U.S. IP RIGHTS NOT NECESSARILY EXHAUSTED BECAUSE OF AN OVERSEAS SALE

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The first authorized sale of a good in the United States normally exhausts the U.S. intellectual property (IP) rights relating to that specific good. For example, assume that a widget or some part of that widget is protected by a U.S. copyright or a U.S. patent. When ownership of that widget is acquired with the authorization of the U.S. IP owner, the acquiring party is normally free to resell or otherwise dispose of the widget without further authorization from the IP owner.

A growing number of goods sold in the U.S. have at least some foreign origin. In many cases, an initial U.S. product sale is by a party other than an owner of U.S. IP rights relevant to the sold product. Frequently, the product seller has no contract or other relationship with the U.S. IP owner. For example, the seller may have acquired the product from some third party who purchased that product overseas from the U.S. IP owner. Some interests seem to argue that any overseas sale by a U.S. IP right owner should exhaust those U.S. IP rights, at least as to copyright and patent protection. However, U.S. law has not yet gone that far.

COPYRIGHT

Under the "first sale" doctrine of U.S. copyright law, an owner of a particular copy that has been "lawfully made" under the U.S. copyright act is authorized to sell or otherwise dispose of that copy without needing the authorization of the copyright owner.[1] In *Omega S.A. v. Costco Wholesale Corp.*,[2] the Ninth Circuit Court of Appeals held that the first sale doctrine does not apply to goods that were manufactured and sold abroad by the U.S. copyright owner. Omega manufactured watches in Switzerland and held the U.S. copyright on an "Omega Globe Design" that was engraved on those watches.[3] Omega sold those watches to third parties overseas, but did not authorize those third parties to import the watches into the U.S.[4] Costco acquired the watches originally purchased by the third parties and sold them in its U.S. stores without Omega's authorization.[5]

The issue in *Omega* was the meaning of the phrase "lawfully made under this title" within the applicable U.S. copyright law section setting forth the first sale doctrine.[6] Specifically, 17 U.S.C. § 109(a) states that "the owner of a particular copy or phonorecord lawfully made under this title…is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy…" The phrase "this title" refers to the U.S. copyright laws.

Omega asserted that the first sale doctrine did not apply, as the manufacture and sale of the watches outside of the U.S. meant those watches were not lawfully made under the U.S. copyright laws.[7] Costco asserted a contrary position based on *Quality King Distributors, Inc. v. L'anza Research International, Inc.*,[8] a 1998 U.S. Supreme Court decision.[9] In *Quality King*, the U.S. Supreme Court held that a product with a U.S. copyrighted label that was manufactured in the U.S., exported

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"First Sale" Overseas

[1] 35 U.S.C. § 109(a).
[2] 541 F.3d 982 (2009).
[3] *Id.* at 983.
[4] *Id.* at 984.
[5] *Id.*
[6] *See id.* at 985.
[7] *Id.*
[8] 523 U.S. 135 (1998).
[9] *Id.*

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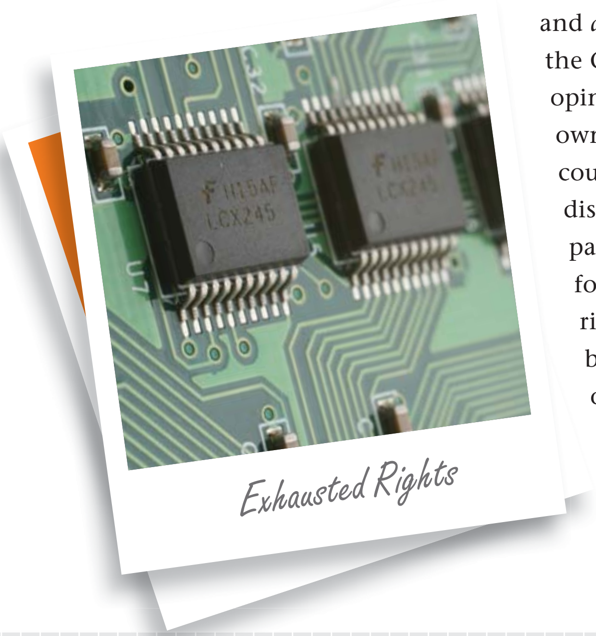
to an authorized foreign distributor, and then shipped back into the U.S. without the copyright owner's permission via overseas third parties was subject to the first sale doctrine.[10] The Ninth Circuit found that *Quality King* did not address whether the first sale doctrine applied to copies manufactured outside the U.S.[11] and decided that "lawfully made [under the U.S. copyright laws]" was not satisfied by the U.S. copyright owner making copies overseas.[12] However, the Ninth Circuit went on to say the first sale doctrine *would* cover copies that were made overseas if those copies were sold in the U.S. with the copyright owner's permission.[13]

Costco has petitioned the U.S. Supreme Court to review the Ninth Circuit decision. The petition has been fully briefed, including numerous third party *amicus curae* briefs supporting Costco's petition.[14] Whether the Court will grant the petition is unknown as of writing this article. Even if the Court does grant the petition, however, it is not clear that the Court would expand the first sale doctrine as far as Costco and *amici* propose. Notably, the Court's *Quality King* opinion recognized that an owner of a U.S. copyright could give exclusive U.S. distribution rights to party A and exclusive foreign distribution rights to party B, but that presumably only the copies manufactured by party A would be "lawfully made" under the first sale doctrine. Moreover, it is not clear that expansion of the first sale doctrine would be consistent with the existence of separate U.S. and non-U.S. property rights. Although a U.S. copyright and a non-U.S. copyright may cover the same work and be held by the same entity, they are separate property interests. Finding that a copyright owner has exhausted its U.S. copyright in the absence of any U.S. activity authorized by the U.S. copyright owner could impair separate exercise of those distinct property interests.



