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EXHAUSTING EXTRATERRITORIALITY

John A. Rothchild*

INTRODUCTION

Exhaustion is one of the most significant doctrines limiting the power that intellectual property laws grant to rights owners. It serves to maintain the balance between the prerogatives of rights owners and those of consumers of intellectual property that the legislature deems appropriate. In copyright law, exhaustion—usually referred to as the first-sale rule—limits the copyright owner’s public distribution right with respect to a particular copy or phonorecord. In patent law, exhaustion limits the patent owner’s right to control the sale and use of an article embodying a protected invention.

The principle underlying the idea of intellectual property rights exhaustion is simple to state: the intellectual property laws entitle a rights holder to only a single reward attributable to the sale (or other transaction resulting in a change in ownership) of an article that embodies protected intellectual property. A subsequent sale of that article does not entitle the rights holder to any additional reward. Thus,

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1. A first sale also limits the public display right. 17 U.S.C. § 109(c) (2006). That aspect of the first-sale rule is not central to the issues addressed in this Article.

2. In U.S. law, this principle is subject to a limited exception involving rental, lease, or licensing of a copy of a computer program or sound recording. 17 U.S.C. § 109(b)(1)(a) (2006). Droit de suite, which gives the creator of certain works of art the right to a royalty payment upon resale of an art object, is another limited exception. Such a right exists under the laws of several countries, including the European Union, and under California law, but not in U.S. federal law. See Mara Grumbo, Accepting Droit de Suite As an Equal and Fair Measure Under Intellectual Property Law and Contemplation of Its Implementation in the United States Post Passage of the EU Directive, 30
a copyright owner may demand any price he likes for the right to distribute a copy (such as a book, music CD, movie DVD, or software DVD) to the public. But once he has transferred a copy at whatever price he chooses to accept, he is not entitled to any additional reward on account of the copyright when the purchaser sells or otherwise disposes of that particular copy. A patent owner may likewise charge whatever the market will bear for the right to sell or use an article embodying his patented invention. However, if the article's new owner chooses to resell it, or to use it in a way not contemplated by the patentee, the patentee has no right to extract any additional patent-based reward from the subsequent transaction or use.

Application of the single-reward principle in domestic contexts has caused few difficulties. In cases where some of the relevant conduct occurs outside the United States, however, some courts have held that an authorized first sale does not result in exhaustion, with the result that the rights owner becomes entitled to more than a single reward in connection with disposition of a particular article. The courts have justified these results on the ground that finding exhaustion under such circumstances would constitute an impermissible extraterritorial application of the patent and copyright laws.

The issue is a significant one. Both copyright and patent law are increasingly invoked by rights owners who seek to segment their markets geographically. To do so, owners must prevent the practice of parallel importation. Under this practice, a manufacturer sells its products abroad, and some other person imports them into the United States without the manufacturer's authorization. The imported products are then offered for sale in competition with products that the manufacturer seeks to market in the United States at a higher price. If a first sale abroad exhausts the rights owner's ability to control importation via patent or copyright, preventing parallel imports becomes much more difficult and arbitrage erodes the owner's ability to price goods higher in the U.S. market.


3. See discussion infra Part II.
In the copyright context, the issue has attracted the attention of the Supreme Court, but remains unresolved. In December 2010, the Supreme Court affirmed, by an equally divided Court, the Ninth Circuit’s decision in Omega S.A. v. Costco Wholesale Corp.¹⁴ There, the Ninth Circuit held that the sale of a copy or phonorecord embodying a work protected by U.S. copyright does not exhaust the copyright if the article was manufactured and sold abroad.⁵ As a result of this rule, an individual in the United States who purchases a book, music CD, wristwatch with a copyrighted design engraved on the back,⁶ or bottle of shampoo with a copyrighted label⁷ could unwittingly be engaging in copyright infringement if the copyright owner did not authorize importation into, or sale in, the United States.⁸

In the area of patents, when courts address situations involving a first sale abroad they have largely applied the single-reward principle correctly. In a series of cases decided in the 2000s, however, the Federal Circuit held that a first sale abroad does not result in exhaustion.⁹ As a result, the patent owner is granted two patent rewards for its disposition of a particular article. In the copyright area, by contrast, most courts have failed to adhere to the single-reward principle with respect to sales abroad of articles that were manufactured outside the United States, granting the copyright owner two rewards (or, in some holdings later recognized as erroneous, an unlimited number of rewards) for its disposition of a particular article.¹⁰

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⁵ Id. at 983.

⁶ This is from the facts of Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 984 (9th Cir. 2008), aff'd by an equally divided Court, 131 S. Ct. 565 (2010).


⁹ See, e.g., Jazz Photo Corp. v. Int’l Trade Comm’n, 264 F.3d 1094 (Fed. Cir. 2001); see discussion infra notes 105–15 and accompanying text.

¹⁰ See, e.g., BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991); see discussion infra notes 153–55 and accompanying text.
In what follows, this Article will show that holding copyright rights to be exhausted by a first sale abroad of a copy that is manufactured abroad, or holding patent rights to be exhausted by a first sale that occurs abroad, does not constitute extraterritorial application of the relevant statutes. The involvement of foreign conduct accordingly furnishes no occasion for the courts to deviate from the single-reward principle by holding that the first sale does not result in exhaustion. Thus, these decisions have unjustifiably contracted the scope of the exhaustion doctrine in these two areas, conferring powers on patent and copyright owners that Congress did not intend.

Part I of this Article provides basic information about exhaustion and the single-reward principle. Part II examines the patent and copyright cases applying the exhaustion doctrine in contexts that involve conduct occurring outside the United States, and assesses which of the cases adhere to the single-reward principle and which do not. Part III then explicates the doctrine pertaining to extraterritorial application of U.S. law. This discussion will show that application of the exhaustion doctrine under the circumstances presented in the patent and copyright cases referenced above would not constitute extraterritorial application of the relevant statute. Accordingly, the grounds that courts have invoked to justify their deviation from the single-reward principle are not well taken. The Article concludes by arguing that courts should repudiate those holdings, and rule that the location of a first sale is irrelevant to the question whether the sale results in exhaustion of patent or copyright rights.

I. EXHAUSTION AND THE SINGLE-REWARD PRINCIPLE

In both copyright and patent law, the exhaustion doctrine cuts off certain prerogatives of the rights owner with respect to a particular article once ownership of the article has been transferred, by sale or otherwise, with the authorization of the rights owner.
A. Copyright

In copyright, the first-sale rule first arose as a judge-made doctrine, which Congress subsequently adopted by codifying it in the Copyright Act. In Bobbs-Merrill Co. v. Straus, the Court addressed a situation in which a book publisher, as copyright owner, attempted to control the retail price at which its books might be sold. To this end, it printed on each book's copyright page: "The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright." The publisher sought to enforce its copyright against a retailer who sold the book for eighty-nine cents, arguing that the retailer's action infringed its exclusive right to "vend" the book. But the Court rejected the publisher's argument, holding that the publisher's right to control distribution of a book was exhausted with respect to a particular copy once that copy changed hands:

To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning . . .

In justification of this outcome, the Court adumbrated the single-reward principle: "The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend." In other words, the right to vend consists of the right to sell a particular copy at a price the copyright owner deems suitable. Alternatively, if no taker can be found at the copyright owner's price, the right to vend includes the right to refuse to vend any copy at all. Once the copyright owner has accepted a price for transferring ownership of a copy, the owner may not invoke its copyright for a second time with respect to that copy in an effort to acquire a second reward.

13. Id. at 341.
14. Id.
15. Id. at 351.
16. Id.
A year after the Supreme Court expressed the first-sale rule in *Bobbs-Merrill*, Congress codified it in the 1909 Copyright Act. In adopting the rule, Congress accepted the Court's rationale as well: namely, that the statute entitles a copyright owner to only a single reward attributable to sale of a particular copy. The same rule was carried forward into the 1976 Copyright Act, which states:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.18

Both after enactment of the 1909 Act and after the 1976 revision, courts have continued to state the single-reward principle as the essence of the first-sale rule.

B. Patent

In patent law, as in copyright law, the exhaustion doctrine arose as a judge-made rule. The earliest Supreme Court case dealing with exhaustion involved the right of a purchaser of a patented article to continue using the article beyond the expiration of the original patent term. *Bloomer v.*

17. See Quality King Distrib., Inc. v. L'anza Research Int'I, Inc., 523 U.S. 135, 141–42 (1998) (“Congress subsequently codified our holding in *Bobbs-Merrill* that the exclusive right to 'vend' was limited to first sales of the work.”).


19. See Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 854 (2d Cir. 1963) (“[The] ultimate question embodied in the 'first sale' doctrine [is] 'whether or not there has been such a disposition of the article that it may fairly be said that the patentee [or copyright proprietor] has received his reward for the use of the article'...” (third alteration in original) (quoting United States v. Masonite, 316 U.S. 265, 278 (1942))); Burke & Van Heusen, Inc. v. Arrow Drug, Inc., 233 F. Supp. 881, 884 (E.D. Pa. 1964) (“[T]he ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use.”).

20. See Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1099 (3d Cir. 1988) (“With respect to future distribution of those copies in this country, clearly the copyright owner already has received its reward through the purchase price.”); Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F. Supp. 1378, 1389 (C.D. Cal. 1993) (“[T]he distribution right and the first sale doctrine rest on the principle that the copyright owner is entitled to realize no more and no less than the full value of each copy or phonorecord upon its disposition.”).
McQuewan\textsuperscript{21} involved the right of the purchaser of a patented planing machine to continue using it during an extended patent term. Holding that the purchaser could continue using the machine, the Court explained: "When the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress.\textsuperscript{22}

In Adams v. Burke,\textsuperscript{23} the Court addressed the right of a purchaser to use the patented article outside the territorial scope of the vendor's patent rights. The holder of a patent on an improvement in coffin lids granted all rights to the patent within a circle ten miles in radius centered on Boston to Lockhart & Seelye, and granted such rights for the rest of the country to Adams.\textsuperscript{24} The defendant was an undertaker who had purchased a patented coffin from Lockhart & Seelye in Boston, but then used the coffin in a burial occurring seventeen miles from Boston, beyond the territorial scope granted to Lockhart & Seelye.\textsuperscript{25} Adams sued Burke for infringement, but the Court ruled in Burke's favor. The Court held that "the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time."\textsuperscript{26} The Court justified its holding with a statement of the single-reward principle:

\begin{quote}
[T]he patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.\textsuperscript{27}
\end{quote}

To hold otherwise would be to allow the patentee to collect two rewards for the sale of a single patented article—one from Lockhart & Seelye and the other from Adams.\textsuperscript{28}

\begin{itemize}
\item \textsuperscript{21} 55 U.S. 539 (1852).
\item \textsuperscript{22} Id. at 549.
\item \textsuperscript{23} 84 U.S. 453 (1873).
\item \textsuperscript{24} Id. at 453–454.
\item \textsuperscript{25} Id. at 454.
\item \textsuperscript{26} Id. at 455.
\item \textsuperscript{27} Id. at 456. See also id. ("[T]he patentee had received his consideration, and it was no longer within the monopoly of the patent . . . ."). This decision was followed, on similar facts, in Hobbie v. Jennison, 149 U.S. 355 (1893).
\item \textsuperscript{28} That a contrary holding would have resulted in a double reward to the
\end{itemize}
These cases addressed the right of a purchaser to use the article without further authorization from the patentee or its assignee. Subsequent cases extended the exhaustion principle to the right to resell that article. In *Keeler v. Standard Folding Bed Co.*, the patentee assigned its patent "for an improvement in wardrobe bedsteads" for Massachusetts to one person and assigned the same rights for Michigan to another person. The defendants purchased a carload of the beds in Michigan and sold them in Massachusetts. The patent assignee for Massachusetts sued the defendants for infringement. The Court held there was no infringement, explaining: "[A] person who buys patented articles from a person who has a right to sell, though within a restricted territory, has a right to use and sell such articles in all and any part of the United States . . . ." As in *Adams*, the Court justified its holding in terms of the single-reward principle: when patentees "have made one or more of the things patented, and have vended the same to others to be used, they have parted to that extent with their exclusive right, as they are never entitled to but one royalty for a patented machine."

