NO. 15-1189

In the
Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,
v.
LEXMARK INTERNATIONAL, INC.,
Respondent.

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

BRIEF FOR *AMICUS CURIAE* INTERNATIONAL BUSINESS MACHINES CORPORATION IN SUPPORT OF AFFIRMANCE ON QUESTION TWO

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February 23, 2017

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CORPORATE DISCLOSURE STATEMENT

Amicus curiae states that it has no parent corporation and that no publicly held company owns more than 10% of its stock.

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STATEMENT OF INTEREST[1]

International Business Machines Corporation ("IBM") is a globally recognized leader in the field of information technology research, development, design, manufacturing, and related services. During IBM's more than 100-year history, its employees have included five Nobel laureates, five National Medal of Science recipients, and ten winners of the National Medal of Technology. The U.S. Patent and Trademark Office ("USPTO") has granted IBM tens of thousands of U.S. patents—more patents per year than any other entity for each of the last 24 years.[2] Accordingly, IBM has long served as a leading advocate for sound patent policy.

IBM's sizeable U.S. patent portfolio, combined with the company's vast business operations in over 170 countries worldwide, makes IBM particularly well-positioned to address whether international sales of U.S.-patented articles should trigger exhaustion of U.S. patent rights, the second question

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[1] Pursuant to Supreme Court Rule 37.6, *amicus curiae* states that no counsel for any party authored this brief in whole or in part and that no entity or person, aside from *amicus curiae*, its members, and its counsel, made any monetary contribution toward the preparation or submission of this brief. Pursuant to Supreme Court Rule 37.3, counsel of record for all parties have consented to this filing.

[2] *See, e.g.*, Press Release, IFI CLAIMS, IFI CLAIMS Announces 2016 U.S. Patent Ranking (Jan. 6, 2017), http://bit.ly/2j9MUyP ("IBM again holds the #1 slot, which it has for 24 consecutive years, with 8,088 patents—up nearly 10 percent over 2015 and the most any company has ever acquired in a calendar year.").

presented in this case.[3] IBM brings a balanced view to the issue. As its very name suggests, IBM's business is truly international. IBM sells products and services throughout the world, participating in and relying upon a vast and complex international supply chain. IBM has considerable experience defending this supply chain against claims that it infringed U.S. patents. But as one of the most successful licensors of patented technology in the world, IBM relies on its ability to enforce its U.S. patent rights in order to advance its business interests. IBM continues to make a substantial investment in its U.S. patent portfolio in reliance on a mature, fair, and balanced U.S. patent system. In light of its appreciation for all of the interests implicated by this case, IBM files this brief in support of affirmance on question two to explain why a judicially devised doctrine of international patent exhaustion should not be engrafted onto U.S. patent law.

SUMMARY OF ARGUMENT

Thirteen judges have considered petitioner's argument that a U.S. patentee automatically exhausts its U.S. patent rights by selling a patented article in a foreign country. Not one agreed. In fact, an overwhelming majority concluded that U.S. patent rights are never exhausted through international sales, and that the use or resale of foreign-sold, U.S.-patented articles in the United States is patent infringement absent some other affirmative defense, such as express authorization by the patentee. That

[3] IBM takes no position on question one.

result is in accord with settled understanding and is correct. The rights that a U.S. patent creates have no bearing outside the United States. As a consequence, selling patented articles outside the United States should not result in the forfeiture of those U.S. rights or permit the resale of articles in the United States free from U.S. patent protection. Were it otherwise, U.S. patentees would be enormously disadvantaged compared to counterparts in other countries.

This Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), endorsing international *copyright* exhaustion does not support a contrary result, but rather reflects salient and longstanding differences between patent and copyright law. Those differences are magnified when it comes to exhaustion doctrine (which is expressly codified in the Copyright Act, but not the Patent Act) and the international context. Most significant, under the Berne Convention, international copyright law is largely harmonized: a copyright in one of its 172 member states gives rise to a copyright in all, and that copyright enjoys largely standardized protections worldwide. No such harmonization exists in patent law. Currently, U.S. patentees must apply for a patent in *every* country, with no guarantees that the patent will be granted. Even if it is, the protections and remedies available can vary widely by country. As a result of these fundamental differences, *Kirtsaeng*'s copyright-specific principles do not speak to the question presented here.

An international patent exhaustion rule is unmoored from the rationale underlying domestic patent exhaustion—and, for that matter, the rationale underlying international copyright exhaustion. As to domestic patent exhaustion, this Court has explained for over 160 years that patent exhaustion is justified when patentees receive the opportunity to obtain their "patent reward"—*i.e.*, a royalty for relinquishing patent rights over an individual article and removing that article from the patent monopoly. But U.S. patent rights do *not* exist extraterritorially. Accordingly, when a U.S. patentee authorizes the sale of a patented article overseas, it cannot fairly be said that the patentee has been provided the opportunity to be compensated for its U.S. patent rights. If the patentee never has the chance to receive the reward that justifies exhaustion, the foreign-sold article should not be removed from the patentee's U.S. monopoly. As to international copyright exhaustion, under the Berne Convention, the protections that copyright holders enjoy under U.S. law are largely the same worldwide. It therefore makes little difference where a sale takes place: unlike patentees, copyright holders have an opportunity to receive a reward that appropriately compensates them for relinquishing their largely standardized copyright protections, thereby removing the sold copies from the worldwide monopoly.

Not only does international patent exhaustion make little sense theoretically; it will have destabilizing consequences in practice. U.S. patentees wishing to sell their U.S.-patented products abroad generally have two options. They can sell directly to foreign customers; or, in many large emerging markets, they are required (by law or in practice) to partner with local businesses and share U.S.-patented technology, thus authorizing the local partner to make and sell U.S.-patented articles in that country. In both cases, the articles are sold internationally at prices that reflect, among other things, local purchasing power and the patent protections the articles enjoy in that country. In some cases, those factors result in lower prices than in the U.S. market. Under petitioner's theory of automatic international patent exhaustion, these foreign-sold, U.S.-patented articles could enter the U.S. market after the first foreign sale, leaving U.S. patentees defenseless as they see their U.S. sales obliterated by cheaper-priced imports even though they never received an opportunity to collect the basic patent reward. That may only discourage innovation in the first instance or cause U.S. companies to scale back foreign operations, which could ultimately stifle innovation and the free flow of goods. The prudent approach is to maintain the rule of no international patent exhaustion announced in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001).

