrine of Patent Exhaustion, 25 Hastings Comm. & Ent. L.J. 307, 323 (2003) (“*Boesch* applies only to a situation where the U.S. patentee has not participated in any way in putting the infringing article on the domestic market, either via an authorized first sale or a licensing arrangement.”).

B. *Jazz Photo* Is Irreconcilable With This Court’s Holdings.

The Federal Circuit’s decision is wrong for a separate reason. *Quanta* stated in plain terms that sales abroad exhaust U.S. patent rights. And that result is required by the “single reward” approach to patent exhaustion that the Court has embraced.

1. *Univis* and *Quanta* belie the Federal Circuit’s holding that patent exhaustion contains a territorial limitation. In *Univis*, a manufacturer, Univis, produced lens blanks used for bifocal and trifocal prescription glasses. 316 U.S. at 243-244. Prior to use, the lens blanks had to be ground to particular specifications. *Id.* at 244. Univis licensed the rights to wholesalers to grind the blanks into finished lenses, and authorized their resale only to Univis-licensed prescription retailers for sale at a fixed rate. *Id.* at 244-245.

After the United States brought a Sherman Act claim, the Court considered whether Univis’ patent rights protected its pricing scheme. It ultimately held that Univis’ first sale to the wholesaler exhausted the patent rights because “the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold.” *Univis*, 316 U.S. at 249.

Later, in *Quanta*, LGE licensed to Intel certain method patents relating to the interaction between microprocessors and chipsets with memory in a computer. 553 U.S. at 623. Intel produced microprocessors and chipsets that, when integrated into a computer system, practiced these patents. *Id.* at 624. Intel sold these products to Quanta, which integrated the microprocessors and chipsets into its computers. *Ibid.* LGE brought a patent infringement action against Quanta’s sales of those computers in the United States, and Quanta asserted patent exhaustion as a defense. *Id.* at 624-625. The Court addressed two questions: whether patent exhaustion applies to method patents (it does, the Court held); and whether Intel’s sale of the microprocessors and chipsets substantially embodied the method patents such that the sale exhausted LGE’s patent rights (the Court held that the sales did). *Id.* at 621.

In addressing the second question, Quanta argued, in part, that “the only apparent object” of the sales of the microprocessors and chipsets was incorporation into computers “that would practice the patents.” *Quanta*, 553 U.S. at 632. Thus, by licensing its patents to Intel, LGE necessarily exhausted its patent rights as to all downstream uses. LGE, however, argued that it had not exhausted its patent rights for all subsequent uses because Intel’s products “would not infringe its patents if they were sold overseas, used as replacement parts, or engineered so that use with non-Intel products would disable their patented features.” *Id.* at 632 n.6. In its view, sales by Intel of products embodying its patents exhausted the U.S. patent rights in some instances, but not in others—including, as relevant here, when Intel sold the products abroad.

The Court rejected LGE's contention and determined that sales abroad may exhaust U.S. patent rights. Invoking *Univis*, the Court explained that patent exhaustion turns on whether "the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Quanta*, 553 U.S. at 632 n.6 (quoting *Univis*, 316 U.S. at 249). Sales abroad exhaust the patent because "[w]hether outside the country or functioning as replacement parts," certain products "would still be *practicing* the patent, even if not infringing it." *Ibid*.

Quanta thus confirms that patent exhaustion has no territoriality limitation.⁷ So long as a product practices what is disclosed in a patent, the authorized first sale of that item exhausts the U.S. patent holder's rights, regardless of where that first sale occurs.⁸

⁷ In *Fuji Photo Film*, 394 F.3d at 1376, the Federal Circuit noted that "foreign sales can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect." But finding that a sale abroad exhausts the U.S. patent does not require extraterritorial application of patent rights; the Court has already so held in the copyright context. *Quality King Distribs., Inc. v. Lanza Research Int'l, Inc.*, 523 U.S. 135, 145 n.14 (1998).

⁸ That result accords with *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456-457 (1873), where the Court expressly rejected domestic territorial limitations on patent exhaustion. "[W]e hold that in the class of machines or implements we have described, when they are once lawfully made and sold, there is no restriction on their *use* to be implied for the benefit of the patentee or his assignees or licensees." *Id.* at 457. See also *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 664 (1895) ("a person who buys patented articles from a person who has a right to sell, though within a restricted terri-

Notwithstanding *Quanta*, the Federal Circuit has declined to revisit *Jazz Photo*. In *Fujifilm Corp. v. Benum*, 605 F.3d 1366, 1371-1372 (Fed. Cir. 2010) (per curiam), the court cited the relevant language and then tersely dismissed *Quanta*'s significance:

This phrase, however, 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. Read properly, the phrase defendants rely on supports, rather than undermines, the exhaustion doctrine's territoriality requirement.