The Supreme Court most recently reiterated the single-reward principle in *United States v. Masonite Corp.* There, the holder of patents on hardboard entered into a series of "agency" agreements with sellers in a scheme to set minimum resale prices on the hardboard that it manufactured. The Court found that this was a per se violation of the Sherman

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patentee is clear on the assumption that the patentee was paid for his assignments to Lockhart & Seelye and to Adams on a per-sale, royalty basis and that the patentee was thus entitled to both a share of the price Burke paid to Lockhart & Seelye as well as a share of the license fee that Adams demanded. In this case, the assumption appears to be counterfactual, in that the patentee received a lump-sum payment from each of the two assignees. *Adams*, 84 U.S. at 456-57. The double reward is nonetheless implicit in the financial arrangements. If there were no limitation to a single reward, the patent would be worth more to each assignee, and the patentee would be able to bargain for a higher price.

30. Id. at 659.
31. Id. at 664.
32. Id. at 663 (emphasis added) (quoting *Mitchell v. Hawley*, 83 U.S. 544, 547 (1872)). The Court had made the same statement previously in *Bloomer v. Millinger*, 68 U.S. 340, 350 (1863).
33. 316 U.S. 265 (1942).
34. Id. at 268–69.
Act unless the defendant's patents entitled it to such downstream control of its products.\(^35\) Citing several of its early patent exhaustion cases, the Court held that the Patent Act accorded a patentee no such authority. It explained the exhaustion doctrine in this way: "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."\(^36\)

C. Summary

In both the copyright and patent areas, the courts have declared unmistakably that the touchstone for determining whether a rights owner's intellectual property rights, with respect to a particular article, are exhausted is whether the rights owner disposed of the article for a price he deemed suitable, and thereby obtained the reward to which the law entitles him. Neither a copyright owner nor a patentee is entitled to two monopoly rewards from the sale of a single article.

II. EXHAUSTION IN CONTEXTS INVOLVING SOME FOREIGN CONDUCT

In the cases discussed above, all of the relevant conduct occurred within the United States. In all of them, the holdings—that a copyright or patent as to a particular article was exhausted by the first authorized sale—are consistent with the single-reward principle. However, when some of the relevant conduct occurs outside the United States, complications arise. In some cases, courts resolve the issue consistently with the single-reward principle, sometimes even explicitly invoking that principle. In other cases, however, the court's decision that a first sale does not result in exhaustion allows the rights owner to demand a double reward.

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35. Id. at 274.
36. Id. at 278. On the same day, the Court decided United States v. Univis Lens Co., in which it similarly stated: "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, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." 316 U.S. 241, 251 (1942).
This Part reviews these cases and assesses their consistency with the single-reward principle. The rationales of the decisions that fail to apply the single-reward principle indicate that these outcomes result from a misapplication of the presumption against extraterritoriality.

A. Patent Exhaustion Cases with a Foreign Component

These cases may be divided into two categories: (1) those in which the U.S. patentee had already received its reward due to disposition of an article as the result of a sale outside the United States and seeks to control use or resale within the United States; and (2) those in which the patentee invokes a U.S. patent as entitlement to its first and only reward for disposition of the article. Fidelity to the single-reward principle would mean that the patentee's rights in the article should be held to be exhausted in the first category of cases but not in the second. That expectation proves largely to be fulfilled, but with several important exceptions. It is best to consider the cases chronologically.

1. The Cases

The earliest case of which I am aware that involves a foreign-conduct exhaustion issue is *Brown v. Duchesne.* 37 The Court, however, left the issue unaddressed. In *Duchesne,* a French schooner, the Alcyon, called at the port of Boston on a voyage that originated, and would terminate, at the French colony of St. Peters. 38 The ship was fitted with a type of gaff that was commonly used in France, but the plaintiff claimed to own a U.S. patent that the gaff embodied. Plaintiff sued the ship's master, a French subject, for infringement. Conceding that all persons within U.S. territory, whether residents or visitors, were subject to U.S. laws, and that the language of the patent laws, “taken by themselves, and literally construed, without regard to the object in view, would seem to sanction the claim of the plaintiff,” the Court nevertheless held that there was no infringement. 40

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37. 60 U.S. 183 (1856).
38. *Id.* at 193. St. Peters is on the island of Miquelon, which is situated off the eastern seaboard of Canada, about thirty miles south of Newfoundland.
39. A gaff is a spar or pole that helps to support a ship’s sail with a particular rigging design.
40. *Brown,* 60 U.S. at 194.
Evidently uncomfortable with the prospect of applying U.S. patent law to a French ship that had been built in France (where the gaff was unpatented), was manned and owned by French subjects, and was only transitorily in U.S. waters for commercial purposes, the Court advanced several justifications for the outcome. First, the Constitution’s grant to Congress of the power to “promote the progress of science and useful arts” does not extend to regulating “commerce, or the vehicles of commerce, which belong to a foreign nation, and occasionally visit our ports in their commercial pursuits.” Second, the patent laws do not operate extraterritorially, and the defendant did not make, sell, or effectively use the invention while it was at Boston’s harbor, but only in places outside U.S. jurisdiction. Third, Congress could not have intended the patent laws to be applied in a way that would grant a patentee a claim where he had suffered no damages, would “seriously embarrass the commerce of the country,” or would “embarrass the treaty-making power.”

The opinion was written by Chief Justice Taney, who four years earlier had authored *Bloomer v. McQuewen,* which established the principle that a first sale of a patented article exhausts patent rights with respect to that article. The opinion does not address the question of exhaustion, presumably because the defendant did not raise it as a defense. If the Court had considered the question of exhaustion, it ought (consistently with the single-reward principle) to have found that the plaintiff’s patent rights as to the gaff on the Alcyon were not exhausted by the first sale of the gaff in France. The U.S. patentee received no reward from that sale. A dictum statement by the Court about what would have been the case had the gaff been manufactured or sold on the ship while in Boston’s harbor, rather than merely used there, is consistent with that principle:

If it had been manufactured on her deck while she was lying in the port of Boston, or if the captain had sold it there, he would undoubtedly have trespassed upon the rights of the plaintiff, and would have been justly

41. *Id.* at 195.
42. *Id.* at 195–96.
43. *Id.* at 195–98.
44. 55 U.S. 539 (1852). See also supra notes 21–22 and accompanying text.
answerable for the profit and advantage he thereby obtained.\textsuperscript{45}

The first case to address foreign-conduct exhaustion of patent rights is \textit{Holiday v. Mattheson}.\textsuperscript{46} The plaintiff, who owned a U.S. patent on an unspecified invention, sold an article embodying the invention in England. The purchaser then resold that article, also in England, to the defendant. The patentee invoked his patent rights in an effort to prevent the defendant from using or selling the article in the United States.\textsuperscript{47} The court, in a brief opinion, held that once a patentee has sold a patented article unconditionally, "the purchaser acquires the whole right of the vendor in the thing sold: the right to use it, to repair it, and to sell it to others."\textsuperscript{48}

The court gave no indication that the location of the first sale, outside the United States, affected the analysis in any way. The court relied upon several cases, including the Supreme Court decisions in \textit{Bloomer v. McQuewan} and \textit{Mitchell v. Hawley}, which had elaborated the principle of exhaustion in a domestic context. Although the court did not discuss it in these terms, the outcome and logic of the decision are consistent with the single-reward principle. The patentee received a reward satisfactory to him when he first sold the article in England. He was not entitled to a second reward when a downstream purchaser chose to use or sell the article in the United States.

The next case in the series, \textit{Boesch v. Graff},\textsuperscript{49} featured a patent on an improvement to lamp-burners. The inventors obtained patents on the invention in both the United States and Germany and assigned the U.S. patent to the plaintiff. The defendants purchased the burners in Germany and sold them in the United States.\textsuperscript{50} The vendor in Germany, Hecht, had not received any authorization from the patentees, but was entitled to sell the burners under a German law that protected the rights of prior users.\textsuperscript{51} The Court held that the

\textsuperscript{45} Brown, 60 U.S. at 196.
\textsuperscript{46} 24 F. 185 (C.C.S.D.N.Y. 1885).
\textsuperscript{47} Id. at 185.
\textsuperscript{48} Id.
\textsuperscript{49} 133 U.S. 697 (1890).
\textsuperscript{50} Id. at 698–99.
\textsuperscript{51} The German patent law "provided that the patent does not affect persons who, at the time of the patentee's application, have already commenced to make use of the invention in the country, or made the preparations requisite
assignee of the U.S. patent was entitled to collect a royalty from the defendants on the burners imported from Germany.\(^\text{52}\) It arrived at this determination after reviewing several of its prior cases, decided in a domestic context, which turned upon a distinction between the patentee's exclusive right to make and vend an article embodying the invention and its exclusive right to use the article.\(^\text{53}\) Those cases yielded the principle that authorized sale of an article exhausts the patentee's right to control use of the article by the purchaser or his transferees, but does not exhaust the patentee's right to control subsequent vending of the article,\(^\text{54}\) nor, of course, does it exhaust the patentee's right to control the making of other articles embodying the invention. Because the defendants were charged with selling (vending) the lamp-burners, that rule compelled the Court's determination that the defendants infringed the U.S. patent.

The Court then went on to address, very briefly, the international aspect of the case. In its entirety, the Court said:

> The right which Hecht had to make and sell the burners in Germany was allowed him under the laws of that country, and 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. A prior foreign patent operates under our law to limit the duration of the subsequent patent here, but that is all. The sale of articles in the United States under a United States patent cannot be controlled by foreign laws. This disposes of the second error relied on.\(^\text{55}\)

This statement articulates an independent rationale for the Court's holding that the U.S. patentee is entitled to exact a royalty from the defendants for the right to resell the lamp-burners in the United States. One interpretation some courts\(^\text{56}\) have placed upon this language is that the sale of an

\(^\text{52}\) Id. at 701.
\(^\text{53}\) Id. at 709.
\(^\text{54}\) Id. at 705–06.
\(^\text{55}\) Id. at 702–03. The Court first held that an authorized first sale exhausts the right to vend in Keeler v. Standard Folding Bed Co., 157 U.S. 659 (1895), which it decided five years after Boesch v. Graff. See supra notes 29–32 and accompanying text.
\(^\text{56}\) See, e.g., Jazz Photo Corp. v. Int'l Trade Comm'n, 264 F.3d 1094 (Fed.
article in a foreign country, in accordance with the patent law of that country, cannot exhaust the rights of a U.S. patentee with respect to subsequent use or sale of that article. In other words, the single-reward principle does not apply when a first sale in a foreign country is followed by a resale (or use) of the article in the United States. For several reasons, this is not a supportable reading of the statement. First, it is dictum: it follows the Court's explanation of its holding on the fully sufficient ground that a first sale exhausts only the right to use, not the right to vend. Second, the facts of the case do not present a situation in which the U.S. patentee gained any patent-based reward by virtue of the sale abroad; indeed, neither the patentee nor any assignee or licensee gained any reward as a result of the first sale from Hecht to the defendants in Germany because Hecht's prior-user right allowed him to make and sell the burners without paying any royalty to any patentee.57

The Supreme Court's interpretation of the Boesch statement in Keeler is the most persuasive reason against interpreting the statement to mean that foreign sales do not trigger exhaustion. In Keeler, the Court held that one who purchases a patented article in the United States is free to use or resell the article anywhere in the country, even in a territory where the patent rights are owned by a person other than the original seller.58 In the course of its opinion, the Court rejected the contention that Boesch calls for a different result, explaining that "neither the patentee nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States."59 That is, the Court invoked the single-reward principle to explain how Boesch differed from Keeler. In Boesch, the U.S. patentee had not received any patent-based reward from the first sale in

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57. See Harold C. Wegner, Post-Quanta, Post-Sale Patentee Controls, 7 J. MARSHALL REV. INTELL. PROP. L. 682, 698 (2008) ("Boesch has nothing to do with patent exhaustion because there was no patent right, German or otherwise, that was exercised.").