The government's position—that international patent exhaustion is a presumption that U.S. companies can contract around—fares no better than petitioner's absolutist position and ignores that U.S. businesses have been contracting in the shadow of a different default rule for years. At least since *Jazz Photo*, U.S. patentees operating abroad have structured thousands of contracts in reliance on the rule that international patent exhaustion does not exist. If that rule were overturned, U.S. patentees would have to go hat-in-hand to foreign counterparties to renegotiate existing contracts to disclaim international patent exhaustion. U.S. patentees also would have to offer concessions when negotiating such disclaimers in new contracts. And even if patentees secure the disclaimers on paper, there is no guarantee they would be enforced in court.

The problems generated by both petitioner's and the government's theories would disproportionately harm U.S. companies vis-à-vis their global competitors. Many foreign companies whose patent portfolios are comprised largely of foreign patents would not face the same dilemmas that U.S. companies would face under an international patent exhaustion regime, because their jurisdictions have *not* adopted international patent exhaustion. No matter how this Court decides this case, those competitors will continue to sell patented articles within the United States without sacrificing their home-country patent rights or needing to make contractual concessions to secure them. Worse, if U.S. patentees cannot reserve U.S. rights—which is inevitable under petitioner's theory and presumptive under the government's theory—then once a patented article is sold in a foreign country and imported into this country by a third party (fair game under international patent exhaustion), the United States effectively inherits that foreign country's patent policies, even if they squarely conflict with U.S. policies. That does not foster the development of a uniform and predictable body of patent law.

In light of these consequences, if international patent exhaustion is to be adopted, it should be by international treaty implemented by Congress. Only an international agreement can ensure that the effects of international patent exhaustion are experienced evenly, and that U.S. patentees are not disadvantaged. The Federal Circuit's judgment on the second question presented should be affirmed.

ARGUMENT

I. *Kirtsaeng* Has No Bearing On International Patent Exhaustion.

This Court has long acknowledged that there are "'such wide differences'" between copyright and patent law that applying their rules interchangeably might "greatly embarrass consideration of a case." *Bobbs-Merrill Co. v. Strauss*, 210 U.S. 339, 345-46 (1908); *see also Eldred v. Ashcroft*, 537 U.S. 186, 216-17 (2003). The two statutes have material differences, such as the Copyright Act's express codification of exhaustion, a matter on which the Patent Act is silent. Patent law, moreover, is particularly distinctive in the transnational context. *See, e.g.*, *Boesch v. Graff*, 133 U.S. 697, 703 (1890). Thus, *Kirtsaeng*'s endorsement of international *copyright* exhaustion has no bearing on the far different question of international *patent* exhaustion presented here.

In *Kirtsaeng*, this Court held that a U.S. copyright holder's U.S. rights were automatically exhausted by the authorized foreign sale of a copy lawfully manufactured overseas. *Kirtsaeng*, 133 S. Ct. at 1355-56. In reaching that conclusion, the Court examined the exhaustion provision that Congress expressly included in the Copyright Act, which provides that one who purchases a "lawfully made" copy can sell or dispose of that copy "without the authority of the copyright owner." *Id.* at 1354-55 (quoting 17 U.S.C. §109(a)). Unable to locate any "language, context, purpose, or history" that would limit application of that statutory provision to copies manufactured and sold within the United States (or to copies manufactured within the United States and first sold abroad), the Court concluded that it had no choice but to "favor a *non*-geographical interpretation" of the Copyright Act, such that one who purchases a lawfully made copy produced and sold overseas can sell or dispose of that copy as he wishes, just as he can had the copy been lawfully made within the territory of the United States. *Id.* at 1358, 1364.

But *Kirtsaeng* says literally nothing about patents or patent exhaustion; the term "patent" does not appear in *Kirtsaeng*. That alone is a warning against deciding the question of international patent exhaustion by reference to *Kirtsaeng* and the Copyright Act, as opposed to the distinct considerations that govern the question under the Patent Act.[4] And those distinct considerations all counsel for a different rule for international patent exhaustion.

The distinctions begin with the text of the statutes. The Patent Act codifies no doctrine of exhaustion in any form. *See* 35 U.S.C. §1 *et seq.* That is the opposite of the Copyright Act, which

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[4] Tellingly, this Court did not grant, vacate, and remand a case presenting a question of international patent exhaustion that was pending when *Kirtsaeng* issued, instead opting to deny certiorari. *See Ninestar Tech. Co., v. Int'l Trade Comm'n,* No. 12-552, 133 S. Ct. 1656 (2013).

unambiguously states that the first sale of a lawfully made copy exhausts the copyright holder's right to control the resale or disposal of that copy. *See* 17 U.S.C. §109(a). That copyright exhaustion provision is immensely powerful. For example, while the Copyright Act furnishes the copyright holder with the rights to control the distribution of copies and thus to exclude unauthorized imports of copies, *see id.* §§106(3), 602(a), those rights are ultimately subservient to the §109(a) exhaustion provision. *See Kirtsaeng*, 133 S. Ct. at 1355. And that exhaustion provision includes no indication that where a lawfully made copy is produced and sold has any relevance. *See id.* at 1358. In other words, by its very terms, the Copyright Act makes clear that once a copy is lawfully made and sold anywhere in the world, the copyright holder's U.S. rights, including the right to exclude the importation of that copy, are exhausted.

