

No. 12-552

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**

REPLY BRIEF FOR PETITIONERS

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REPLY BRIEF FOR PETITIONERS

The Court should accept this opportunity to resolve conclusively whether *Jazz Photo* is correct. That rule implicates tens—if not hundreds—of billions of dollars worth of commerce annually. An issue of such substantial importance should not be left to the court of appeals, especially where lower courts, commentators, and market participants routinely challenge its holding as wrong. The reluctance of the United States to take a position on the merits of the question demonstrates, in the strongest terms, that *Jazz Photo* is subject to substantial debate.

In opposing certiorari, the government rests entirely (and Epson substantially) on a bevy of alternative grounds that purportedly could support affirmance. But because the court below rested its decision exclusively on *Jazz Photo*, those arguments are merely issues to be considered on remand. Indeed, the clarity of the Federal Circuit's holding renders this case a compelling vehicle with which to address the question presented. Review is especially warranted because, despite the enormous practical importance of the issue, few vehicles reach this Court in a form suitable to consider *Jazz Photo*.

A. This Case Is An Appropriate Vehicle To Resolve The Question Presented.

Respondents assert various alternative grounds for affirming the result below. But, despite their having pressed some of these points previously (and forfeiting others), the Federal Circuit relied solely on *Jazz Photo*. Pet. 7-8, 25. Respondents do not argue otherwise. *Jazz Photo* is thus squarely presented here.

It is fundamental that the Court generally “do[es] not decide in the first instance issues not decided below.” *Fitzgerald v. Barnstable Sch. Comm.*, 555 U.S. 246, 260 (2009) (quoting *Nat’l Collegiate Athletic Ass’n v. Smith*, 525 U.S. 459, 470 (1999)). In fact, because the court below so deliberately relied on only this issue in its decision, this case presents *Jazz Photo* in its cleanest and starkest form, uncluttered by subsidiary considerations.

Although respondents may press their alternative arguments on remand, each point lacks merit.

1. Respondents parrot the ITC’s finding that Ninestar waived a permissible repair defense. Gov’t Br. 9-12; Epson Br. 13-14. As we acknowledged, the ALJ and the ITC did find waiver, but this was not the basis on which the Federal Circuit resolved the case. Pet. 7 n.3, 8 n.5, 25 n.11. Regardless, respondents are wrong.

First, there was no waiver. Ninestar raised the permissible repair defense in its answer to Epson’s complaint. Pet. App. 170a-171a. It reiterated the defense in its memorandum in support of its motion for summary determination. JA334 (“The affirmative defense, which was never adjudicated in the underlying proceeding, is Ninestar’s right to sell refilled cartridges, and which cartridges it may refill or resell.”). Moreover, contrary to the ALJ’s assertion, Ninestar again raised the defense in its pre-hearing brief; Ninestar contended it “would still have an opportunity to present the repair reconstruction[] defense as it relates to refilled cartridges.” Ninestar Pre-Hearing Statement, at *4 337-TA-565 (Dec. 11, 2008). See also *id.* at *6 (raising “whether it is fair to punish respondents for sale of refurbished or refilled cartridges” (capitalization omitted)). When the ALJ dis-

carded the patent exhaustion theory, he did so precisely because of *Jazz Photo*; the ALJ accepted the Staff's position that Ninestar could not "establish a valid patent exhaustion defense showing that the allegedly remanufactured cartridges were first sold by [Epson] within the United States." Hearing at *24, 337-TA-565 (Jan. 14, 2009). Epson even appears to acknowledge that this argument was pressed below. Epson Br. 10 n.6. There is thus a substantial basis to conclude that the ALJ's finding of waiver was wrong.¹

Second, respondents do not dispute that the Federal Circuit may disregard waiver. They argue more modestly that the court did not do so here. Epson Br. 13-14; Gov't Br. 10-11. To be sure, the Federal Circuit did not make its disposition clear, but circumstances suggest that, if the court thought that the waiver argument had merit, it disregarded it. Waiver is typically a threshold issue, and the court expressly looked past waiver with respect to the constitutional issue below. See Pet. 25 n.11. This case was undoubtedly decided on *Jazz Photo*.