58. Keeler, 157 U.S. at 664 ("[A] person who buys patented articles from a person who has a right to sell, though within a restricted territory, has a right to use and sell such articles in all and any part of the United States . . . .").

59. Id. at 665.
Germany, while in Keeler the patentee had received just that reward from its first sale of the article. Two lower courts have adopted this construction of Boesch as well.60

Accordingly, Boesch is properly viewed as holding that the sale of an article in a foreign country from which the U.S. patentee derives no patent-based reward, either directly or through an assignee or licensee, does not exhaust the patentee’s exclusive right to vend that article. This is based on either of two alternative rationales: (1) a first sale exhausts the patentee’s exclusive right to use, but not the exclusive right to vend; or (2) a first sale (whether domestic or abroad) does not exhaust any of the patentee’s rights if made under circumstances that do not result in any patent-based reward to the patentee. The result and rationale in Boesch are thus consistent with the single-reward principle.

In Dickerson v. Matheson,61 patents for an improvement to a type of coloring matter were issued in both the United States and Germany. Through assignment, the German company Bayer owned both patents. Bayer licensed to another German company, the Berlin Company, the rights to sell the material under both patents. The defendants, through an agent, purchased a quantity of the material manufactured by the Berlin Company and imported it into the United States.62 The seller’s agent unequivocally stated its unwillingness to sell the material for importation into the United States, and the goods were marked with a label reading “[t]he importation into the United States of North America is forbidden.”63 However, the buyer’s agent did not disclose the shipment’s destination and indeed took steps to conceal the identity of the destination.64 The court held that importation of the material infringed the U.S. patent, on the ground that the sale was not an unrestricted one, but was explicitly subject to a prohibition against importation into the United States.

61. 57 F. 524 (2d Cir. 1893).
62. Id. at 525.
63. Id. at 525–26.
64. Id.
The court relied implicitly on the single-reward principle, expressed in several dictum statements. The court explained:

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.\textsuperscript{65}

Under such circumstances, the patent owner will have received its reward from the initial sale in the foreign country, and is not entitled to a second reward upon importation into the United States. On the other hand, the court continued:

A purchaser in a foreign country of an article patented in that country and also in the United States, from a licensee under the foreign patent only, does not give the purchaser a right to import the article into, and to sell it in, the United States, without the license or consent of the owner of the United States patent.\textsuperscript{66}

In other words, where the licensee in the foreign country is not identified with the holder of the U.S. patent, a sale in the foreign country does not reward the U.S. patentee and accordingly that patentee is entitled to a reward attributable to the importation.

\textit{Daimler Manufacturing Co. v. Conklin}\textsuperscript{67} involved a defendant who purchased an automobile in Germany while on a visit and brought it back home to the United States for personal use. The car was manufactured in Germany by

\textsuperscript{65} \textit{Id.} at 527. The court noted this conclusion followed from the Supreme Court cases holding that a first sale exhausts the patentee's rights in a \textit{domestic} setting, finding no grounds for any different rule to apply in cases with an international component: "The cases which have been heretofore decided by the supreme court in regard to the unrestricted ownership by purchasers in this country of articles patented in this country, and sold to such purchasers without limitation or condition, lead up to this principle." \textit{Id.}

\textsuperscript{66} \textit{Id.} In a case based on similar facts, the Eighth Circuit arrived at a similar dictum statement of the rule of exhaustion based on a foreign first sale: "[O]ne who purchases in a foreign country, of others than the owners of the United States patent or their vendees, pays nothing, either directly or indirectly, to the owners of the patent, and therefore he acquires no right to make, use, or vend the article which he buys within the territorial limits of their monopoly." Dickerson v. Tinling, 84 F. 192, 194 (8th Cir. 1897).

\textsuperscript{67} 170 F. 70 (2d Cir. 1909).
Daimler Motorem Gesellschaft. It incorporated inventions protected by U.S. patents, which were assigned to Daimler Manufacturing Company of New York.68 The U.S. company and one of its licensed dealers sued the defendant for infringement based on the unauthorized importation.69 Consistent with the single-reward principle, the appellate court held that the importation was infringing. The inventions were not, as the lower court found, covered by any German patent.70 The sale of the car in Germany, therefore, did not result in any reward for the owner of the U.S. patent or its licensees.

The court’s reasoning, however, suggests that it would have reached the same outcome even if it resulted in a double reward. After describing the decision in Boesch, the court asked rhetorically: “The sale by a German patentee of a patented article may take it out of the monopoly of the German patent, but how can it take it out of the monopoly of the American patentee who has not sold?”71 Thus the court derived from Boesch the principle that sale of an article abroad does not exhaust the rights of a U.S. patentee with respect to that article. While it is true that the sale abroad did not result in exhaustion under the circumstances presented in Boesch or Daimler, as explained above the broader proposition that a foreign sale can never trigger exhaustion is not fairly derived from Boesch. In fact, the proposition is contradicted by the Court’s explication of Boesch in Keeler.

In Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.,72 the plaintiff was an aircraft manufacturer and the holder of U.S. and Canadian patents on inventions used in its planes. During World War I, plaintiff entered into contracts with the British government under which it manufactured, in Canada, airplanes incorporating those inventions. The plaintiff then sold the airplanes to the British government. After the war, the British government sold the planes it no longer needed.

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68. Id. at 70.
70. Id. at 682.
72. 266 F. 71 (2d Cir. 1920).
 Defendant purchased some of the planes and sold them in the United States without plaintiff's authorization. The plaintiff sued for infringement. The court found that the plaintiff had no right to control sale of the airplanes in the United States. It held "the law to be that the British government obtained a full and unqualified right to use and sell the planes and engines, and that this right passed to all subsequent purchasers, and therefore to this defendant." In other words, plaintiff's patent rights were exhausted after the first sale of the airplanes, which occurred in Canada with plaintiff's authorization.

The court's holding, and its further discussion of the issue, are consistent with the single-reward principle. It categorized the cases that plaintiff relied upon into two groups, both of which it found distinguishable. The first group included cases "in which there has been a sale of a patented article, or a license to manufacture, but accompanied by explicit and unequivocal restrictions." The second group, including Boesch and Daimler, consisted of "[t]hose in which 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." In this group of cases, as discussed above, the patent owner did not receive any reward attributable to the initial sale and the patent rights were accordingly not exhausted. This was the factor that, in the court's view, distinguished those cases from the one at bar: whether the plaintiff had already received the one and only reward to which the patent laws entitle him upon disposition of a particular patented article.

In the next case to address the issue of foreign-conduct exhaustion, the court failed to adhere to the single-reward principle. In Griffin v. Keystone Mushroom Farm, Inc., the plaintiff owned both U.S. and Italian patents on a composting machine. It assigned exclusive rights to make, use, and sell the machine in the United States to Longwood and the exclusive right to "practice . . . the art" in Italy to

\[\text{73. Id. at 72–74.}
\[\text{74. Id. at 77.}
\[\text{75. Id.}
\[\text{76. Id.}
\[\text{77. 453 F. Supp. 1283 (E.D. Pa. 1978).}
Carminati. The defendant bought several of the machines from Carminati and had them delivered to the United States, where he used and sold them without authorization from Longwood or the patentee. The patentee sued for infringement. The defendant argued that the first sale of the machines in Italy exhausted the patent as to those machines, allowing him to use and sell them without further authorization. For this proposition, the defendant relied on cases including Adams and Bloomer, discussed above. The court held those cases to be inapplicable, however, where the first sale occurs outside the United States: "[T]he defendant seeks to extend beyond national borders the rule . . . concerning escape from the patent monopoly by purchase from an authorized seller." The court considered that the outcome was compelled by Boesch, from which it derived the principle that sale of an article in a foreign country cannot exhaust the rights of the U.S. patent owner under U.S. law. The court explicitly considered, and rejected, defendant's invocation of the single-reward principle. Defendant argued that a finding of infringement "would give plaintiff," as owner of both the U.S. and Italian patents, "a windfall 'double recovery,'" but the court thought otherwise. It explained that the two patents gave rise to two independent sets of rights, and plaintiff was entitled to invoke both sets of rights:

The sale or use of each machine in both countries represents potentially two separate torts against the plaintiff and infringes potentially on two separate sets of rights held by him . . . . The non-tortiousness of defendant's conduct in Italy cannot enter into an adjudication of the plaintiff's rights in this country.

As discussed above, Boesch is not properly interpreted as standing for the proposition that a foreign sale cannot exhaust U.S. patent rights. The Court's subsequent opinion in Keeler indicates that the outcome in Boesch resulted from the fact that the patentee had not received any reward from

78. Id. at 1284–85.
79. Id. at 1283–84.
80. Id. at 1284.
81. Id.
82. Id. ("We find this case to be controlled by the decision in Boesch v. Graff . . . .").
83. Id. at 1285.
84. Id.
the initial sale abroad, and that Boesch does not hold that a foreign sale can never trigger exhaustion of U.S. patent rights.

In Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc.,\textsuperscript{85} the plaintiff was a French drug company, Sanofi, that owned the U.S. patent on a tranquilizer drug. Sanofi granted to American Home Products the exclusive right to sell the drug in the United States.\textsuperscript{86} Defendant, through a broker, purchased the drug in bulk from a wholly-owned subsidiary of Sanofi in France.\textsuperscript{87} The seller advised the broker that there was a U.S. patent on the drug, and indicated it could not be purchased for a customer in the United States; the broker fraudulently represented that the purchase was for a customer located in South America.\textsuperscript{88} The court held, first, that Sanofi could not invoke its patent rights to prevent sale of the drug in the United States. Sanofi argued that Boesch and Griffin were controlling authority, but the court distinguished those cases, explaining:

In Boesch, it was not the patentee who made the sale abroad. In fact, it was not even a licensee of the patentee who made the sale. Rather, the seller was one who had a right to sell by operation of the patent laws of Germany . . . . Under the circumstances of Boesch, the patentee neither received compensation for the use of his invention, nor consented to its importation into this country. Here, however, it was the patentee that made and profited from the initial sale abroad . . . \textsuperscript{89}

While this distinction was true enough, and highly relevant in applying the single-reward principle, the court overlooked another critical distinction: in the case at bar, there was no French patent on the drug.\textsuperscript{90} Therefore, Sanofi did not receive any patent-based reward on account of its initial sale of the drug in France, and allowing it to extract a royalty based on the sale and use of the drug in the United States would have been consistent with the single-reward principle.