That simply is not the case with the Patent Act, which grants a patentee a *freestanding* right to exclude the unauthorized importation of U.S.-patented articles into the United States. The Patent Act precludes anyone, "without authority," from "impor[ting] into the United States any patented invention" before the patent term's expiration. 35 U.S.C. §271(a). The right to exclude unauthorized imports of patented articles is *not* subject to any exhaustion provision, because the Patent Act has no such provision. Thus, regardless whether a U.S. patentee authorizes a foreign sale, the right to exclude the importation of those articles survives.

In addition, the examination processes governing copyrights and patents are night and day. Copyright registration is not even a prerequisite to copyright protection. *See* U.S. Copyright Office, *Copyright Basics* 7 (May 2012), http://bit.ly/2jEMlx2. Instead, copyright exists the moment a work is fixed in a tangible medium of expression, *id.* at 3, with registration simply providing additional rights to the copyright holder, *see, e.g.*, 17 U.S.C. §411(a) (requiring copyright registration before commencing a copyright infringement suit). Conversely, a patent does not exist unless and until it is granted. *See* USPTO, *Patent FAQs* (last visited Feb. 3, 2017), http://bit.ly/2ka2zBo. And the patent examination process is far more "rigorous" than the copyright registration process, which has been described as "virtually pro forma." Douglas Y'Barbo, *The Heart of the Matter: The Property Right Conferred by Copyright*, 49 Mercer L. Rev. 643, 671 (1998).

Once copyrights are registered with and patents granted by the U.S. government, their respective terms differ drastically as well. For example, once an individual author registers his copyright, the copyright protections afforded by U.S. law extend for the duration of the author's natural life *plus* 70 more years. 17 U.S.C. §302(a). In stark contrast, patent terms can be as short as 15 years from the patent application filing date, 35 U.S.C. §173 (design patents), and do not exceed 20 years, *id.* §154(a)(2) (all other patents), absent extraordinary circumstances, *see, e.g.*, *id.* §156(g)(6) (extending term up to five years for articles subject to regulatory review).

These fundamental differences are magnified when it comes to the international treatment of U.S. copyrights and patents. Under the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention"), which the United States signed in 1989, international copyright law is largely harmonized. *See* Berne Convention, Sept. 9, 1886, revised at Paris, July 24, 1971, 828 U.N.T.S. 221. Today, the Berne Convention includes 172 member states. *See* WIPO, *WIPO-Administered Treaties* (last visited Feb. 1, 2017), http://bit.ly/1TacToa. As a result, "[n]ationals of a member country, as well as any author who publishes in one of Berne's [172] member states, … enjoy copyright protection … across the globe." *Golan v. Holder*, 565 U.S. 302, 308 (2012) (citing Berne Convention, art. 2(6)).

The protections afforded by the Berne Convention to copyright holders in any one of the 172 signing countries are extraordinary. To take an example, every member state must provide authors with a copyright for the duration of their natural lives plus at least an additional 50 years, "whether or not the author has complied with a member state's legal formalities." *Id.* (citing Berne Convention, arts. 5(2), 7(1)); *see also* Berne Convention, arts. 8-14*bis*, (listing numerous other rights afforded to copyright holders).[5] The significance of these rights is

[5] The Berne Convention also permits countries to expressly *reject* the doctrine of copyright exhaustion under certain circumstances. Under Article 14*ter*, authors of original works of art, as well as writers and composers of original manuscripts, are permitted to collect royalties from *resales* of their works if their home countries have passed legislation permitting such

underscored by the degree to which member states, including the United States, had to modify their copyright laws to comply with the Berne Convention. For example, among other things, the United States had long granted copyright protections to foreign authors only if their home countries offered copyright protection to U.S. citizens, and then only if the foreign authors printed their works in the United States. *Golan*, 565 U.S. at 309. The Berne Convention's requirements were such a change from previous U.S. copyright law that Congress initially adopted a "'minimalist approach'" to compliance after the United States joined. *Id.* It was not until 1994 that the United States complied "in full measure," an achievement this Court has branded a "signal event" in copyright law. *Id.* at 324.

In stark contrast to the globalized nature of copyright law, patent law is distinctly national and territorial. Countries have repeatedly *rejected* attempts to harmonize their respective patent regimes. Under the 1883 Paris Convention for the Protection of Industrial Property ("Paris Convention"), "[p]atents applied for in the various countries of the Union ... shall be independent of patents obtained for the same invention in other countries." Paris Convention, Mar. 20, 1883, revised at Stockholm, July 14, 1967, art. 4*bis*, 21 U.S.T. 1583. More recently, the Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPS"), negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and

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royalties, and if the countries in which they are seeking such royalties allow them. *See* Berne Convention, art. 14*ter*.

Trade in 1994, provides that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." TRIPS, Apr. 15, 1994, art. 6, 33 I.L.M. 1197.[6] Thus, while a copyrighted work automatically receives protection in all Berne Convention member states, a patentee must apply for and receive approval in each individual country in which patent protection is desired. *Cf. Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 456 (2007) ("[F]oreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries.").

Moreover, each country establishes different standards of patentability, a distinct menu of patent protections, and different remedies for infringement, all of which can differ substantially from U.S. law. In Europe, for example, which historically has lacked the kind of robust software industry we have in the United States, "computer programs 'as such' are excluded from patentability by Member States of Europe and the [European Patent Convention]." Georgios I. Zekos, *Cyberspace and IPRs Stimulus on Foreign Direct Investment in the European Union*, 20 No. 6 J. Internet L. 3, 13 (2016). Brazil has such a backlog in patent applications that it takes an average of ten years to receive a patent. *See* Lisa L.

[6] The Patent Cooperation Treaty ("PCT"), June 19, 1970, 28 U.S.T. 7645, provides a more straightforward means to *apply* for patent protection in foreign countries, but it "does not supersede or replace" the Paris Convention. *See* John Gladstone Mills III, et al., *WIPO—Patent Cooperation Treaty*, 7 Pat. L. Fundamentals §21:7 (2d ed. 2017).