2. Respondents makes a related argument, contending that Ninestar waived a factual portion of the permissible repair defense. Epson argues that Ninestar did not "satisfy the independent prerequisite of the repair defense"—"i.e., that their remanufacture of the cartridges constituted repair rather than reconstruction." Epson Br. 13. See also Gov't Br. 12.

¹ Contrary to the government's suggestion (at 10-11), the ITC's analysis turned solely on the asserted waiver before the ALJ. Pet. App. 47a-48a. It did not separately conclude that there was an appellate waiver.

Despite respondents also having raised this point below, the Federal Circuit decided the case only on the basis of *Jazz Photo*. Pet. 7-8. This was for good reason, as examination of the record indicates that it is *Epson* that likely waived this contention.

During the proceedings before the ALJ, Epson acknowledged that approximately 16% of the remanufactured cartridges were repaired using empties that had originally been sold in the United States. Hearing at *26, 337-TA-565 (Jan. 14, 2009). As to these cartridges, *Epson admitted the defense of patent exhaustion*, explaining that Ninestar “would be able to invoke the defense.” *Ibid.* Epson stated that, in its calculations, it “g[ave] a discount for” those cartridges. *Ibid.* As Epson framed it at the hearing, the sole issue was the source of the empty cartridges that Ninestar remanufactured. Cartridges remanufactured from those first sold in the United States, according to Epson, were entitled to the first-sale defense. Epson cannot now complain that Ninestar failed to demonstrate the repair element of the defense, as that point was conceded below.

Separately, the court below could conclude that refilling inkjet cartridges qualifies as a permissible repair as a matter of law. *Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp.*, 123 F.3d 1445, 1452 (Fed. Cir. 1997), held that a modification to a cartridge was a permissible repair where it allows “customers to use the cartridges for the duration of the life of the patented combination, rather than be limited by the duration of the ink supply in the cartridge.” Extending the life of an inkjet cartridge beyond the duration of the ink supply is precisely what Ninestar does here.

For these reasons, it is far from predetermined that “any reversal of *Jazz Photo* by this Court would not alter the outcome of this case.” Epson Br. 13.

3. Epson (but not the government) asserts that Ninestar invited any error. Ninestar Br. 14-15. As Epson did not raise this argument below, it is not available here. Nor did the ALJ or ITC find invited error. In any event, the snippet of the record to which Epson points was simply Ninestar’s statement as to currently prevailing law. It was (and remains) correct that *Jazz Photo* and its progeny bar international patent exhaustion; our consistent argument throughout this proceeding is that existing law is wrong.

4. Respondents press another new argument. They contend that the ITC orders bar this challenge to *Jazz Photo*, through either res judicata or a rule barring collateral attacks on a judicial injunction. See Epson Br. 16; Gov’t Br. 14. This contention is not only forfeited (see *Arizona v. California*, 530 U.S. 392, 410 (2000)), but also meritless.²

There is good reason respondents failed to raise this argument below: it has been rejected by the Federal Circuit. In *VastFame Camera, Ltd. v. International Trade Commission*, 386 F.3d 1108, 1110 (Fed. Cir. 2004), a defendant to a Section 337 enforcement proceeding pressed an invalidity defense, but the ALJ found it an improper collateral attack on the underlying exclusion order. The Federal Circuit reversed.

² Before the Federal Circuit, the government argued that res judicata barred a challenge to the scope of the exclusion order, an argument distinct from petitioners’ permissible repair defense.

The court first concluded that the authority for an ITC enforcement proceeding stems from 19 U.S.C. § 1337(b). *VastFame*, 386 F.3d at 1111-1113. As a result, Section 1337(c), which provides that “[a]ll legal and equitable defenses may be presented in all cases,” controls enforcement proceedings. *Id.* at 1113 (quoting 19 U.S.C. § 1337(c)).