\textsuperscript{86} Id. at 934.
\textsuperscript{87} Id. at 934–35.
\textsuperscript{88} Because the court found that the defendant was not implicated in the fraud, it treated the sale as an unrestricted one. Id. at 935.
\textsuperscript{89} Id. at 937–38.
\textsuperscript{90} Id. at 938.
The court went on to hold that although Sanofi’s rights were exhausted, American Home Products ("AHP") did have the right to demand a royalty from defendant because it held an exclusive license to sell the drug in the United States.91 This result is consistent with the single-reward principle because Sanofi earned its single reward through its U.S. licensee. However, the court’s reasoning does not follow from the single-reward principle. The court reasoned that: (1) Sanofi assigned to AHP the exclusive right to sell the product in the United States; (2) a patentee cannot convey to a purchaser any rights beyond those that it itself possesses; (3) Sanofi itself did not have the right to sell the product within AHP’s exclusive territory; and therefore, (4) the defendant, which purchased the product from Sanofi, did not have the right to sell the product in that territory.92 This reasoning, however, is inconsistent with the decisions holding that, in a domestic context, one who purchases a patented article in an unrestricted transaction authorized by the patentee gains the right to use and sell that article throughout the United States, even in geographical areas where another person has been assigned exclusive rights under the patent. In such situations, the purchaser of the article has the right to use or sell the article within a particular geographical territory even though the seller from whom he acquired the article would not have been authorized to sell it in that territory.93

91. Id. at 942.
92. Id. at 939.
93. See 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 territory, has a right to use and sell such articles in all and any part of the United States . . . ."); Sec. Materials Co. v. Mixermobile Co., 72 F. Supp. 450, 455 (S.D. Cal. 1947) ("[T]he ordinary buyer may use or resell anywhere and at any time."); Clayton M. Hogue & Berrien Cty. Package Co. v. Wise, 35 U.S.P.Q. 72, 72 (W.D. Mich. 1933) ("A grant of an exclusive right to make, use, and sell a particular patented invention, within a particular part of the United States, confers the right to use and sell, anywhere within the United States, those specimens of that invention which are made and sold under the grant and within the territory covered thereby.") (quoting Walker on Patents, sec. 335)); Russell v. Tilghman, 275 F. 235, 236 (E.D. Va. 1921) ("[T]he purchaser of the patented article . . . acquires also with the purchase the privilege of using it or selling it again in all parts of the United States."); Free Sewing Mach. Co. v. Bry-Block Mercantile Co., 204 F. 632, 634–45 (W.D. Tenn. 1913) (relying on Keeler).
In Kabushiki Kaisha Hattori Seiko v. Refac Technology Development Corp., the court was required to construe an agreement between Refac and Hattori settling a previous lawsuit. Refac, which owned both U.S. and foreign patents, granted to Hattori a license to make and sell articles embodying several of its patents, including one on electronic timepieces. Hattori sold patented watch components to Advance Watch Co. at a location outside the United States. Advance incorporated the components into watches and sold them in the United States. Refac sued Advance for infringement in a Michigan district court, claiming that the license permitted Hattori to sell patented goods in the United States only. Hattori then brought this action against Refac seeking, among other things, a declaration that the license permitted Hattori to make sales worldwide and a determination that Hattori’s sales abroad did not make it contributorily liable for Advance’s sales in the United States. The court construed the license in Hattori’s favor, holding that it permitted Hattori to sell the patented items both in the United States and abroad. It went on to hold that Hattori’s first sale abroad of patented articles exhausted the patent as to those articles:

In general, the first sale of a product by a patentee or licensee exhausts the patent monopoly, and deprives the holder of patent rights of any further control over resale of the product. This principle applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States. Following such a sale, the holder of United States patent rights is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article here.

Because Refac’s patent rights were exhausted by the first sale of the articles abroad (via its licensee Hattori), “Refac may not claim royalties on Hattori products purchased abroad and

95. The court, however, did not rely on Refac’s ownership of foreign patents applying the watch components because Hattori did not premise its argument on such patents. Id. at 1343 n.3.
96. Id. at 1341–42.
97. Id. at 1342.
98. Id.
resold in the United States by third parties." The result was a straightforward application of the single-reward principle. Refac was credited with the reward attributable to the first sale abroad, and was not entitled to a second reward when the articles were resold in the United States.

In *PCI Parfums et Cosmetiques International v. Perfumania, Inc.*, PCI was a French company that manufactured perfumes, and held U.S. patents on its perfume bottles. PCI granted an exclusive license to Campbell & Thiselton to make, use, and sell the bottles in the United States. These two entities sued defendant for selling the bottles in the United States without authorization. The court’s opinion was very brief and did not thoroughly describe the dispute’s factual background, but it appears that defendant was purchasing bottles of the perfume abroad and selling them in the United States as gray-market goods. Defendant sought dismissal of the action on the ground that the patentee’s rights were exhausted by the first sale abroad. The court denied the motion to dismiss. It observed that patent rights are exhausted only upon “an authorized sale of the patented item,” which meant that plaintiffs could prevail if they showed that defendant’s “acquisition of the patented items was not pursuant to an authorized sale.” This would be the case if plaintiffs “could establish that the patented items sold by defendant were purchased abroad and then imported for resale in the United States without the consent of Campbell & Thiselton, the exclusive United States licensee.” The logic of the court’s reasoning is obscure: why would the absence of consent by the U.S. licensee to importation affect whether the prior sale to defendant abroad was an authorized one? The fact that the court cited *Boesch* and *Sanofi* in support of the last-quoted statement suggests

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99. *Id.*


101. *Id.* at 1160.

102. “'Gray-market' goods, or 'parallel imports,' are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported into the United States by third parties, thereby bypassing the authorized U.S. distribution channels.” *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 n.6 (9th Cir. 1994).


104. *Id.*
that its reasoning was premised on the circumstance that PCI's first sale abroad was, as in those cases, not pursuant to any patent. Although the court does not say so, it seems probable that the bottles were not patented under French law. On the assumption that there was no French patent, the result is consistent with the single-reward principle. PCI received no patent-based reward on account of its first sale of the bottles abroad. Therefore, it was entitled, through its licensee Campbell & Thistleton, to a reward due to exercise of its U.S. patent rights.

We arrive, finally, at Jazz Photo Corp. v. International Trade Commission, in which the Federal Circuit held that patent rights are not exhausted by a sale that occurs outside the United States. The case marked an important installment in the long-running dispute between Fuji Photo Film Company, a manufacturer of single-use disposable cameras, and various companies in the business of refurbishing the used cameras and reselling them in the United States. Fuji held a number of patents on the cameras, and invoked those patents to prevent the refurbishing, importation, and sale of used cameras. The used cameras were acquired by certain enterprises located overseas, and were refurbished through a series of operations including removing the cardboard cover, opening the camera body, replacing the battery, adding new film, and applying a new cardboard cover. The case raised two key issues. The first issue was whether the process of refurbishment constituted "repair" of the cameras or "reconstruction," as those terms are used in patent law. "Reconstruction" of a patented article without authorization from the patentee is an infringement of the exclusive right to "make" articles embodying the patent. "Repair" of a patented article, on the other hand, is within the prerogatives of the article's owner. The court held that the refurbishing operations constituted "repair," and were therefore permissible actions by an owner of the cameras.

105. 264 F.3d 1094 (Fed. Cir. 2001).  
106. Id. at 1098.  
107. Id.  
108. Id. at 1102.  
109. Id. at 1102–05.  
110. Id. at 1105–07.
That determination led the court to consider the second issue: whether Fuji's patent rights on the cameras were exhausted by its sale of the cameras. Exhaustion came into play because the refurbisher's rights were derivative of those of the first purchaser: the right of repair "accompanies the article to succeeding owners."111 Whether exhaustion occurred as to a particular camera, the court held, depended on whether the camera was first sold in the United States or abroad.112 This is because "United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent."113 Thus, unauthorized repair was permissible only as to cameras "for which the United States patent right has been exhausted by first sale in the United States."114 To support that proposition the court cited only Boesch.

From the standpoint of the single-reward principle, the court's reliance upon Boesch was inapposite. As discussed above, that case 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. Moreover, the Jazz Photo court made no reference to the several cases, discussed above, in which courts have held that a foreign sale may exhaust U.S. patent rights.115

The Federal Circuit subsequently decided two other cases that relied on the rule it stated in Jazz Photo. The first, Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.,116 was an appeal after the remand following the Jazz Photo decision. Jazz Photo argued that a first sale abroad should exhaust patent rights as long as the patentee or its licensee authorized the sale. The court emphatically rejected that argument: "The

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111. Id. at 1103.
112. Id. at 1105.
113. Id.
114. Id.
116. 394 F.3d 1368 (Fed. Cir. 2005). The second case, Fujifilm Corp. v. Benun, 605 F.3d 1366 (Fed. Cir. 2010), is discussed later. See infra notes 129–30 and accompanying text.
patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States.” It also expanded on its justification of the rule:

[T]his court in Jazz stated that only [single-use cameras] sold within the United States under a United States patent qualify for the repair defense under the exhaustion doctrine. Moreover, Fuji's foreign sales can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect.118

Several subsequent district court cases applied the Jazz Photo rule uncritically, holding that a sale occurring outside the United States does not exhaust U.S. patent rights.119 But, in LG Electronics, Inc. v. Hitachi, Ltd.,120 a district court held that the Jazz Photo rule had been effectively overruled by the Supreme Court's intervening decision in Quanta Computer, Inc. v. LG Electronics, Inc.121 In Quanta, LG Electronics (“LGE”) owned U.S. patents relating to computer microprocessor and memory chips. It licensed Intel to produce chips embodying the patents, but the license agreement included a limitation stipulating that no license was granted to any third party to combine chips incorporating the patents with any other component acquired from a source other than Intel.122 Quanta purchased chips from Intel and used them to build computers that included components from non-Intel sources.123 LGE sued Quanta for patent infringement based on its combination of the Intel chips with non-Intel components. After rejecting LGE's argument that exhaustion does not apply to method claims, the Court addressed the issue whether Intel's authorized first sale of the chips to Quanta exhausted LGE's patents as to those chips. In view of the fact that LGE's patents could not be fully practiced until the chips were combined with other

117. Fuji Photo Film, 394 F.3d at 1376.
118. Id.
120. 655 F. Supp. 2d 1036 (N.D. Cal. 2009).
122. Id. at 623–24.
123. Id. at 624.
components, the exhaustion issue turned on “the extent to which a product must embody a patent in order to trigger exhaustion.”\textsuperscript{124} Applying its earlier opinion in \textit{United States v. Univis Lens Co.},\textsuperscript{125} the Court held that the chips in question sufficiently embodied the patents because there was “no reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents.”\textsuperscript{126}

The \textit{LG Electronics} court’s determination that \textit{Quanta} abrogated the \textit{Jazz Photo} rule was based on inferences from the \textit{Quanta} opinion rather than any explicit statement to that effect. The court noted that \textit{Quanta} stated unequivocally that “[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights,”\textsuperscript{127} without qualifying its ruling by requiring that the sale take place in the United States. It considered this lack of qualification to be meaningful, inasmuch as there are indications in the opinion that the Court “was aware that some sales under the license agreement were made overseas.”\textsuperscript{128} More recently, in \textit{Fujifilm Corp. v. Benun},\textsuperscript{129} the Federal Circuit flatly rejected the argument, advanced by Jazz Photo in yet another appearance before that court in the ongoing controversy, that in \textit{Quanta} the Supreme Court had effectively disapproved the \textit{Jazz Photo} rule. The court held that \textit{Quanta} had no impact on its rule that a foreign sale does not exhaust U.S. patent rights, inasmuch as the case did not involve foreign sales.\textsuperscript{130}

\section*{2. Evaluation of the Patent Cases in Light of the Single-Reward Principle}

The foregoing review of cases that have addressed patent exhaustion when the first sale occurs outside the United States yields several conclusions.