Mueller & Caitlin Mac Nair, *Expediting Patent Prosecution in Brazil*, Nat'l L. Rev. (Mar. 29, 2016), http://bit.ly/1Rq0P0F. Patentees in China have lamented "insufficient monetary damages" for patent infringement. USPTO, *Report on Patent Enforcement in China* 7 (July 13, 2012), http://bit.ly/2mm0Oih. And some countries offer such poor patent protection that "a U.S. patentee may choose not even to seek patent protection." *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 762 (Fed. Cir. 2016). Finally, of course, even if a foreign country offers strong patent protections today, there is nothing comparable to the Berne Convention to ensure that those protections will exist tomorrow.

Accounting for all of the differences between copyright and patent law—particularly the international harmony in the former and the international cacophony in the latter—*Kirtsaeng* cannot dictate the answer to the second question presented here.

II. International Patent Exhaustion Is Inconsistent With Domestic Patent Exhaustion and International Copyright Exhaustion.

The justification for domestic patent exhaustion does not support, and in fact counsels against, a doctrine of international patent exhaustion. For over 160 years, this Court has explained that domestic patent exhaustion is triggered when a patentee has an opportunity to receive a financial reward for relinquishing its U.S. patent rights as to an individual article, thereby removing that article from the U.S. patent "monopoly." But when a U.S.

patentee sells a patented article overseas, U.S. patent rights are not involved, for such rights generally exist *only* in the United States. A foreign-sold article thus is not removed from the U.S. monopoly unless the patentee expressly or implicitly relinquishes its U.S. patent rights. Indeed, international patent exhaustion is inconsistent with not only the theory underlying domestic patent exhaustion, but also the theory underlying international copyright exhaustion.

A. Domestic Patent Exhaustion Occurs When Patentees Have an Opportunity to Receive a Financial Reward for Relinquishing U.S. Patent Rights.

Since 1853, this Court has defended the judicially crafted doctrine of domestic patent exhaustion by reference to the "reward" theory. *See Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852). Upon receiving a U.S. patent, the patentee earns a "monopoly" over his invention for a limited period of time. That monopoly means that "the patentee possesses exclusive rights to the patented article." *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2407 (2015); *see also* 35 U.S.C. §154(a) (listing patent rights). But when the patented article "passes to the hands of the purchaser," it "is no longer within the limits of the monopoly." *Bloomer*, 55 U.S. (14 How.) at 549. Instead, the patented article "passes outside of [the monopoly], and is no longer under the protection of the act of Congress," *id.*, because the patentee has "receive[d] the consideration for its use," *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

In other words, the "test" for domestic patent exhaustion for the better part of two centuries has been "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article." *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942); *see also Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008) (holding that patent exhaustion also applies when there is an "authorized sale of an article that substantially embodies a patent"). And "use" of a patented article—along with the "incident[al]" right to resell it, *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942)—is an act that patentees could otherwise lawfully exclude. *See* 35 U.S.C. §154(a)(1). Thus, when a patentee sells a U.S.-patented article within the United States, the *quid pro quo* that justifies the doctrine of exhaustion is a relinquishment of U.S. patent rights to control the use and resale of the article in exchange for an opportunity to receive a financial reward. Once that transaction is completed, the patented article is removed from the U.S. monopoly. *See Univis*, 316 U.S. at 251 (where "reward … was demanded and received," inventor "has thus parted with his right to assert the patent monopoly with respect to [the article].").

But patent exhaustion extinguishes the patentee's U.S. rights *only* as to the individual article sold. A single sale of a single patented article does not enable "the purchaser of that article [to] make and sell endless copies." *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013). That is so "because the patent holder has 'received his reward' only for the actual article sold." *Id.* at 1766. If patentees never receive a chance to collect a reward for each individual article, the "patent would provide scant benefit." *Id.* at 1767. The doctrine of patent exhaustion is to be interpreted "to avoid just such a mismatch between invention and reward." *Id.*

This Court therefore has made clear that whether the doctrine of patent exhaustion applies must be analyzed in the context of an individual sale of an individual article. Only then can it be determined whether the patentee has received a chance to obtain his reward for relinquishing his U.S. patent rights as to the article, so that it can be fairly said that the article has "passe[d] without the limit of the monopoly." *Adams*, 84 U.S. (17 Wall.) at 456.

B. U.S. Patent Rights Are Not Relinquished Through Foreign Sales Because U.S. Patent Law Does Not Apply Extraterritorially.

This Court's teachings on the territorial limits of U.S. patent law enjoy a historical pedigree comparable to the reward theory of domestic patent exhaustion. They confirm that international patent exhaustion simply cannot be squared with the domestic species of that doctrine.

In 1856, this Court explained that U.S. patent laws "do not, and were not intended to, operate beyond the limits of the United States; and as the patentee's right of property and exclusive use is derived from them, they cannot extend beyond the limits to which the law itself is confined." *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856). These principles of territoriality have been adhered to by this Court uninterruptedly, as Congress has never thought it wise to apply U.S. patent law extraterritorially. *See Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915) ("The right conferred by a patent under our law is confined to the United States and its territories."); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) ("Our patent system makes no claim to extraterritorial effect."). Indeed, even when Congress has targeted efforts to exploit the territorial limits of U.S. patent law, it has done so by targeting conduct in the United States. *See* 35 U.S.C. §271(f)-(g). Thus, that U.S. patent law "governs domestically but does not rule the world" is as true today as it was two centuries ago. *Microsoft*, 550 U.S. at 454. If a U.S. patentee desires patent protections and a patent monopoly in a foreign country, "its remedy today lies in obtaining and enforcing foreign patents." *Id.* at 456.