Exhausted Rights

PATENT

The first sale doctrine in the patent context requires that the first U.S. sale have occurred under the U.S. patent.[15] Thus, a U.S. patentee can authorize overseas sales of a product that might practice an invention without exhausting U.S. patent rights on that same invention.[16] This is logical, as a U.S. patent and a non-U.S. patent for the same invention are also separate property interests that must be separately obtained from governmental authorities in the appropriate jurisdictions. Although many licensing agreements will cover both U.S. and non-U.S. patents for a particular invention, this need not be the case.

At first blush, a recent district court opinion from the Northern District of California might seem to expand the first sale doctrine. In *LG Electronics, Inc. v. Hitachi, Ltd*,[17] the district court found that overseas sales *did* exhaust rights under a U.S. patent. However, it is not clear that the district court held that a foreign sale in and of itself was enough to exhaust a U.S. patent. On closer reading, the *LG Electronics* opinion arguably only holds that the location of a sale does not matter *if* that sale was authorized under a license that covers a U.S. patent.

[10] *Id.* at 986 (citing Quality King, 523 U.S. at 138–39, 144–52).

[11] *Id.*

[12] *Id.* at 988.

[13] *Id.* at 989-90.

[14] Those *amici* include eBay Inc. (brief filed June 17, 2009), Retail Industry Leaders Association, National Association of Chain Drug Stores, Amazon.com, Inc., Gamestop Corp., Movie Gallery, Inc., Quality King Distributors, Inc. and Target Corporation (brief filed June 17, 2009), Public Citizen, Inc. (brief filed June 16, 2009), Public Knowledge and the Electronic Frontier Foundation (brief filed June 17, 2009), and Entertainment Merchants Association and National Association of Recording Merchandisers (brief filed June 17, 2009).

[15] *Jazz Photo Corporation v. International Trade Commission,* 264 F.3d 1094, 1105 (Fed. Cir. 2001)(citing *Boesch v. Graff,* 133 U.S. 697, 701–703 (1890)).

[16] *Fuji Photo Film Company, Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005) ("patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States").

[17] 2009 WL 667232 (N.D. Cal. 2009). This decision has not yet been appealed.

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In *LG Electronics*, Intel and LG entered into a license agreement that allowed Intel to make, use and sell products containing numerous U.S. patents.[18] The same agreement purported to not license other parties to combine Intel chips (covered under the agreement) with other components.[19] Intel later sold chips to various computer manufacturers, who then incorporated those chips into computers that were sold in the U.S.[20] In the separate case of *Quanta Computer, Inc. v. LG Electronics, Inc.*,[21] the U.S. Supreme Court found that the same license agreement did exhaust patent rights as to combinations of the Intel chips with other components.[22] One of those patents (the '645 patent) at issue in *LG Electronics* was not at issue in *Quanta*.[23] LG argued that *Quanta* did not apply as to the '645 patent because, e.g., the authorized sales were not made in the U.S.

The district court rejected LG's argument and held that LG's patent rights were exhausted based on overseas sales to Intel under the agreement covering the U.S. patents. Although the court suggested that earlier Federal Circuit cases regarding the first sale doctrine were inconsistent with the Supreme Court's later opinion in *Quanta*,[24] it is important to remember the context of the *LG Electronics* case. The sales at issue were authorized under a license that covered the patent at issue. Had the sales been outside of the U.S. pursuant to an agreement that did not specifically cover the '645 patent (e.g., under a license that only covered a foreign patent to the same invention), the result may have been quite different.

In any event, the *LG Electronics* decision is not binding in other courts. Unless and until the Federal Circuit or the Supreme Court speaks further on this issue, there will remain numerous circumstances under which a U.S. patentee can authorize overseas sales without exhausting U.S. patent rights.

CONCLUSION

At least under current law, the mere fact that an owner of U.S. IP rights sold an item overseas will not automatically exhaust those IP rights as to that item. The full context of the IP right owner's activities should be considered when determining if there has been exhaustion. ■

Unless and until the Federal Circuit or the Supreme Court speaks further on the issue, there will remain numerous circumstances under which a U.S. patentee can authorize overseas sales without exhausting U.S. patent rights.

[18] *Id.* at *2.

[19] *Id.*

[20] *Id.* at *4.

[21] __ U.S. __, 128 S.Ct. 2109 (2008).

[22] *Id.* at *4.

[23] *Id.*

[24] *See id.* at *10.