First, in most of the cases the results are consistent with the single-reward principle. The consistent cases fall into two

\begin{itemize}
\item Id. at 630.
\item 316 U.S. 241 (1942).
\item \textit{Quanta Computer}, 553 U.S. at 632.
\item Id. at 1045.
\item 605 F.3d 1366 (Fed. Cir. 2010).
\item Id. at 1371.
\end{itemize}
categories: (1) those which found patent rights exhausted, based on a first sale abroad that resulted in a patent-based reward to the patentee, either directly or through a licensee or assignee,\(^{131}\) and (2) those which found no exhaustion, based on a first sale abroad that did not result in such a reward.\(^ {132}\)

Second, several of the cases contain dictum statements that are consistent with the single-reward principle.\(^ {133}\) Third, several cases reach outcomes that are inconsistent with the single-reward principle, namely Griffin\(^ {134}\) and the Jazz Photo line of cases.\(^ {135}\)

3. **Jazz Photo and Extraterritoriality**

Given the Supreme Court's explicit and repeated statement of the single-reward principle as the basis for the doctrine of patent exhaustion, and the fact that multiple court decisions have held that a U.S. patent may be exhausted by a first sale that occurs abroad, why does the Federal Circuit, in the Jazz Photo line of cases, hold that exhaustion can never

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In Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc., 565 F. Supp. 931 (D.N.J. 1983), the court found exhaustion based on a foreign sale even though the reward the seller received was not a patent-based reward. Had the article been subject to a patent in the country where it was first sold, the court would have found exhaustion a fortiori.


133. Brown v. Duchesne, 60 U.S. 183, 196 (1856) (if the gaff had been manufactured on a ship in Boston harbor, rights of the U.S. patentee would have been infringed); Dickerson v. Tinling, 84 F. 192, 194 (8th Cir. 1897) (outcome depends on whether the first sale abroad was from the owner or licensee of the U.S. patent); Dickerson v. Matheson, 57 F. 524 (2d Cir. 1893) (same).


135. Setting aside the single-reward principle and focusing on the location of sale, a fair assessment of the cases is: "There is disagreement among the courts whether sales abroad authorized by a U.S. patentee exhaust U.S. patent rights. Ordinarily, when the sales are not with the patentee's authorization, the U.S. rights are not exhausted." Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 447, 454 (1997). Another commentator described the pre-Jazz Photo cases as implementing a "modified international rule of exhaustion," under which the patentee "could limit the application of the international exhaustion rule only through express contractual language." Erlikhman, *supra* note 115, at 312.
result from a first sale abroad? The result of this holding is that patentees are allowed to exact two patent-based rewards from the sale and resale of a particular article, a violation of the single-reward principle.136

The answer is that the court thought this result was compelled by the principle that the Patent Act does not have extraterritorial effect. This idea is only latent in the first of the *Jazz Photo* cases, suggested by the court's statement that for exhaustion to occur the sale "must have occurred under the United States patent."137 In the second of these cases, the court spells out the idea explicitly: "Fuji's foreign sales can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect."138 In addition, both opinions rely upon *Boesch*.139 That decision contains language—"[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws"140—which, taken out of context, may be interpreted as implementing a rule against extraterritorial application of national laws.

B. Copyright Exhaustion Cases with a Foreign Component

As the discussion above has shown, in patent cases the international factor that is relevant to the question of exhaustion is the location of the sale of the article. Thus, the *Jazz Photo* cases hold that a sale of an article that occurs outside the United States does not exhaust U.S. patent rights with respect to that article while an authorized sale in the United States does result in exhaustion. In the copyright arena, two locational factors are potentially relevant to the question of exhaustion: (1) location of the sale of the article, and (2) location of its manufacture. The courts that have

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136. The logic of these cases would seem to imply that a patentee cannot receive more than a double reward through application of the U.S. patent laws. By hypothesis the first sale of the article in the United States is an authorized domestic sale, which exhausts the patent rights with respect to that article and prevents the patentee from extracting a third patent-based reward.


138. *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005).

139. That is also true of the only pre-*Jazz Photo* case clearly holding that exhaustion can never result from a first sale outside the United States: *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978).

found the latter factor relevant rely on language from the Copyright Act's first-sale rule providing that exhaustion occurs in favor of the owner of "a particular copy or phonorecord lawfully made under this title."141 Courts that have found the location of sale relevant cannot point to support in the text of the statute, but have relied on this factor to avoid the absurd results that would otherwise flow from holding that the copyright of an article manufactured abroad can never be exhausted.

1. The Cases

a. Scorpio and the Ninth Circuit Quartet

The international copyright exhaustion cases have a much shorter history than the international patent cases. The first such case, *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*,142 was decided in 1983. In that case, Vicor Music Corporation manufactured phonorecords143 in the Philippines pursuant to authorization from Columbia Broadcast System, the copyright owner of the sound recordings that the phonorecords contained.144 Some of these phonorecords made their way to the United States. Scorpio Music Distributors, Inc. (a Pennsylvania corporation), through its agent145 International Traders, Inc. (a Nevada corporation), purchased the phonorecords from Rainbow Music, Inc. (a Philippines corporation), which had purchased them in the Philippines from Vicor.146 Thus Scorpio imported phonorecords, containing sound recordings protected by U.S. copyright, that had been the subject of a first sale outside the United States. CBS sued Scorpio for its unauthorized importation of the phonorecords, alleging a violation of § 602 of the Copyright Act.147 Scorpio invoked the first-sale rule as

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143. The court's opinion does not further describe them, but the phonorecords in question were probably vinyl LPs, or perhaps cassette tapes.
144. *Scorpio*, 569 F. Supp. at 47.
145. The nature of the legal relationship between Scorpio and International Traders was an issue in the case. *Id.* at 48–49. But it is not relevant to the exhaustion issue.
146. *Id.* at 47.
147. "Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been
a defense, maintaining that a first sale extinguishes the copyright owner's exclusive right over importation under § 602(a). The logic of Scorpio’s argument, although not spelled out in the court’s opinion, runs as follows: § 602(a) makes unauthorized importation actionable as an infringement of the exclusive right to distribute under § 106(3); a first sale extinguishes the copyright owner’s distribution right under § 106(3); therefore, a first sale extinguishes the copyright owner’s right to control importation.

The court rejected Scorpio’s first-sale defense, offering two justifications. First, the court focused on the text of § 109(a) stating that exhaustion results from sale of a copy or phonorecord that is “lawfully made under this title.” It held that the phonorecords in question, having been manufactured in the Philippines, were not “lawfully made under” Title 17 of the U.S. Code—that is, under the Copyright Act—because the provision

grants first sale protection to the third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports such as are involved here. The protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states.

In other words, because the Copyright Act has no extraterritorial application, an article manufactured outside the United States cannot have been “lawfully made under” the Act. Second, the court held that Scorpio’s interpretation “would render § 602 virtually meaningless,” since it would allow a U.S. importer to evade the copyright owner’s exclusive right to import by purchasing copyrighted


148. Scorpio, 569 F. Supp. at 47.

149. Id.

150. See Subafilms, Ltd. v. MGM-Pathe Comm. Co., 24 F.3d 1088, 1095–98 (9th Cir. 1994) (en banc) (determining that there are no grounds for deviating from the “undisputed axiom” that the Copyright Act does not have extraterritorial effect).
articles from an intermediary rather than directly from the copyright owner.\textsuperscript{151}

Thus, the court invoked the rule against extraterritorial application of the Copyright Act as one of its two rationales for finding that the first sale involved in this case did not result in exhaustion of the copyright owner's exclusive right to import. It is worth noting that the court in the passage quoted above held that exhaustion occurs only with respect to an article that is \textit{both} "legally manufactured" \textit{and} "sold" in the United States. The latter requirement, however, finds no arguable textual basis in § 109(a), which makes no reference to the location of \textit{sale}. The Supreme Court later repudiated this requirement in \textit{Quality King Distributors v. L'anza Research International}.\textsuperscript{152} The court's second rationale, finding that Scorpio's interpretation of the relationship between § 109(a) and § 602 would render the latter "virtually meaningless," would also be discountenanced by the Supreme Court in the same case. However, the \textit{Scorpio} court's interpretation of "lawfully made under this title," as excluding exhaustion with respect to an article that is \textit{manufactured} outside the United States, would prove to have more staying power, serving as the foundation for an influential quartet of Ninth Circuit cases.

In \textit{BMG Music v. Perez},\textsuperscript{153} the Ninth Circuit addressed a situation in which the defendant, without the authorization of the U.S. copyright owner, imported into the United States sound recordings that were manufactured abroad. The court, relying on \textit{Scorpio}, held that "[t]he words 'lawfully made under this title' in § 109(a) grant first sale protection only to copies legally made and sold in the United States."\textsuperscript{154} The court did not refer explicitly to \textit{Scorpio}'s extraterritoriality rationale, but rather to that decision's second rationale: "\textit{Scorpio}'s concern over the possibility of rendering meaningless § 602 is justified and, for that reason, so is its result."\textsuperscript{155}

\begin{thebibliography}{9}
\bibitem{155} \textit{Id.} at 319.
\bibitem{154} \textit{Id.}
\bibitem{153} 952 F.2d 318 (9th Cir. 1991).
\bibitem{152} 523 U.S. 135 (1998). \textit{See also} discussion \textit{infra} Part II.B.1.c.
\bibitem{151} \textit{Scorpio}, 569 F. Supp. at 49–50.
\end{thebibliography}
In *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, the copyrighted article was the box in which a French perfume was packaged. Parfums Givenchy produced the boxes (and the perfume) in France. A third party purchased the boxes-cum-perfume abroad and imported them into the United States. The defendant, Drug Emporium, purchased the merchandise from the third party in the United States and offered it for sale at retail. The U.S. copyright owner, a wholly owned subsidiary of Parfums Givenchy, sued Drug Emporium for infringement under § 602(a). The court held that Drug Emporium was not entitled to a defense based on the first sale of the boxes abroad, finding that “[t]he material facts of this case are nearly identical to those in *BMG Music*.” While professing adherence to that decision, the court introduced an important modification that was necessitated by the *BMG Music* court’s failure to anticipate an important question that arises from a common scenario: what happens when the copyright owner manufactures (or licenses another to manufacture) the copyrighted article abroad, and then imports it into the United States and sells it there? The occurrence of an authorized sale in the United States does not alter the fact that the article was manufactured abroad and, therefore, according to the interpretation set forth in *Scorpio* and adopted in *BMG Music*, was not “lawfully made under this title” for purposes of § 109(a). Under that interpretation, the copyright owner’s public distribution right could never be exhausted, and one who purchased the article through an authorized sale in the United States could not resell or otherwise publically distribute the article without the copyright owner’s permission. The copyright owner would be able to shut down the secondary market in these articles, making a neat end-run around the first-sale rule that could not have been contemplated by Congress. The court acknowledged that “such a result would be untenable,” but because the

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156. 38 F.3d 477 (9th Cir. 1994).
157. *Id.* at 479.
158. *Id.* at 482.
159. *Id.* (“Whether or not we agree with their arguments, *BMG Music* is binding authority in the 9th Circuit that can only be overturned through an en banc hearing.”).
160. *Id.* at 482 n.8.
161. *Id.*
hypothesized scenario was not present in the case (since there was no sale in the United States authorized by the copyright owner) the revision has the status of dictum.

The third case in the series, *Denbicare U.S.A. Inc. v. Toys R Us, Inc.*,162 required the court actually to apply the dictum rule it had stated in *Parfums Givenchy*. The copyrighted item was the packaging of 450,000 diapers, which were manufactured in Hong Kong and brought into the United States with the authorization of the copyright owner, DPI. As the diapers sat in a foreign trade zone warehouse in San Francisco, DPI filed for bankruptcy. One McCoy purchased the copyright from the bankruptcy trustee, licensed it to a newly formed company called Denbicare, and began manufacturing and selling diapers. The bankruptcy court then approved sale of the 450,000 diapers to another party who, through an intermediary, sold about half of them to Toys “R” Us (“Toys”). Toys then sold them in its stores. Denbicare sued Toys for copyright infringement, based on Toys’ public distribution of the copyrighted packaging without Denbicare’s authorization.163 Toys invoked the first-sale rule as its defense, arguing that the authorized first sale of the packaging in the United States exhausted Denbicare’s public distribution right as to that merchandise. The court recounted its holdings in *BMG Music* and *Parfums Givenchy*, and relied on its dictum in the latter to hold that “§ 109 applies to copies made abroad only if the copies have been sold in the United States by the copyright owner or with its authority.”164 Because, as the court held, the bankruptcy’s trustee’s sale of the 450,000 diapers that were held in the foreign trade zone was an authorized sale in the United States, the sale resulted in exhaustion—even though the copyrighted merchandise was manufactured abroad.