The net effect of the territorial limits of U.S. patent law is that when U.S. patentees sell patented articles in foreign countries, U.S. patent rights cannot "fairly be said" to have been implicated, let alone exhausted. *Masonite Corp.*, 316 U.S. at 278. U.S. patent law simply does not reach the "actual article sold" abroad. *Bowman*, 133 S. Ct. at 1766. To the contrary, foreign-sold articles fall under the umbrella of foreign law, which includes its own menu of patent protections and remedies, or perhaps no protections or remedies. The *quid pro quo* that justifies exhaustion of U.S. patent rights domestically—namely, an opportunity to receive a financial reward in exchange for the relinquishment of U.S. patent rights—is therefore absent in the international context. *Accord* U.S.Br.27 ("[A] foreign sale does not constitute an exercise of patent rights under U.S. law, and the price charged for that sale is not necessarily calibrated to reward the patentee for any relinquishment of those U.S. rights."). Patent exhaustion thus cannot apply to sales beyond the borders of the United States.

Of course, this is not to say that patented articles sold in foreign countries can *never* be imported, used, or resold in the United States without infringing U.S. patents. To the contrary, an express or even implied license from the patentee to the foreign-country purchaser to perform such acts would constitute a valid defense to any claim of infringement. *Lexmark*, 816 F.3d at 767. For example, a patented article sold at a foreign airport, seaport, or any other location where the circumstances imply eventual foreign use could give rise to an implied license. *Id.* at 771. But such a defense is distinct from exhaustion. *See Quanta*, 553 U.S. at 637. And U.S. patentees alleging infringement can at least rebut defenses invoking express or implied licenses—by showing, for example, that an express license is limited in scope, or that the circumstances surrounding the transaction do not give rise to an implied license. But there is practically no disproving an exhaustion defense. A purchaser's actions are *automatically* permissible under exhaustion, because all that is required is an authorized first sale, no matter the circumstances surrounding the transaction. Since express and implied licenses properly balance the interests of both consumers and patentees, the Court should reject any invitation to adopt a heavy-handed doctrine of international patent exhaustion that will almost exclusively disadvantage U.S. patentees.

C. International Copyright Exhaustion Is Unique Because of the Berne Convention.

The theoretical basis for international patent exhaustion also cannot be located in the underpinnings of international *copyright* exhaustion. Indeed, as already suggested, the salient differences between copyright and patent law affirmatively support the application of different international exhaustion rules. What makes sense in the context of harmonized international copyright protection does not make sense in the distinctly territorial world of patent law, where protections vary widely across nations.

The need for differential treatment flows directly from differences in how U.S. copyrights and patents are respected internationally. As noted, under the Berne Convention, a U.S. copyright holder automatically receives copyright protection in 172 countries around the world once a copyrightable work is created. There are only 195 independent nations in the world, and so the Berne Convention effectively transforms a U.S. copyright into a "worldwide copyright." *See* U.S. State Dep't, *Independent States in the World* (last modified Jan. 20, 2017), http://bit.ly/2jKUSyj. And the rights secured by this worldwide copyright are synchronized in each Berne Convention member state: at least for a term of life-plus-50-years, a copyright holder possesses largely the same arsenal of exclusive rights in nearly 90% of the world's recognized countries. Given this international harmonization, it makes little difference where the first sale of a lawfully made copy takes place; the first sale in any Berne Convention member state provides the copyright holder with an opportunity to collect his reward for relinquishing his globally harmonized rights to control that copy, and that copy is thereafter removed from the copyright monopoly across the Berne Convention bloc.

Kirtsaeng illustrates the point. There, Kirtsaeng had requested that friends and family buy foreign-edition English-language textbooks in Thai book shops and send them to him in the United States. *Kirtsaeng*, 133 S. Ct. at 1356. Kirtsaeng then resold them to U.S. customers, reimbursed the Thailand-based purchasers, and pocketed the profits. *Id.* But Thailand has long been a Berne Convention member. *See* WIPO, *WIPO-Administered Treaties*, *supra*. Consequently, all of the international sales of the copyrighted textbooks at issue in *Kirtsaeng* occurred within territory where John Wiley's worldwide copyright was recognized, and where the publisher enjoyed similar copyright protections as in the United States. *Compare* Copyright Act, B.E. 2537 (1994) (Thai.), *with* 17 U.S.C. §101 *et seq.* When John Wiley received the opportunity to collect a financial reward for those copies in Thailand, its right to control the sale and disposal of those copies in the United States likewise was extinguished. Were it otherwise, John Wiley would have received a double reward for relinquishing the same rights.

This logic does not carry over to international sales of patented articles. As previously discussed, under the Paris Convention, a patent in one country does not give rise to a patent anywhere else. Rather, U.S. patentees must apply for and obtain a patent in each individual country. Patent monopolies are inherently *country*-specific, and a U.S. patentee is almost certain to have patent protection in less than the rest of the world. Even if U.S. patentees have foreign counterparts to their U.S. patents, those foreign patents may, for example, have a narrower scope as well as much weaker protections and remedies—thus generating a far lesser reward—than the U.S. patent.

At bottom, international patent exhaustion is theoretically inconsistent with domestic patent exhaustion and international copyright exhaustion. Accordingly, there is simply no sound doctrinal reason to recognize international patent exhaustion.

III. International Patent Exhaustion Would Produce Destabilizing And Unintended Consequences.

Not only is international patent exhaustion doctrinally incoherent; it would create enormous problems in practice. That is true under either petitioner's or the government's theory. Under petitioner's theory of automatic international exhaustion, U.S.-patented articles sold overseas to foreign customers at local-market prices could be imported into the United States without infringing U.S. patents, all while leaving patentees with no resort to U.S. patent law. And under the government's theory—that international exhaustion should be the default presumption that U.S. patentees can contract around—U.S. companies would be placed in a highly disadvantageous position either as they renegotiate existing contracts written against a default understanding that no doctrine of international patent exhaustion exists, or as they negotiate new contracts. Both approaches, furthermore, would disadvantage U.S. companies compared to foreign competitors, devalue U.S. patents relative to foreign patents, stifle innovation, disrupt international commerce, and undercut U.S. patent policy.