Just as it contends here, the government “argue[d] that general exclusion orders are like district court injunctions in that they must be obeyed until they are modified, reversed, or vacated,” and exclusion orders therefore “should not be subject to collateral attack.” *VastFame*, 386 F.3d at 1113-1114. The Federal Circuit disagreed, finding that “a general exclusion order is not like a district court injunction with respect to the parties affected.” *Id.* at 1114. “Because of the differing nature of general exclusion orders and district court injunctions, the justification for the prohibition against collateral challenges to injunctions is not directly applicable to general exclusion orders” and the government’s “analogy to district court injunctions is inapposite and unhelpful.” *Ibid.*

Instead, the Federal Circuit concluded that the “all defenses’ provision applies to [Section] 1337(b) at a minimum.” *VastFame*, 386 F.3d at 1115. Because this action, as an enforcement proceeding, is one pursuant to Section 1337(b), Ninestar has a statutory right to raise “all defenses,” including that of permissible repair. *Id.* at 1112-1113. See also *Corning Gilbert Inc. v. United States*, 2013 WL 411355, at *5 (Ct. Int’l Trade 2013).

Respondents’ argument is defective for additional reasons. Epson asserts that Ninestar should have sought an advisory opinion from the Customs Ser-

vice. Epson Br. 16. That agency will not, however, issue a ruling during the pendency of related litigation. See 19 C.F.R. § 177.7(b). Because a direct appeal of the underlying order was pending at the time this enforcement action was initiated, such a proceeding was not available. And there is no doctrine that makes use of this mechanism a necessary prerequisite to mounting a defense in a Section 337 enforcement proceeding.

Moreover, the underlying exclusion orders did not, because they could not, adjudicate Ninestar's permissible repair defense. As the ITC explained, "[r]emanufactured or refilled ink cartridges were not at issue in the original investigation." Pet. App. 38a. Epson did not raise the issue of remanufactured cartridges in its complaint in the underlying investigation. See Am. Compl., 337-TA-565 (Apr. 12, 2006). Res judicata, accordingly, cannot apply because permissible repair was not implicated in the original proceeding.

For the same reason, this action (unlike *Vast-Fame*) is not a collateral challenge to the underlying ITC exclusion orders. Because permissible repair is a defense to infringement, and because the underlying ITC orders do not address this issue (Pet. App. 38a), Ninestar's argument is that importation of remanufactured products is consistent with the ITC orders, not that the orders are wrong. Thus, the "rule that a party to an injunctive order must obey those commands" (Gov't Br. 14 (quotation omitted)) is not relevant here; if Ninestar is correct as to international patent exhaustion, its importation of remanufactured products obeyed the ITC orders.

B. *Jazz Photo* Is Wrong.

As for the merits, it is telling that the government fails to take a position on *Jazz Photo* and that it does not dispute the importance of the question presented. Nor does Epson provide any basis to contest the significance of this issue. Epson's objections on the merits are insubstantial.

To begin with, international patent exhaustion does not require extraterritorial application of the Patent Act. *Quanta* made plain that exhaustion turns on "whether the product is 'capable of use only in practicing the patent,' not whether those uses are infringing." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 632 n.6 (2008). Accordingly, whether an international sale exhausts U.S. patent rights is a question entirely apart from whether foreign sales could infringe U.S. patent rights. That is the express teaching, in the copyright context, of *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135, 145 n.14 (1998), which Epson provides no basis to distinguish.

Epson contends that the first sale abroad may not provide a patentee the "equivalent compensation abroad" for its patent rights. Epson Br. 17-18. But patent exhaustion does not depend on the amount that a patentee receives; it instead looks to the fact that the patentee authorized a sale and thus reaped a benefit. The decision whether to authorize any particular sale rests exclusively with the patentee. Similarly, Epson argues that *Jazz Photo* "is superior from the standpoint of foreign consumers" (Epson Br. 18), but it would be anomalous to construct U.S. patent

laws to benefit foreign customers, at the clear detriment of U.S. consumers. See Pet. 22-23.³

Epson's quibbles with the history of patent exhaustion are not well founded. Epson does not contest that British common law provides for international exhaustion. Pet. 11-12. It ignores the vast majority of past practice. Pet. 10-13. And Epson is wrong with respect to *Dickerson v. Matheson*, 57 F. 524 (2d Cir. 1893). See Epson Br. 5. Although *Dickerson* explains that consent is "also" a mechanism to permit importation of goods purchased abroad, it makes plain that, when a U.S. patent holder authorizes a sale of an item abroad, U.S. patent rights to that item are exhausted. 57 F. at 527. *Dickerson*, as Epson admits (at 5 n.3), has widely been acknowledged to adopt international patent exhaustion. It is Epson—not the several courts to have cited *Dickerson*—that is incorrect.