In the last of the Ninth Circuit quartet, *Omega S.A. v. Costco Wholesale Corp.*,165 the court reaffirmed its holding in *Denbicare* (presaged in *Parfums Givenchy*) that the first-sale defense is available “only where the disputed copies of a copyrighted work were either made or previously sold in the

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162. 84 F.3d 1143 (9th Cir. 1996).
163. *Id.* at 1145–46.
164. *Id.* at 1150.
165. 541 F.3d 982 (9th Cir. 2008), *aff’d by an equally divided Court*, 131 S. Ct. 565 (2010).
United States with the authority of the copyright owner." The case involved watches that Omega manufactured in Switzerland, each of which featured an engraved design that was protected by U.S. copyright. Omega first sold the watches to a distributor abroad. A third party purchased the watches and sold them to an intermediary in the United States, which sold them to Costco. Costco then offered the watches for sale at retail in the United States. Omega sued Costco, alleging infringement under §§ 106(3) and 602(a), and Costco invoked the first-sale rule as a defense. The court ruled in Omega's favor. This outcome followed directly from the rules established in its prior triad of cases on this issue. Under the general rule established in BMG Music, the first-sale defense was not available because the watches were not "legally made . . . in the United States." The court explicitly predicated this conclusion on its understanding that a contrary holding would conflict with the undisputed proposition that the Copyright Act does not apply extraterritorially: "The basis for that rule was our concern that applying §109(a) to foreign-made copies would violate the presumption against the extraterritorial application of U.S. law." Additionally, the Parfums Givenchy exception was unavailable because Costco's sale of the watches in the United States was "without Omega's authority."

The court devoted the remainder of its opinion to addressing and rejecting Costco's contention that the BMG Music rule had been effectively invalidated by the Supreme Court's intervening decision in Quality King Distributors, Inc. v. L'anza Research International, Inc. In that case, discussed below, the Court held that the copyright owner's public distribution right was exhausted with respect to an article that was manufactured in the United States and first sold with the copyright owner's authorization abroad. Costco's argument proceeded as follows: (1) In Quality King the Court held that exhaustion could be triggered by a sale occurring abroad; (2) The Court explained that such a rule

166. Id. at 983.
167. Id. at 987 (omission in original) (quoting BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991)).
168. Id.
169. Id. at 986.
does not violate the principle that the Copyright Act has no extraterritorial application: "Such protection does not require the extraterritorial application of the Act any more than § 602(a)'s 'acquired abroad' language does"; and (3) Finding exhaustion based on sale of an article that was manufactured abroad likewise would not violate the principle against extraterritorial application. However, the argument was unavailing because the court rejected step three of the syllogism, explaining:

[T]he application of § 109(a) to foreign-made copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not. Under the latter application, the statute merely acknowledges the occurrence of a foreign event as a relevant fact. The former application would go much further. To characterize the making of copies overseas as "lawful[ . . .] under [Title 17]" would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States, notwithstanding the absence of a clear expression of congressional intent in favor of extraterritoriality.\textsuperscript{172}

Several district courts, both inside and outside the Ninth Circuit, have followed the quartet cases in holding that the sale abroad of a foreign-made copy does not exhaust the copyright owner's importation or public distribution rights.\textsuperscript{173}

The Ninth Circuit's position, based on the above quartet of cases, can therefore be summarized as follows:

- If a copy or phonorecord protected by U.S. copyright is manufactured abroad, no exhaustion results from a first (or subsequent) sale abroad. To hold otherwise would be tantamount to according the Copyright Act extraterritorial application since § 109(a) allows for exhaustion only with respect to an item that is

\textsuperscript{171} Id. at 145 n.14.
\textsuperscript{172} Omega S.A., 541 F.3d at 988.
"lawfully made under" the Act, and an item that is made abroad can be made under the Act only if the Act has force in that foreign territory.

- Under the Parfums Givenchy exception, an authorized domestic sale of such a foreign-made item does result in exhaustion. To hold otherwise would lead to the untenable result that the copyright owner would retain an inexhaustible distribution right with respect to a foreign-made copy or phonorecord no matter how many times it changed hands.

The second rule is inconsistent with the first because the occurrence of a domestic sale does not alter the fact that the article was manufactured abroad. The Ninth Circuit has not sought to reconcile the two rules.\(^{174}\)

The Ninth Circuit's resolution of the issues fails to accord with the single-reward principle under at least one common scenario. Consider the case of a copyrighted textbook that is manufactured in China. If the publisher sells the book initially to a purchaser in China, or in any other country except the United States, it receives a copyright-based reward from that transaction.\(^{175}\) Because no exhaustion of the book's U.S. copyright results from that sale, the publisher (assuming it is the copyright owner) retains the exclusive right to control import of the book into the United States. This allows the publisher to extract a second royalty from the importer, as well as a third royalty if the importer should seek to resell the book in the United States. Under a slightly different scenario, however, the single-reward principle is observed. If the publisher initially sells the book to a distributor or end user in the United States, then exhaustion results due to the Parfums Givenchy exception.

Contrast a situation where the book is manufactured in the United States. In that case, the single-reward principle is observed regardless of where the first sale occurs. If the book is first sold in the United States, then we have a purely domestic scenario and the sale results in exhaustion. If the book is first sold abroad, we have the scenario presented in


\(^{175}\) Because nearly all economically significant countries are signatories to the Berne Convention or TRIPS, the book, if original, is likely to be protected under the copyright law of the country in which the sale occurs.
Quality King, in which the Court held that the sale outside the United States results in exhaustion.

b. The Third Circuit’s Divergent View: Sebastian

Another early case that helped to frame this debate is the Third Circuit’s decision in Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd. In that case the copyrighted article consisted of the label on bottles of hair-care products that were manufactured in the United States. Sebastian shipped containers of its products carrying the labels to a distributor in South Africa, which shipped them back to the United States, and Sebastian sued to prevent their distribution. The court held that the first-sale rule limits the importation right—that is, § 109(a) limits the copyright owner’s rights under § 602(a). The court further held that a first sale results in exhaustion regardless of whether it occurs within the United States or abroad.

In arriving at this interpretation the court stated, and chiefly relied upon, the single-reward principle. Explaining the economic justification of the first-sale rule, the court reasoned that “the ultimate question under the ‘first sale’ doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use.” Applying this principle to the facts before it, the court observed that when Sebastian voluntarily sold its product to the South African distributor it “received its reward through the purchase price.” Allowing Sebastian to control importation of those copies would violate the single-reward principle. On this point, the court explained:

Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a “reward for his work.” Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive “a more adequate award” than those who sell

176. 847 F.2d 1093 (3d Cir. 1988).
177. Id. at 1094.
178. Id. at 1094–95.
179. Id. at 1095.
181. Id. at 1099.
domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.182

c. Quality King and its progeny

In Quality King,183 the copyrighted article was the label on bottles of shampoo and other hair-care products. L’anza manufactured the labeled bottles in the United States, and sold them to a distributor abroad. Quality King purchased the bottles from the overseas distributor, imported them into the United States, and sold them to retailers, which in turn sold them to end users.184 L’anza sued Quality King, alleging infringement of its exclusive rights to import and publicly distribute the bottles, and Quality King invoked the first-sale rule as a defense.185

The Court held that the first-sale rule of § 109(a) does in fact limit the copyright owner’s importation right under § 602(a), and that Quality King was therefore entitled to the first-sale defense.186 In so doing, the Court rejected the rationale advanced by Scorpio, and adopted intermittently by the Ninth Circuit in its quartet of cases,187 that such an

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182. Id. Another pre-Quality King case, Summit Tech., Inc. v. High-Line Med. Instruments Co., Inc., 922 F. Supp. 299, 315 (C.D. Cal. 1996), followed Sebastian in holding that a first sale abroad exhausts the copyright of an article manufactured in the United States. It likewise invoked the single-reward principle: “Summit made the ‘first sale,’ and therefore received its ‘reward’ for its work.” Id.
184. Id. at 138–39.
185. Id. at 140.
186. The Ninth Circuit’s decision below held to the contrary. L’anza Research Int’l, Inc. v. Quality King Distrib., Inc., 98 F.3d 1109 (9th Cir. 1996), rev’d, 523 U.S. 135 (1998). In its opinion, the Ninth Circuit repudiated the rationale based on the principle against extraterritorial application of the Copyright Act, which it had relied upon in its prior cases. Id. at 1115. Twelve years later, in Omega v. Costco, as discussed above, the court revived its adherence to that rationale, making no effort to explain its inconstancy. Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 988 (9th Cir. 2008), aff’d by an equally divided Court, 131 S. Ct. 565 (2010).
187. See BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991) (“Scorpio’s concern over the possibility of rendering meaningless § 602 is justified and, for that reason, so is its result.”); Columbia Broad. Sys., Inc. v. Scorpio Music Distrib., Inc., 569 F. Supp. 47, 49 (E.D. Pa. 1983) (“Construing § 109(a) as superseding the prohibition on importation set forth in the more recently enacted § 602 would render § 602 virtually meaningless.”), aff’d mem., 738 F.2d 424 (3d Cir. 1984).
interpretation would render § 602(a) meaningless. Instead, the Court adopted the position that the Third Circuit had taken in Sebastian ten years earlier. The Court explained that even when limited by the first-sale rule, the import right of § 602(a) would be effective in several situations, including where the copyright owner authorized copies to be manufactured abroad but wished to prevent their importation into the United States. In the course of its discussion, the Court at several points suggested that it agreed with the first Scorpio rationale, that “lawfully made under this title” means made with the copyright owner’s authorization in the United States. In its most explicit statement of this idea, the Court hypothesized a situation in which an author conveys the right to distribute copies in the United States to one publisher and the right to distribute copies in Britain to another publisher. In such a situation, the Court said, “presumably only those [copies] made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a).”

The Court did not disclose the basis for this construction of “lawfully made under this title.” However, Justice Ginsburg, in her brief concurring statement, was more forthcoming. She wrote to express her view that the outcome might be different in a case where the copyrighted article was manufactured abroad. In explanation of her position, she cited a commentator for the proposition that “provisions of Title 17 do not apply extraterritorially unless expressly so stated, hence the words ‘lawfully made under this title’ in the ‘first sale’ provision, 17 U.S.C. § 109(a), must mean ‘lawfully made in the United States.’” Thus, Justice Ginsburg, like the Scorpio court, expressed the view that to hold that an article made outside the United States can be made “under” the Copyright Act would be to violate the principle that the Act does not apply extraterritorially. Given that the other Justices saw no need to explain the basis for their own identical interpretation of “lawfully made under this title,”

188. The Court’s rejection of this rationale means that the only remaining justification for the Ninth Circuit quartet of cases is the rule against extraterritorial application of the Copyright Act. Brooks, supra note 174, at 21.
189. Quality King, 523 U.S. at 148.
190. Id. at 154 (Ginsburg, J., concurring) (citing W. Patry, Copyright Law and Practice 166–70 (1997 Supp.)).
and that none stated disagreement with Justice Ginsburg's explanation, it seems reasonable to infer that they too believed that a contrary reading would conflict with the principle against extraterritorial application.