A. Petitioner's Theory Would Allow Foreign-Sold Articles to Flood the U.S. Market and Leave Patentees Defenseless.

1. Foreign Sales by Foreign Licensees.

Many U.S. companies, including IBM, conduct a significant portion of their research and development in the United States and thus correspondingly seek the bulk of their patent protection here. U.S. companies like IBM therefore have patent portfolios that generally are U.S.-centric. To operate in some of the largest emerging markets internationally, however, U.S. companies often are required to partner with local businesses and share patented technology—for example, through licensing agreements. *See, e.g.*, U.S. Trade Representative, *2016 Special 301 Report* 20 (Apr. 2016), *available at* http://bit.ly/1VC434h (reporting that U.S. companies operating in other countries have experienced "an increasing variety of government measures, policies, and practices that are touted as means to incentivize domestic 'indigenous innovation,' but that, in practice, can disadvantage U.S. companies, such as by requiring foreign companies to give up their IPR [intellectual property rights] as the price of market entry"). Pursuant to those agreements, local licensees have authority to manufacture patented articles for sale within the foreign market. But those licensing agreements are not "under the authority" of U.S. patents because U.S. patents cannot be exercised beyond the United States. *See* U.S.Br.27 ("For purposes of patent exhaustion, it is appropriate to distinguish between a foreign sale made under the authority of a foreign patent or otherwise in accordance with foreign law, and a U.S. sale made under the authority conferred by the U.S. patent pursuant to U.S. law."). U.S. patentees thus do not charge foreign licensees a "premium for forfeiting [their] exclusive right under U.S. law to prevent the sale of [the] patented article in the United States." *Id.*

Petitioner's theory—*i.e.*, that U.S. patent rights are conclusively exhausted upon an authorized sale that takes place in a foreign country—thus creates extraordinary risk for U.S. companies operating internationally, especially in emerging markets. Indeed, petitioner's theory is particularly damaging to companies like IBM that are not only highly innovative (and thus have large U.S. patent portfolios) but also actually bring products to market worldwide (and thus engage in substantial foreign sales of products embodying U.S.-patented technology). Prices in foreign markets reflect a number of factors, including the patent protections that an article enjoys in that market as well as local purchasing power. Accordingly, prices in some foreign markets, especially emerging markets, are lower than in the United States. If the first sale of a patented article in a foreign market exhausts U.S.

patent rights, then it is only a matter of time before arbitrageurs take advantage of the business opportunity: foreign distributors could simply purchase foreign-made articles from local licensees for export to the United States. Indeed, petitioner envisions, if not encourages, this precise outcome. *See* Pet.Br.56 ("If a patentee authorizes articles practicing its patent to be sold abroad at prices lower than those offered within the United States, American consumers should be permitted to purchase those goods for use in the United States.").

But if lower-priced, foreign-sold articles can be imported into the United States for resale, those articles would undercut patentees' U.S. sales without giving patentees an opportunity to receive any reward for the U.S. patent. Foreign sales that reflect foreign patent protection and foreign purchasing power often cannot provide an adequate reward. And without an adequate reward, the patentee would struggle to recoup the significant up-front costs incurred in developing the patented technology in the first place. The "mismatch between invention and reward" would be staggering. *Bowman*, 133 S. Ct. at 1767. And it would be antithetical to U.S. patent law, the "declared purpose" of which is "to promote the progress of science" by granting to an inventor "a limited monopoly, the exercise of which will enable him to secure the financial rewards for his invention." *See Univis*, 316 U.S. at 250. If patentees are unable to secure their financial rewards, the "patent would provide scant benefit," *Bowman*, 133 S. Ct. at 1767, and innovation could slow dramatically. Indeed, U.S. patentees may be reluctant even to develop new technology if they are not properly compensated, and many may reconsider collaborating with foreign partners, thus stifling the free flow of goods.

U.S. patentees could attempt to charge local licensees royalties on foreign-market sales as if those sales occurred within the United States. But such royalties would necessarily be higher than the rates U.S. companies currently charge in foreign markets, and local partners would be loath to pay U.S.-market rates for non-U.S. sales—particularly when competitor products, from countries without an international exhaustion doctrine, *see* pp.31-33, *infra*, do not require such premiums. Nor would foreign customers take kindly to paying the higher costs that licensees inevitably would pass on in the event that such an agreement was reached. Thus, charging higher rates to licensees in foreign markets may well only slow sales and cause patentees to lose money from their international operations.

2. Foreign Sales by U.S. Patentees.

U.S. patentees would face many of these same problems even if they operated in countries where they did not have to partner with local licensees and could make direct sales to foreign customers. If the first sale by a U.S. patentee in a foreign market exhausted the patentee's U.S. rights, then patentees who maintain the status quo of selling patented articles at locally competitive prices would be doing so at their peril.

Instead, patentees likely would have to price patented articles in foreign markets on the assumption that the products will be imported into the United States. Patentees therefore would have to charge higher prices for those articles to account for the relinquishment of U.S. patent rights and the corresponding removal of the articles from the U.S. monopoly. But just as in the foreign licensee context, many consumers in foreign countries would not be able to afford patented articles that are priced with an eye toward the U.S. market. Thus, as U.S. patentees try to defend themselves against arbitrageurs by adopting international pricing parity, patentees would lose many foreign customers for whom U.S. prices are out of reach. Such a result harms both patentees and consumers.

Patentees could conceivably avoid these problems by leasing, rather than selling, patented articles to foreign customers—the exhaustion doctrine, after all, requires a first *sale*—but that approach creates its own problems. Foreign customers would have no rights to sell the articles within their own countries; indeed, they would have no equity in the purchased articles at all. And without title to the articles, including the ability subsequently to sell the articles within the country of sale, many customers would be uninterested. Moreover, upon a breach of the leasing agreement, U.S. patentees likely would have to resort to foreign law and local courts to obtain any remedy, injecting further uncertainty into an already undesirable business arrangement.[7]

[7] U.S. patentees could insert post-sale restrictions on articles that they either sell through licensees or sell directly in foreign markets, but the validity of such restrictions hinges on this Court's answer to question one.