Ibid. That undeveloped analysis does not withstand scrutiny. *Quanta* clearly indicates that (1) a patented good sold abroad still *practices* a U.S. patent, and (2) a good authorized for sale by the U.S. patent holder that *practices* the patent exhausts the patentee's rights.⁹ Indeed, the Federal Circuit has offered no other way to “properly” read *Quanta*.

Contrary to the Federal Circuit's view, district courts have found that *Quanta* abrogates *Jazz Photo*.

tory, has a right to use and sell such articles in all and any part of the United States”).

⁹ The Federal Circuit also stated that *Quanta* “did not involve foreign sales.” *Fujifilm*, 605 F.3d at 1371. That statement is inaccurate. As LGE had argued to the Federal Circuit prior to this Court's decision in *Quanta* (Br. for Plaintiff-Appellant at 31 n.5, *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006) (No. 05-1261), 2005 WL 1397821), and as a district court later determined (*LG Elecs.*, 655 F. Supp. 2d at 1045), Intel *did* sell at least some of the product at issue to *Quanta* abroad.

One court, for example, summarized that “*Quanta*’s holding—that exhaustion is triggered by the authorized sale of an article that substantially embodies a patent—applies to authorized foreign sales as well as authorized sales in the United States.” *LG Elecs.*, 655 F. Supp. 2d at 1047. See also *Static Control Components, Inc. v. Lexmark Int’l, Inc.*, 615 F. Supp. 2d 575, 588 (E.D. Ky. 2009) (noting that, after *Quanta*, the court would be inclined to find that sales abroad exhaust U.S. patent rights). Commentators likewise agree. See, e.g., Melvin F. Jager, *Licensing Law Handbook* § 1:24 (2011) (explaining that *Jazz Photo* is “inconsistent with *Quanta*”).

Quanta and *Univis* thus hold that exhaustion turns on whether a product authorized for sale by the patentee *practices* the patent. And a product may *practice* the patent even if it is not capable of *infringing* it, including, as relevant here, when the product is sold abroad.

2. That approach to patent exhaustion is required by the “single reward” doctrine. Under settled law, a patent holder is entitled to only a single benefit from the sale of a patented good. See Rothchild, *supra*, at 1192-1195. The Federal Circuit’s rejection of international patent exhaustion is incompatible with this principle.

The inquiry for patent exhaustion is straightforward: “The test has been 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.” *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942). Long ago, the Court explained that a patentee is “entitled to but one royalty for a patented machine.” *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863). Thus, “the

payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent.” *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895). So “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).

The single reward principle stems from the balance patent law strikes between the welfare of the community and the private incentives to inventors. “[T]he promotion of the progress of science and the useful arts is the ‘main object’” of patent law, whereas “reward of inventors is secondary and merely a means to that end.” *Masonite Corp.*, 316 U.S. at 278. Additionally, the doctrine derives from the common law’s antipathy toward restraints on the alienation of chattels, as secondary markets are essential to free commerce. See *Bauer & Cie. v. O’Donnell*, 229 U.S. 1, 17 (1913) (“there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be re-sold”).

By authorizing the sale of a product for consideration, the U.S. patent holder has exhausted its patent rights. The location of the sale has no bearing on whether the U.S. patentee has obtained an award. See *Keeler*, 157 U.S. at 666 (“one 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”). *Jazz Photo*, however, impermissibly allows a patentee to obtain multiple rewards from the same product—at

the time of the first sale abroad, and then again at the point of importation into the United States.

II. This Case Provides A Suitable Vehicle For Resolving An Issue Of Extraordinary Importance.

1. Whether sales abroad authorized by a U.S. patentee exhaust U.S. patent rights is a question of enormous practical importance for the global economy. In *Keeler*, 157 U.S. at 667, the Court noted that, absent the doctrine of patent exhaustion, “[t]he inconvenience and annoyance to the public * * * are too obvious to require illustration.” That observation is magnified in the international context. The significance of the question presented is apparent in several respects.

First, international patent exhaustion is necessary for both parallel import of patented goods¹⁰ and import of used products subject to U.S. patents. Parallel and secondhand imports constitute enormous segments of the existing economy. The U.S. Bureau of Economic Analysis reports that, in 2011, returned or reimported goods constituted more than \$44.5 billion of U.S. imports. See U.S. Census Bureau & U.S. Bureau of Economic Analysis, *U.S. International Trade in Goods and Services December 2011*, Ex. 1 (Feb. 10, 2012), at <http://tinyurl.com/8e6m9bf>. See also Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus.