The Court's statement in Quality King that copies manufactured in England and licensed for sale only in England are not "lawfully made under" the Copyright Act is dictum, because the case before it involved an article (the shampoo bottle labels) manufactured within the United States. However, several subsequent district court decisions, some without exhibiting great enthusiasm, have adhered to that dictum, interpreting it as meaning that a copy manufactured outside the United States cannot be "lawfully made under" the Act. For example, in Pearson Education, Inc. v. Liu, the court considered the decisions of prior courts, addressed the issue independently, and concluded "provisionally . . . that nothing in § 109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies of a work manufactured in the United States." The court felt bound, however, by the Quality King dictum: "When the Supreme Court addresses an unsettled question of federal law in unanimous dicta, respect for the Supreme Court as an institution and the dedicated jurists who serve on it mandates deference in all but the most exceptional circumstances." The court accordingly held, "dubitante, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad."

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191. That interpretation of the dictum is not inevitable. The Court might have meant, for example, that the copies are not "lawfully made" under the Copyright Act because they are not licensed for distribution in the United States, the territory where the Act is effective. See Brooks, supra note 174, at 31–32.
193. Id. at 415.
194. Id. at 416.
2. Evaluation of the Copyright Cases in Light of the Single-Reward Principle

Most of the cases involving a copyrighted article that was manufactured abroad are inconsistent with the single-reward principle. These fall within two lines of authority. The first consists of the line beginning with *Scorpio*, including the Ninth Circuit quartet of cases as well as district court cases from several circuits, which find the Ninth Circuit cases to be controlling or persuasive authority.\(^{196}\) The second line includes those courts that have heeded the Supreme Court's dictum in *Quality King*, concluding that it required the conclusion that an article manufactured abroad is not subject to exhaustion through a first sale.\(^{197}\) In both lines of cases, the courts considered that this result was compelled by the principle that the Copyright Act does not apply extraterritorially.

By contrast, in cases involving an article that was manufactured in the United States but first sold abroad, *Quality King* has established a rule that is consistent with the single-reward principle, according to which the initial sale results in exhaustion.

III. EXTRATERRITORIALITY AND APPLICATION OF THE EXHAUSTION DOCTRINE TO ARTICLES SOLD OR MANUFACTURED ABROAD

As the foregoing discussion has shown, leading cases have held that rights granted under the patent and copyright laws are not exhausted by a first sale in a situation involving a particular type of foreign component. In patent cases, the Federal Circuit has held that patent rights are not exhausted by an authorized first sale that occurs outside the United States. In copyright cases, the Ninth Circuit has determined that the public distribution right is not exhausted by an authorized first sale outside the United States of an article that was manufactured outside the United States. In both sets of cases, the courts justify their holdings on the ground

\(^{196}\) See discussion supra Part II.B.1.a.

\(^{197}\) See discussion supra Part II.B.1.c.
that to hold otherwise would be to apply the patent or copyright laws extraterritorially, which all agree is contrary to Congress's intent and, therefore, impermissible.

This justification is not well founded. As this Part argues, the rule against extraterritorial application of the patent and copyright laws does not compel the conclusion that a first sale involving a certain type of foreign element cannot result in exhaustion. This conclusion is based on a misunderstanding of what constitutes extraterritorial application of the laws. Finding exhaustion of intellectual property rights in such situations does not amount to extraterritorial application of the patent or copyright laws.

A. The Presumption Against Extraterritorial Application of U.S. Laws

Interpreting the patent and copyright laws so that exhaustion results from a first sale occurring outside the United States would not be an extraterritorial application of the laws because such an interpretation implicates none of the policy concerns that underlie the judicial presumption that U.S. laws do not have extraterritorial effect.

In determining whether a federal statute applies to conduct occurring outside the United States, the courts apply a rule of construction consisting of a presumption against extraterritoriality. The presumption is usually traced back to American Banana Co. v. United Fruit Co., where the plaintiff, a U.S. corporation, brought an action under the Sherman Antitrust Act against another U.S. corporation based on defendant's allegedly anticompetitive conduct abroad. Plaintiff's claim was that defendant had "instigated" Costa Rican authorities (then administering the territory on which plaintiff's banana plantation was situated in Panama) to seize its plantation as part of a plot to monopolize the banana trade. Although the Act includes no geographical limitations, applying literally to "every contract in restraint of trade" and "every person who shall monopolize," the Court held that Congress did not intend that it be applied to conduct that occurs in Panama. The rule of construction to

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199. Id. at 354–55.
200. Id. at 357.
be applied “in case of doubt,” the Court held, is that a statute is “intended to be confined in its operation and effect to the territorial limits over which the lawmaker has general and legitimate power.” 201 A contrary construction would conflict with “the general and almost universal rule . . . that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done.” 202 In support of that rule, the Court cited two considerations: applying one sovereign’s law to conduct occurring within the territory of another sovereign (1) “would be unjust,” 203 and (2) would be “an interference with the authority of another sovereign, contrary to the comity of nations, which the other state concerned justly might resent.” 204

In Foley Brothers, Inc. v. Filardo, 205 where the Court held that the Eight Hour Law 206 does not apply to employers in foreign countries under contract with the U.S. government, the Court stated another justification for the presumption: “It is based on the assumption that Congress is primarily concerned with domestic conditions.” 207

201. Id.
202. Id. at 356.
203. The Court does not say why it would be unjust. One might think it unjust on the ground that a person is entitled to assume he will not be subject to sanctions for engaging in conduct that is lawful where he is located. Alternatively, it might be thought unjust because it is inconsistent with the basic democratic principle that “government must rest upon the consent of the governed.” Austen Parrish, The Effects Test: Extraterritoriality’s Fifth Business, 61 VAND. L. REV. 1455, 1483 (2008).
204. Am. Banana Co., 213 U.S. at 356. See Larry Kramer, Vestiges of Beale: Extraterritorial Application of American Law, 1991 SUP. CT. REV. 179, 193 (the traditional principle that a sovereign’s laws apply only to conduct occurring within its territory is designed to prevent “conflicts with foreign nations that cause[] tension in international relations”). The courts have applied this presumption against extraterritorial effect to a number of other statutes, including labor laws and environmental protection laws. See Curtis A. Bradley, Territorial Intellectual Property Rights in an Age of Globalism, 37 VA. J. INT’L L. 505, 512 (1997).
206. This was a federal law requiring time-and-a-half pay for more than eight hours of work in a day performed under a contract to which the United States is a party. Id. at 282–83.
207. Id. See also Smith v. United States, 507 U.S. 197, 204 n.5 (1993) (“[T]he presumption is rooted in a number of considerations, not the least of which is the commonsense notion that Congress generally legislates with domestic concerns in mind.”).
In *E.E.O.C. v. Arabian American Oil Co.*,\(^{208}\) in which the plaintiff sought application of Title VII to the conduct of his former employer—a Delaware corporation, operating in Saudi Arabia—the Court reaffirmed the presumption stated in *American Banana*: "It is a longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'"\(^{209}\) The presumption may be overcome only by "'the affirmative intention of the Congress clearly expressed.'"\(^{210}\) The Court explained that this rule "serves to protect against unintended clashes between our laws and those of other nations which could result in international discord."\(^{211}\) The Court also declined to interpret Title VII in such a way that its reach could not be limited to U.S. corporations operating overseas, but would also apply to the conduct of foreign employers. The Court explained that it was "unwilling to ascribe to [Congress] a policy which would raise difficult issues of international law..."\(^{208}\) 499 U.S. 244 (1991).

\(^{209}\) Id. at 248 (quoting *Foley Bros.*, 336 U.S. at 281, 285). The Foley Court was itself paraphrasing the statement quoted above from *Am. Banana*, 213 U.S. at 356. See supra text accompanying note 204.

\(^{210}\) *Arabian Am. Oil*, 499 U.S. at 248 (quoting *Benz v. Compania Naviera Hidalgo*, S.A., 353 U.S. 138, 147 (1957)). The Court lists several statutes that express such an intention. *Id.* at 258–59. As the Court has pointed out, the rule against extraterritorial application of statutes is a rule of construction only, not a limitation on Congress's power: as a matter of both U.S. and international law, "Congress has the authority to enforce its laws beyond the territorial boundaries of the United States." *Id.* at 248. And courts regularly apply U.S. law to conduct occurring abroad on the basis of the "effects test." See RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 402(1)(c) (1987) ("[A] state has jurisdiction to prescribe law with respect to . . . conduct outside its territory that has or is intended to have substantial effect within its territory . . . ."); Bradley, *supra* note 204, at 517 ("[T]here is now substantial agreement that nations may, under certain circumstances, regulate extraterritorial conduct that has effects within their territory . . . .").

\(^{211}\) *Arabian Am. Oil*, 499 U.S. at 248. As the Ninth Circuit has explained, this consideration applies with particular force in the context of the treaty system that structures the international copyright regime. The Berne Convention, which the United States joined in 1988, is built upon the foundation of "national treatment," according to which infringements are generally to be remedied under the law of, and in the courts of, the country where the infringement occurs. For the United States to apply its law to infringement occurring in the territory of another treaty party "would be contrary to the spirit of the Berne Convention, and might offend other member nations by effectively displacing their law in circumstances in which previously it was assumed to govern." Subafilms, Ltd. v. MGM-Pathe Comm. Co., 24 F.3d 1088, 1097 (9th Cir. 1994) (en banc).
by imposing this country’s employment-discrimination regime upon foreign corporations operating in foreign commerce.”

The Court’s most recent treatment of the presumption against extraterritorial application of U.S. laws, *Morrison v. National Australia Bank Ltd.*, reiterates its earlier justifications of the presumption, namely that “Congress ordinarily legislates with respect to domestic, not foreign matters” and that it avoids legislating in a way that creates “incompatibility with the applicable laws of other countries.”

We may derive from these cases that the presumption against extraterritorial application of U.S. laws is premised on the assumption that Congress, unless it explicitly indicates a contrary intention, intends that its legislation should be applied in such a way that it: (1) addresses domestic concerns; (2) respects the comity of nations by not interfering with the legislative prerogatives of other sovereigns; and (3) avoids unjustly penalizing a person for conduct that is consistent with the law of the territory where the conduct occurs.

Interpreting the intellectual property laws so that a sale occurring outside the United States exhausts patent or copyright rights does not implicate any of these concerns. First, interpreting the laws in this way would not divert their attention from domestic concerns. Cases presenting an international exhaustion issue arise when a person seeks to import into the United States, or distribute, vend, or use within the United States, an article that is protected by a U.S. patent or copyright. If the claimant (i.e., the party invoking the U.S. intellectual property laws) is successful, the result is a decision that prevents such disposition of a copyrighted or patented article in the United States. If unsuccessful, the consequence is that such disposition is

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212. *Arabian Am. Oil*, 499 U.S. at 255. The “difficult issues” would arise from the possibility that an attempt to apply U.S. law in such circumstances would violate customary international law, which “imposes some limitations on the authority of nations to apply their laws to persons or activities outside their borders.” Bradley, *supra* note 204, at 514.
213. 130 S. Ct. 2869 (2010).
214. *Id.* at 2877, 2885.
permitted. The concerns of the parties and the court, and the impact of the law, are purely domestic. The court's decision does not speak in any way to the legality of any action occurring outside the United States.

Second, allowing a foreign sale to exhaust patent or copyright rights would not interfere with the legitimate interests of any other sovereign and would not impinge on the comity of nations. There is no resulting regulation of the conduct of any person occurring outside the United States. Enforcement of the exhaustion doctrine by a U.S. court does not prevent any person from selling any patented or copyrighted article outside the United States. Indeed, a determination by a U.S. court that exhaustion results from a sale abroad has, if anything, a deregulatory impact on persons located outside the United States because it results in a holding that the patent or copyright owner has no right to control importation of the article into the United States.