As for *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978), the district court declined patent exhaustion in the narrow circumstances where a product was purchased from a foreign company that held only the Italian patent

³ Epson suggests that international price discrimination may advance certain social welfare goals, such as low-cost pharmaceutical sales in developing nations. Epson Br. 18-19. But that is not how price discrimination operates in this case, nor the typical case; instead, discrimination is used to maximize the sale price of consumer and other durable goods. Moreover, as *amicus* Knowledge Ecology International explains (KEI Amicus Br. 16-18), if international price discrimination has social utility, mechanisms other than patent protection may achieve this result. The FDCA, for example, restricts the importation of pharmaceuticals and thus allows for international price discrimination. See *ibid.*

rights. That holding says nothing about a sale from the holder of both a foreign and a U.S. patent. Moreover, *Griffin* misread *Boesch* in the same manner as *Jazz Photo*. See Pet. 13-15. Because “[t]he Griffin decision is open to criticism on several grounds,” including that it “is inconsistent with virtually all other prior decisions on that issue, which it fails to distinguish or even acknowledge,” “the district court’s decision in Griffin cannot be afforded much weight.” Margreth Barrett, *The United States’ Doctrine of Exhaustion*, 27 N. Ky. L. Rev. 911, 946-949 (2000). In 2000, the year prior to *Jazz Photo*’s issuance, it was correct to conclude that international patent exhaustion “has been consistently applied in the United States for over 100 years.” D. Patrick O’Reilly & Seiji Ohno, *International Patent Exhaustion Licensing May Be A Remedy*, SF24 ALI-ABA 395, 421 (2000).

Finally, Epson cannot reconcile *Jazz Photo* with *Quanta*. Pet. 16-17. Epson contends that the inquiry in *Quanta* was whether the products “substantially embodied’ the patent,” not the “exhaustion consequences of a first sale abroad.” Epson Br. 20. This overlooks the very purpose of the substantial embodiment test; it exists solely to understand when a sale exhausts patent rights. An authorized sale of an item that substantially embodies the patent triggers exhaustion. *Quanta*, 553 U.S. at 637 (“Because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products.”).

C. Alternatively, The Case Should Be Held.

Although plenary review is appropriate, a hold is warranted in the alternative. The government acknowledges that “there is some family resemblance

between the questions presented” in *Kirtsaeng* and *Bowman* and the question presented here. Gov’t Br. 14. The resemblance is far beyond familial; the resolution of those cases will have substantial implications for international patent exhaustion.

There is no doubt that copyright exhaustion, which is at issue in *Kirtsaeng*, is controlled by statute, whereas patent exhaustion is a common law doctrine. But, as was argued in *Kirtsaeng*, the Copyright Act is generally interpreted against the common law of patents. See Pet. 26-27. Thus, the Court’s decision in *Kirtsaeng* may have substantial bearing here.

Bowman squarely presents the “single reward” approach to patent exhaustion. See, e.g., Resp. Br. 10, *Bowman v. Monsanto*, No. 11-796 (“Exhaustion is limited to the particular article sold and arises from the rationale that, through making a sale of an article embodying its invention, the patentee receives full reward for the use of its invention in that article.”). The Court’s decision in that case may thus have significant implications for the same issue that underlies this case. If anything, the government’s recognition of this petition in its *Bowman* brief demonstrates the importance of the issue presented here. See U.S. Amicus Br. 9 n.2, *Bowman v. Monsanto*, No. 11-796.

CONCLUSION

The Court should grant the petition for a writ of certiorari. Alternatively, the Court should hold the petition pending resolution of *Kirtsaeng* and *Bowman*, and then dispose of the petition accordingly.

Respectfully submitted.

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