¹⁰ “Parallel trade represents a form of arbitrage whereby a legitimate product is shipped from the market intended by the intellectual property rights holder to another where it commands a higher price.” Gene M. Grossman & Edwin L.-C. Lai, *Parallel Imports and Price Controls*, 30 RAND J. Econ. 378, 378 (2008).

School Working Paper No. 09-098, at 1 (2009), at <http://tinyurl.com/d892hbp> (estimating annual parallel imports of technology products of approximately \$40 billion). And the United States imported more than \$7 billion of used or secondhand merchandise in 2011. *International Trade in Goods and Services December 2011*, at Ex. 1. These imports occur notwithstanding the rule of *Jazz Photo*; a rule permitting international patent exhaustion would vastly increase those markets.

Second, *Jazz Photo*'s limitation on parallel and secondhand imports hurts American consumers. Through traditional free trade and efficient markets, if a particular good desired by American consumers is available at lower cost abroad, secondary markets will capitalize on the arbitrage opportunity and make the good available to U.S. consumers at a reduced price. See, e.g., *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) (Costco acquired genuine Omega watches initially sold outside the United States for resale to American consumers at reduced prices), *aff'd* by equally divided court, 131 S. Ct. 565 (2010); Gene M. Grossman & Edwin L.-C. Lai, 30 *RAND J. Econ.* 378, 378 (2008). A KPMG study—commissioned by the Alliance for Gray Market and Counterfeit Abatement, a trade association opposed to parallel imports—estimates that parallel imports had a total value of \$57 billion in 2007. KPMG, *Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line* 30 (2008), at <http://tinyurl.com/cnvw2gy>. KPMG further calculated that the “price advantage” of these goods was 27%, thus creating approximately \$10 billion worth of cost savings to American consumers in 2007 alone. Allowing international patent exhaustion would have the fore-

seeable effect of making genuine goods available to U.S. consumers at lower prices.

Third, international patent exhaustion would expand the economic benefits of the domestic remanufacturing industry. A recent estimate suggests that approximately \$100 billion of remanufactured goods are sold annually in the United States, and that the industry employs more than 500,000 workers here. James R. Hagerty & Paul Glader, *From Trash Heap to Store Shelf*, Wall St. J., Jan. 24, 2011, at A3. As the United States itself explained in a submission to the World Trade Organization, “[t]rade in [remanufactured] goods contributes significantly to the economies of both developed and developing country Members.” Communication from the United States, *Market Access for Non-Agricultural Products: Negotiating NTBs Related to Remanufacturing and Refurbishing* 1-2, TN/MA/W/18/Add.11 (Dec. 5, 2005), at <http://tinyurl.com/9bssa7o>. The United States thus advocated “liberalizing barriers to trade in these products because of the economic and environmental benefits associated with them.” *Id.* at 3. And these remanufactured goods are of particular value to consumers, as they often cost half the price of new merchandise. Hagerty & Glader, *supra*. This industry depends upon a steady supply of genuine, spent goods suitable for repair; international patent exhaustion would permit the domestic industry access to the materials it badly needs. See Mem. from Patricia Judge, Exec. Dir., Int’l Imaging Tech. Council, to U.S. Int’l Trade Comm’n, *Remanufactured Goods: An Overview of the U.S. and Global Industries, Markets and Trade* 4 (Feb. 9, 2012), at <http://tinyurl.com/8hnc6cv>.

Fourth, the decision below creates a perverse incentive for companies to move manufacturing facilities abroad. The Federal Circuit here stated that “United States patents are not exhausted as to products that are *manufactured* and sold in a foreign country.” App., *infra*, 7a (emphasis added). Given the possibility that goods manufactured within the United States would undergo a patent-exhausting first sale under existing law, the Federal Circuit’s ban on international patent exhaustion encourages manufacturers who wish to engage in price discrimination to move production facilities overseas. See Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 Cardozo L. Rev. 55, 142 n.380 (2001) (“A policy that allows exclusion of gray market goods that are manufactured abroad provides an inefficient incentive to shift domestic production abroad.”).

Fifth, *Jazz Photo* hinders innovation. A recent study concluded that “deregulation of parallel imports generates both an increase in consumer surplus in the innovative country and an *increase* in the world pace of innovation.” Grossman & Lai, 30 RAND J. Econ. at 380. International patent exhaustion thus aligns perfectly with the Patent Clause, which “reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

It is difficult to overstate the practical importance of international patent exhaustion with respect to global trade. Regardless of the rule ultimately reached, it is this Court that should resolve the issue and bring certainty to the marketplace.

