



## ARE Patent Law Alert: Disappointingly: The Supreme Court Does Not Decide Whether Foreign Sale Exhausts Copyrights

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(December 14, 2010) Based on a 4-4 split vote, the Supreme Court has affirmed without any opinion in *Costco Wholesale Corp. v. Omega, S.A.*, Docket No. 08-1423 (2010). The issue which was placed before the Court was whether an authorized *foreign* sale of a product exhausted applicable U.S. copyrights. This affirmance without opinion leaves the question of exhaustion based on foreign sales, which is critical to both patent and copyright law, unanswered. The 4-4 split was made possible since Justice Elena Kagan recused herself.

In *Costco*, Omega, a watch manufacturer, filed suit against Costco, a retailer, alleging that Costco's purchase of watches from foreign distributors, and resale of those watches in the United States below their suggested retail price, constituted copyright infringement. Omega's specific copyright claim was in the "Omega Globe Design" that is engraved in the underside of its watches. The U.S. District Court for the Central District of California granted summary judgment of non-infringement in favor of Costco, based upon the exhaustion doctrine. *Omega S.A. v. Costco Wholesale Corp.*, No. CV 04-5443 (C.D. Cal. June 8, 2005). On appeal, the Ninth Circuit Court of Appeals reversed, holding that Omega's U.S. copyright was not exhausted because Omega had first sold the watches to distributors overseas. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008). The Ninth Circuit reasoned that under U.S. copyright law exhaustion only applied to a first lawful sale in the United States and that foreign sales could not trigger exhaustion.

A decisive opinion by the Supreme Court in *Costco* could have had broad implications outside of copyright law. Specifically, the related doctrine of patent exhaustion prevents patent owners from collecting licensing royalties from multiple entities in a supply chain for use of the same patented invention. However, as the Ninth Circuit held in *Costco* in the context of copyright infringement, the Federal Circuit has likewise held that foreign sales or licenses, even if authorized, cannot exhaust U.S. Patents. *Jazz Photo Corp. v. U.S. ITC*, 264 F.3d 1094, 1105 (Fed. Cir. 2001); see also *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005) ("the patentee's authorization of an international first sale does not affect exhaustion of the patentee's rights in the United States"); *but see LG Electronics, Inc. v. Hitachi, Ltd.*, No. C 07-6511 CW (N.D. Cal. Mar. 13, 2009) (holding that after the Supreme Court's reaffirmation of a broad patent exhaustion doctrine in *LGE v. Quanta*, patent exhaustion now applies to foreign sales). The Supreme Court denied certiorari in the *Jazz Photo* case as well, perhaps due to the split decision in the *Costco* case.



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The Supreme Court last addressed the issue of patent exhaustion two years ago in *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (U.S. 2008). See [Will The High Court Clarify The Exhaustion Doctrine?, IP Law360 \(January 16, 2008\)](#); [Reviving The Exhaustion Doctrine, IP Law360 \(January 10, 2008\)](#). However, the *Quanta* decision left open a number of important issues relating to exhaustion, including the question of whether foreign sales exhausted patent rights. See [Quanta Computer v. LG Electronics: Will The Supreme Court Revive The Exhaustion Doctrine?, Amster, Rothstein & Ebenstein, LLP \(January 2008\)](#).

For further information on how this issue could impact your business, please contact one of our attorneys.

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