No matter the path taken, U.S. patentees—and U.S. consumers, U.S. innovation, and perhaps even non-U.S. consumers—are harmed under petitioner's theory.

B. The Government's Theory Would Burden U.S. Companies Negotiating Contracts Overseas.

In rightly urging rejection of petitioner's position, the government acknowledges the doctrinal incoherence and far-reaching consequences of an automatic international patent exhaustion regime. *See* U.S.Br.26-32. But the government then endorses a half-a-loaf version of that same regime, under which international patent exhaustion would be the default rule that U.S. patentees must contract around to reserve U.S. rights. *See id.* at 32-34. It is hard to understand—and the government does not meaningfully explain—why a doctrine so antithetical to the basic territorial approach of patent law that it should not apply automatically (as the government does explain) should nevertheless be the default rule. In fact, international patent exhaustion makes no sense—either theoretically or practically—in either a strong or weak form. It is both the wrong rule and the wrong default rule.

At least since the Federal Circuit's decision in *Jazz Photo* in 2001, U.S. patentees have understood the default rule to be that there is no exhaustion of U.S. patent rights through foreign sales.[8] That is

[8] Arguing to the contrary, the government asserts that "U.S. courts have … generally concluded … that an unrestricted sale abroad authorized by the U.S. patentee will exhaust the patentee's right to control importation of the particular article

because the *Jazz Photo* court, citing this Court's *Boesch* case from 1890, explicitly held as much. *See Jazz Photo*, 264 F.3d at 1105 ("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."). And that understanding was only confirmed when this Court denied certiorari in a case presenting a question of international patent exhaustion just six days after *Kirtsaeng* issued. *See Ninestar*, 133 S. Ct. at 1657.

In reliance on *Jazz Photo*'s background rule of no international patent exhaustion, U.S. companies with significant U.S. patent portfolios, including IBM, have entered into literally tens of thousands of long-term contracts with foreign counterparties *without* addressing issues of international patent exhaustion on the understanding that silence left their U.S. patent rights intact. Thus, in many licensing agreements, there are no provisions explaining that patented articles sold pursuant to the agreement cannot be imported into the United States. And such restrictions generally do not accompany a patentee's direct sale of a patented article to a foreign customer.[9] This reliance on *Jazz Photo* in setting the

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into the United States and its subsequent resale or use within this country." U.S.Br.25 (emphasis omitted). But the government cites no case postdating *Jazz Photo* advancing this "general" conclusion; indeed, the most recent case it cites is a district court decision from 1988. The most recent appellate decision it cites is from *1920*.

[9] Of course, patentees may affirmatively relinquish U.S. rights or global rights, either through a license or direct sale. *See, e.g.*, *STMicroelectronics, Inc. v. Sandisk Corp.*, No.

default rule should not be ignored. *Cf. Payne v. Tennessee*, 501 U.S. 808, 828 (1991) ("Considerations in favor of *stare decisis* are at their acme in cases involving property and contract rights, where reliance interests are involved.").

If *Jazz Photo*'s established rule were suddenly abolished in favor of the government's opposite default rule, U.S. companies would be placed in an untenable negotiating position as they seek to insert provisions disclaiming international patent exhaustion into tens of thousands of existing contracts. Even setting aside the logistical nightmare of reopening negotiations for every existing contract, U.S. patentees would be forced to go hat-in-hand to their foreign counterparties. And those counterparties undoubtedly would seek something of value in return for providing the disclaimer, as they have no incentive to offer it for free.

These problems would similarly infect the negotiations for new contracts. Under the government's theory, U.S. patentees negotiating new contracts now have to seek an *extra* term that was never previously necessary. Any rational foreign counterparty will seek an additional concession in exchange for such a provision. Worse still, some patentees may not be sophisticated enough to know that foreign sales exhaust U.S. patent rights absent affirmative action on their part. The government's position thus becomes a trap for the unwary.

4:05CV45, 2007 WL 951655, at *3 (E.D. Tex. Mar. 26, 2007). But those arrangements are the exception.

Furthermore, even if U.S. patentees succeed in negotiating provisions disclaiming international patent exhaustion on paper, they would have no assurance that such provisions would hold up in court. A slight mistake during the contracting process could render the disclaimer legally unenforceable, and U.S. patentees could suffer international patent exhaustion despite their best efforts to avoid it. These risks would only be compounded by the fact that contracts with foreign counterparties implicate another country's contract law. Indeed, as the government acknowledges, "German law" controlled critical questions in *Boesch*. U.S.Br.23. Thus, as in the licensee context, U.S. patentees may conclude that operating in some foreign markets presents intolerable risks. If U.S. patentees do not sell in foreign countries, international commerce inevitably suffers as well.

Put simply, the government's barely-supported contention that a presumptive rule of international patent exhaustion is "superior" to *Jazz Photo*'s rule of no exhaustion, *id.* at 25, ignores both the body of existing contracts and the realities of negotiating new contracts with foreign counterparties. This weak form of petitioner's misguided theory should suffer the same fate and be rejected.

C. Either Theory Would Disadvantage U.S. Patentees, Devalue U.S. Patents, and Undermine U.S. Patent Policy.

Petitioner's and the government's theories both share other serious defects. Regardless whether the theory is one of conclusive or presumptive international patent exhaustion, there is no escaping that either would disadvantage U.S. patentees relative to foreign patentees, devalue U.S. patents compared to foreign counterparts, and require U.S. patent policy to yield to foreign law.