2. This case is an appropriate vehicle for the Court to address international patent exhaustion. Here, Ninestar defended its importation of remanufactured Epson inkjet printer cartridges through the permissible repair doctrine, which turns on patent exhaustion. App., *infra*, 6a-7a. The Federal Circuit rejected this argument solely on the basis of the *Jazz Photo* rule—that “United States patents are not exhausted as to products that are manufactured and sold in a foreign country.” *Id.* at 7a. This case thus clearly presents the question of international patent exhaustion.¹¹

Moreover, the Federal Circuit has exclusive jurisdiction with respect to patent claims (see 28 U.S.C. § 1295(a)(1)), which, following the America Invents Act, includes all patent counterclaims (see Pub. L. 112-29 § 19(b), 125 Stat. 314, 332). Additionally, the Federal Circuit has exclusive jurisdiction with respect to Section 337 decisions of the United States International Trade Commission. 28 U.S.C. § 1295(a)(6). Because no other court of appeals will be positioned to consider the *Jazz Photo* rule, a circuit split is not possible in this context—which is typical when this Court reviews the Federal Circuit’s holdings.

¹¹ Respondents may point to the ITC’s discussion of waiver. See, *supra*, at 7-8 & nn.4 & 5. Although (as Ninestar argued to the Federal Circuit) that finding was wrong, it is now irrelevant. The Federal Circuit has discretion to disregard waiver. See *Singleton v. Wulff*, 428 U.S. 106, 121 (1976); *Hormel v. Helvering*, 312 U.S. 552, 555-559 (1941). Because the Federal Circuit did so here, the question of international patent exhaustion is ripe for this Court’s review.

III. Alternatively, The Court Should Hold This Petition.

For the foregoing reasons, plenary review by this Court is warranted. Given the Federal Circuit's refusal to acknowledge the Court's direction in *Quanta*, further proceedings there will not resolve the considerable tension between *Jazz Photo* and *Quanta*. Only this Court can settle this rule of substantial importance.

At the very least, however, the Court should hold this petition pending its resolution of two cases: *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697 (cert. granted Apr. 16, 2012; argued Oct. 29, 2012), and *Bowman v. Monsanto Co.*, No. 11-796 (cert. granted Oct. 5, 2012).

1. In *Kirtsaeng*, the Court is considering international exhaustion under the Copyright Act. Copyrights and patents have substantial relationships, as a manufacturer often protects its products through both. Thus, the Court's resolution of international exhaustion as to copyrights may have a substantial bearing on the same question in the patent context. As one commentator noted, "[i]f the Supreme Court reverses in *Kirtsaeng*, this will likely be seen as an implicit reversal of *Jazz Photo* and its progeny." Dennis Crouch, *Supreme Court to Hear International Copyright Exhaustion Case*, Patently-O (Apr. 16, 2012), at <http://tinyurl.com/9gwb5cx>.

Moreover, as *amici* in *Kirtsaeng* argued, the Court may find that the Copyright Act should be interpreted against the common law of patent exhaustion, and that the common law of patents provides for international exhaustion. See Br. of 25 Intellectual Property Law Professors As *Amici Curiae* In

Support Of Petitioner at 21-25, *Kirtsaeng*, No. 11-697 (U.S. July 9, 2012), 2012 WL 2861167 (explaining that “several of the earliest patent decisions regarding importation of patented goods sold abroad applied the exhaustion doctrine to such goods, in geographically neutral fashion”). Indeed, *amici* contended that, in *Jazz Photo*, “the Federal Circuit erred by departing from traditional principles” and that the decision “is no longer good law.” *Id.* at 23-24 n.3.

2. In *Bowman*, No. 11-796, the Court is considering the application of the first sale doctrine to patented seeds that, when planted, replicate themselves. There, the petitioner contends that the sale of patented seeds exhausts the patentee’s interests in subsequent products, including in second-generation seeds. Petitioner’s argument turns on the single reward approach embraced by *Univis*, which it claims (like *Ninestar* here) is informed by the common law doctrine against restraints on alienation of chattels. See Pet. for Writ of Cert. at 10-12, *Bowman*, No. 11-796, 2011 WL 6468161. And, below, the Federal Circuit in its decision in *Bowman* relied in part on *Jazz Photo*’s teachings with respect to the permissible repair doctrine. *Monsanto Co. v. Bowman*, 657 F.3d 1341, 1348 (Fed. Cir. 2011). The Court’s resolution of *Bowman*, accordingly, may have significant implications for international patent exhaustion.

Notwithstanding the pendency of these other matters, plenary review is warranted in this matter to permit the Court to address the substantial question of international patent exhaustion.

CONCLUSION

The Court should grant the petition for a writ of certiorari. Alternatively, the Court should hold the

petition pending resolution of *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697, and *Bowman v. Monsanto Co.*, No. 11-796, and then dispose of the petition accordingly.

Respectfully submitted.

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