Third, as is clear from the discussion of the first two considerations, applying the exhaustion rules to a sale occurring overseas will not result in unfairness to any person. The result of such an application is to reduce the constraints on the conduct of those dealing with a patented or copyrighted article by limiting the prerogatives of the rights owner.

B. Extraterritoriality as Regulation of Conduct Abroad

Interpreting the intellectual property laws to provide for exhaustion based on a sale occurring abroad would not give those laws extraterritorial effect because the result would not be to regulate any conduct occurring outside the United States. In most cases that involve a question of extraterritorial application of U.S. laws, the issue is whether Congress intends a law to extend to conduct beyond the borders of the United States in a situation where it is clear that the party invoking the law seeks an extraterritorial application of it. A few cases have addressed the logically prior question of whether a particular application of a U.S. law amounts to an extraterritorial one. These courts have indicated that the touchstone of whether an application of law
is extraterritorial is whether it regulates conduct occurring in another country.\textsuperscript{216}

Thus, in \textit{Environmental Defense Fund, Inc. v. Massey},\textsuperscript{217} the plaintiff sought a determination that the National Science Foundation violated the National Environmental Policy Act ("NEPA") by failing to prepare an environmental impact statement before constructing an incinerator at a research station in Antarctica. The court rejected the defense that NEPA was inapplicable because it has no extraterritorial effect. It did so not on the ground that the statute \textit{does} have extraterritorial reach, but rather through a determination that application of NEPA under these circumstances would not be an extraterritorial one. The court explained:

By definition, an extraterritorial application of a statute involves the regulation of conduct beyond U.S. borders. Even where the significant effects of the regulated conduct are felt outside U.S. borders, the statute itself does not present a problem of extraterritoriality, so long as the conduct which Congress seeks to regulate occurs largely within the United States.\textsuperscript{218}

\textsuperscript{216} Other definitions of "extraterritorial application" have been advanced, but are not useful for present purposes. \textit{See}, e.g., Kollias v. D & G Marine Maint., 29 F.3d 67, 70 (2d Cir. 1994) ("extraterritorially" means "beyond the territorial jurisdiction of the United States"); Bradley, supra note 204, at 506 n.1 ("application of a nation's laws to conduct occurring outside of the nation's territory"); Jane C. Ginsburg, \textit{Extraterritoriality and Multiterritoriality in Copyright Infringement}, 37 VA. J. INT'L L. 587, 588 (1997) ("Extraterritoriality . . . means the application of one country's laws to events occurring outside that country's borders."); Parrish, supra note 203, at 1456 n.2 ("A law is extraterritorial when a court applies a domestic law to foreigners for conduct occurring beyond the territorial borders of the nation-state in which the court sits."); Jonathan Turley, "When in Rome": \textit{Multinational Misconduct and the Presumption Against Extraterritoriality}, 84 NW. U. L. REV. 598, 599 n.6 (1990) ("'[E]xtraterritoriality' refers to the operation of a United States law outside the borders of the country so as to encompass actions or activities that occur in whole or in part on the territory of another sovereign power . . . . "). These definitions are unhelpful because they leave unanswered the crucial questions: Does taking account of an action occurring abroad in determining how U.S. laws apply to conduct occurring in the United States amount to "application" of U.S law to events occurring outside the United States? If a foreigner engaged in the overseas conduct, does taking account of the conduct amount to "applying" U.S law to foreigners? Does it amount to "operation" of U.S. law abroad?

\textsuperscript{217} 986 F.2d 528 (D.C. Cir. 1993).

\textsuperscript{218} \textit{Id. at 531.} \textit{See also} Laker Airways Ltd. v. Sabena, Belgian World Airlines, 731 F.2d 909, 921 (D.C. Cir. 1984) ("Territoriality-based jurisdiction . . . allows states to regulate the conduct or status of individuals or
In this case, if plaintiffs achieved the relief they sought, the result would be an order requiring federal government officials, who are located "almost exclusively" in the United States, to engage in deliberations and prepare a report. The conduct that NEPA "regulates" is therefore purely domestic. While application of NEPA to decisionmakers in Washington, D.C. might ultimately have an impact outside the United States, such as by resulting in a decision not to build an incinerator in Antarctica, that effect does not constitute "regulation" of extraterritorial conduct.\(^{219}\)

The Ninth Circuit followed a similar line of reasoning in *Blazevska v. Raytheon Aircraft Co.*\(^{220}\) There, the plaintiffs (survivors of several residents of Macedonia who were killed in a plane crash in Bosnia) brought a wrongful death action against Raytheon, the manufacture of the plane.\(^{221}\) The district court granted summary judgment for the defendants relying on the General Aviation Revitalization Act ("GARA"), "a statute of repose that limits aircraft manufacturers' liability to eighteen years after an aircraft is delivered."\(^{222}\) Plaintiffs argued that the presumption against extraterritorial application of U.S. laws required a holding that GARA was not applicable to this action because it involved a plane crash that occurred in a foreign country. The court disagreed. It began its analysis by noting that "[s]imply because a case's factual background involves some conduct occurring abroad does not mean that every statute

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\(^{219}\) A case involving another environmental statute, the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), goes perhaps a step further in holding that application of a statute in a multinational context does not involve extraterritoriality. In *Pakootas v. Teck Cominco Metals, Ltd.*, 452 F.3d 1066 (9th Cir. 2006), the court held that an order issued pursuant to CERCLA by the Environmental Protection Agency, requiring a Canadian mining company to conduct a remediation study of a site located in the United States that was polluted by the company's releases of hazardous substances into the Columbia River in Canada, did not constitute an extraterritorial application of U.S. law since the polluted site was located in the United States—despite the fact that the order demanded certain action by a Canadian corporation based on its activities in Canada.

\(^{220}\) 522 F.3d 948 (2008).

\(^{221}\) Id. at 950.

\(^{222}\) Id. at 951.
governing the matter is subject to the presumption against extraterritoriality; a court must first inquire into whether applying a statute implicates any issue of extraterritoriality." 223 Doing so "requires considering the conduct the statute seeks to regulate." 224 GARA, the court found, regulates no conduct occurring outside the United States: "The only conduct it could arguably be said to regulate is the ability of a party to initiate an action for damages against a manufacturer in American courts—an entirely domestic endeavor." 225

The analogy of the situation presented in Blazevska v. Raytheon to the issue under consideration—whether interpreting the patent and copyright laws so that exhaustion results from a first sale occurring outside the United States amounts to extraterritorial application of the laws—is a very close one. In both situations there is relevant conduct occurring abroad. And in both situations "the conduct the statute seeks to regulate" is the conduct of a U.S. court, deciding a case presented to it. In both situations, if the statute is found to be applicable the result is that a plaintiff bringing a claim before a U.S. court is denied the relief sought. Neither case involves any regulation of conduct abroad: GARA does not regulate the conduct of airplane pilots in the Balkins any more than the intellectual property laws regulate the conduct of sellers abroad of articles protected by U.S. patent or copyright.

In contrast, the cases in which courts have considered an application of U.S law to be extraterritorial have involved penalizing, or otherwise regulating, the conduct of a person located outside the United States. In American Banana, interpreting the antitrust laws as plaintiff sought would have resulted in an order from a U.S. court requiring the defendant to pay damages arising from its conduct in Panama. 226 In Foley Brothers, applying the Eight Hour Law would have required employers in Iraq and Iran to pay time-and-a-half for overtime work. 227 In Arabian American Oil Co., an employer in Saudi Arabia would have had to pay damages to

223. Id. at 952.
224. Id.
225. Id. at 953.
or reinstate a discharged worker. In Smith, the United States would have had to pay damages arising from its negligent conduct in Antarctica. And in Morrison, an Australian Bank would have been sanctioned for conduct in connection with offerings on the Australian Stock Exchange deemed fraudulent under the U.S. securities laws.

C. Other Applications of the Patent and Copyright laws in Multinational Contexts

In contexts not involving exhaustion, courts have applied the patent and copyright laws so as to take account of conduct occurring abroad without raising any concerns about extraterritorial application of the laws—further confirmation that allowing exhaustion based on conduct abroad would not call for extraterritorial application.

First, the courts have held that both the patent and the copyright laws reach conduct abroad that contributes in some way to infringement that occurs within the United States. Second, courts have allowed damages in infringement actions to be based on conduct occurring abroad. Thus, several courts have held that where acts infringing copyright occurred in the United States, recoverable damages include

231. See Spindelfabrik Suessen-Schurr v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft, 903 F.2d 1568, 1578 (Fed. Cir. 1990) (injunction applying to machines manufactured overseas that are “destined for delivery to the United States” is “not a prohibited extra-territorial application of American patent law”); Honeywell, Inc. v. Metz Apparatwerke, 509 F.2d 1137, 1141 (7th Cir. 1975) (“[A]lthough the patent laws of the United States do not have extra-territorial effect, 'active inducement' may be found in events outside the United States if they result in a direct infringement here . . . .”); Bradley, supra note 204, at 522–23; Donald S. Chisum, Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law, 37 VA. J. INT'L L. 603, 615 (1997) (“Court decisions have held foreign manufacturers who sold products that were later resold or used in the United States liable as contributory infringers under section 271(c), even though the manufacturer's acts took place entirely outside the United States.”).
those arising from unauthorized use of copies overseas.\textsuperscript{233} Courts have likewise held that profits resulting from foreign sales are recoverable as patent damages.\textsuperscript{234}

CONCLUSION

In domestic contexts, courts called upon to apply the exhaustion doctrine as a limitation on rights conferred by the patent and copyright laws have uniformly adhered, explicitly or (more usually) implicitly, to the single-reward principle. Once a rights owner has authorized the sale of an article embodying his protected intellectual property, he has earned the full reward to which the laws entitle him with respect to that article, and he can no longer control the sale or use (in the case of patent) or the public distribution (in the case of copyright) of that article. In international contexts, however, the courts in several influential decisions have found that exhaustion does not result from an authorized sale that occurs abroad. These decisions mean that the rights owner can receive a double reward attributed to sale and resale of a single article. In both patent and copyright cases, the courts have been driven to this result by a belief that to hold otherwise would be to contravene the axiom that neither the patent nor the copyright laws apply extraterritorially.

As the above discussion has shown, the reasoning behind these decisions is unsound: interpreting the intellectual property laws so that exhaustion results from the sale of an article abroad does not amount to an extraterritorial

\textsuperscript{233} See L.A. News Serv. v. Reuters Television Int'l, Ltd., 149 F.3d 987, 991-92 (9th Cir. 1998) ("LANS is entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants."); Update Art, Inc. v. Modiin Publ'g, Ltd., 843 F.2d 67, 73 (2d Cir. 1988) ("Damages accruing from the illegal infringement in the Israeli newspapers properly were awarded to Update."); Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45, 52 (2d Cir. 1939), aff'd, 309 U.S. 390 (1940) (including in recoverable damages "profits made from exhibiting the infringing picture outside the United States"); Famous Music Corp. v. Seeco Records, Inc., 201 F. Supp. 560, 568-69 (S.D.N.Y. 1961) (holding defendant that made infringing copies of plaintiff's musical compositions in the United States and shipped them abroad, where other persons used them to make unauthorized phonograph records, was jointly and severally liable for damages arising from actions of those abroad).

application of these laws. Such an interpretation would not result in any regulation of conduct occurring abroad. Nor would it implicate any of the policy concerns that underlie the presumption against extraterritorial application of U.S. laws. Indeed, there is no reason in law or policy why an authorized sale abroad should not result in exhaustion of rights granted by the U.S. patent and copyright laws.