The historical norm has been that developed countries do not recognize international patent exhaustion, while developing countries do. *See* Christopher J. Clugston, *International Exhaustion, Parallel Imports, and the Conflict Between the Patent and Copyright Laws of the United States*, 4 Beijing L. Rev. 95, 96 (2013) ("Roughly, the disagreement over international patent exhaustion breaks down along developed and developing country lines."). Contrary to petitioner's suggestion, this rift persists.[10] In keeping with that divide, the European Union does not apply automatic or presumptive international patent exhaustion to articles that enjoy patent protection in a member state but are sold outside of the bloc. *Id.* at 97. Thus, a German patentee that sells a German-patented article in China or India need not fear that it could be exported back to Germany without infringing the German patent. *See*

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[10] Petitioner asserts that "the international community is moving toward international exhaustion," and that "[a]t least 24 countries have adopted rules of international patent exhaustion." Pet.Br.55 (citing WIPO Committee on Development and Intellectual Property, *Patent Related Flexibility in the Multilateral Legal Framework and Their Legislative Implementation at the National and Regional Levels*, Annex II, Fifth Session, CDIP/5/4 (Mar. 1, 2010). Setting aside that the WIPO document on which petitioner relies indicates that only 21 (not 24) countries have done so, petitioner omits that the remainder of the 83 countries surveyed (which includes regional blocs, such as the European Union) have *not* adopted international patent exhaustion.

Patent Law in Global Perspective 475 (Ruth L. Okediji & Margo A Bagley eds., 2014) ("[T]he German Federal Supreme Court was clear in rejecting international exhaustion." (citing Bundesgerichtshof [BGH] [Federal Court of Justice] Dec. 14, 1999, Neue Juristische Wochenschrift-Rechtsprechungs-Report [NJW-RR] 569, 2000 (Ger.)).

Both petitioner's and the government's theories thus would result in a unilateral weakening of U.S. patents and would comparatively disadvantage U.S. companies possessing those patents. If either theory were adopted, the rights attached to a U.S. patent would shrink while those associated with certain foreign patents, such as German patents, would remain constant. And whereas, under the government's theory, U.S. patentees would have to disclaim international patent exhaustion in every foreign contract—efforts that ultimately may prove futile—many foreign competitors would not have to jump through those same hoops.

Recognizing a doctrine of international patent exhaustion is particularly pernicious because it effectively would require the United States to adopt foreign countries' patent policies and practices. Suppose, for example, that a U.S. company develops a product and obtains a U.S. patent for 20 years. *See* 35 U.S.C. §154(a)(2). Suppose also that the U.S. patentee wants to protect its invention in a particular foreign country but, owing to backlogs in that country's patent examination process, it takes ten years to obtain a patent there. That is not some fanciful hypothetical: that is the average delay right now in Brazil. *See* pp. 13-14, *supra*. For some ten years, then, the U.S. patentee would have *no* patent protection while selling its product in the foreign country. And for that same period, because the U.S. patentee would have no right to exclude others in that foreign country from making the product, it would have to sell its product at a lower price in order to compete. If the United States had an international patent exhaustion rule, the U.S. patentee would be powerless to prevent the importation of its lower-priced foreign-market product into the United States, because the foreign sales of that product exhausted its U.S. patent rights. The end result would be no different than if the United States had the same ten-year delay for granting patents as the foreign country. By contrast, in a no-international-exhaustion regime, the foreign sales would not trigger exhaustion of the U.S. patent, and the U.S. company would, under U.S. patent law, have the right to exclude the importation of the product into the United States. The effects of the foreign country's extreme delay in processing patent applications would be contained to the foreign country.

International patent exhaustion thus places the United States at the mercy of foreign patent regimes. This Court squarely rejected that result 125 years ago. *See Boesch*, 133 U.S. at 703 ("The sale of articles in the United States under a United States patent cannot be controlled by foreign laws."). The result should be no different today.

IV. Any Doctrine Of International Patent Exhaustion Should Be Adopted By Treaty And Implemented By Congress.

In light of the destabilizing consequences that would result from any judicially crafted doctrine of international patent exhaustion, the prudent course is to leave undisturbed the rule rendered explicit in the 2001 *Jazz Photo* decision—*no* international patent exhaustion. The coordinate branches can then decide whether to endorse international patent exhaustion and legislate the precise metes and bounds of an international exhaustion regime.

To date, Congress has declined to adopt international patent exhaustion, even though it has had many chances to do so since *Jazz Photo*, including in its recent overhaul of the U.S. patent system. *See* Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). And previous attempts to harmonize patent-exhaustion rules across countries have failed. *See* Paris Convention, art. 4*bis*; *see also* TRIPS, art. 6; Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things*, 21 Mich. J. Int'l L. 333, 346 (2000) (noting that "Article 6 of TRIPS reflects [the negotiators'] ultimate inability to agree" on international exhaustion rules).

Congress' deliberate decision not to act on international patent exhaustion does not convert this important policy issue into one fit for judicial resolution. *Am. Elec. Power Co., v. Connecticut*, 564 U.S. 410, 423-24 (2011) ("[I]t is primarily the office of Congress, not the federal courts, to prescribe national policy in areas of special federal interest."). If anything, Congress' silence in the face of *Jazz Photo*'s clear rule indicates congressional assent to the current no-exhaustion regime, which this Court should be reluctant to disturb. *See Kimble*, 135 S. Ct. at 2409-10. Similarly, the inability to reach cross-border consensus does not mean that this Court should now fill the void. To the contrary, precisely because international patent exhaustion is exceedingly sensitive, both domestically and internationally, any decision to adopt such a regime should be made pursuant to an international treaty, or other international agreement (in which the United States could ensure reciprocal benefits and avoid placing U.S. companies at a systematic disadvantage), that is negotiated by the executive branch and implemented by Congress through legislation.

And that is only fair. As petitioner and the government would have it, U.S. patentees alone should be disarmed of patent rights while foreign patentees should have resort to the full arsenal their countries give them. There is nothing to recommend that inequitable position, which would disadvantage U.S. companies and disarm U.S. negotiators. Rather, if the United States makes a commitment to international patent exhaustion, U.S. patentees should have confidence that foreign competitors holding foreign patents will be subject to the same set of rules. This Court should not take it upon itself to craft a judicial doctrine that would unilaterally weaken U.S. patents and U.S. patentees.

CONCLUSION

For the foregoing reasons, this Court should affirm the Federal Circuit's judgment on international patent exhaustion.

Respectfully submitted,

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February 23, 2017