Recent Decisions in Patent Exhaustion: *Bowman*, *Kirtsaeng* and other developments impacting the exhaustion doctrine

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1) First Sale Doctrine in Copyright Law

Copyright Background

17 U.S.C. § 106 - Exclusive rights in copyrighted works

- "Subject to sections 107 through 122, the owner of copyright . . . has the exclusive rights to do and to authorize . . . **(3)** to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . ."

Copyright Background

17 U.S.C. § 109 - Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

- "**(a)** 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."

Copyright Background

17 U.S.C. § 602 - Infringing importation or exportation of copies or phonorecords

- **"(a)(1) Importation. —** 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 acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501."

Kirtsaeng v. John Wiley & Sons, Inc.

568 U.S. _____ (2013)

Kirtsaeng Holding

- **Held**: "[T]he "first sale" doctrine applies to copies of a copyrighted work lawfully made abroad."

- A 6-3 majority found that once a copy, ***made anywhere*** with the copyright owner's permission, is sold, the copyright owner's exclusive distribution right ends.
  - Justice Breyer wrote for the majority, joined by Chief Justice Roberts, and Justices Thomas, Alito, Sotomayor, Kagan.

Summary of *Kirtsaeng*

- Kirtsaeng, a Thai citizen studying in the U.S., purchased "foreign edition" versions of Wiley's English-language textbooks in Thailand and resold them in the U.S. for profit.
- These foreign edition textbooks were "authorized for sale in Europe, Asia, Africa, and the Middle East only."

Summary of *Kirtsaeng*

- In 2008, publisher John Wiley & Sons sued for copyright infringement, alleging Kirtsaeng ***violated Wiley's right of distribution*** under §106(3) ***and import prohibitions*** under §602.
- Kirtsaeng relied on the **Copyright Act's First Sale Doctrine, 17 U.S.C. §109:**

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

Kirtsaeng: *"lawfully made under this title"*

- Wiley construed the phrase as limiting the First Sale Doctrine "to copies made in conformance with the [U.S.] Copyright Act ***where the Copyright Act is applicable.***" *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1358 (2013), *quoting* Brief for Respondent 15-16.
  - i.e., as a geographic limitation.
- Kirtsaeng construed the phrase to include copies ***made anywhere with the permission*** of the copyright owner.

Kirtsaeng Rationale

- **Court's Linguistic, Contextual, Statutory Interpretation:**
  - Where a statute covers an issue previously governed by the common law, we must presume Congress intended to retain the substance of the common law.
  - The First Sale Doctrine at common law did not have a geographical requirement:

    "A law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly 'against Trade and Traffi[c], and bargaining and contracting.'" 1 E. Coke, Institutes of the Laws of England §360, p. 22d (1628).

- **Consequences of Wiley's Geographical Interpretation:**
  - Libraries would have to limit circulation of books acquired outside the U.S.
  - Cars, cellphones, and PCs made overseas could not be resold without the permission of the holder of each copyright on each piece of copyrighted software.

2) Overview of Patent Exhaustion Doctrine

Quanta v. LG, 553 U.S. 617 (2008)

Patent Exhaustion – Overview

- Initial Authorized Sale of a patented item ***terminates all patent rights*** to that item. *Quanta Computer, Inc. v. LG Elecs, Inc.*, 553 U.S. 617, 625 (2008).

- **Rationale**: "[T]he 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 . . ." *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942).

Quanta Holding

- **Held**:
  - Patent Exhaustion applies to method patents.
  - "An authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta*, 553 U.S. at 638.
- Justice Thomas wrote for a unanimous Court, reversing the Federal Circuit's judgment which had exempted method claims from the exhaustion doctrine.

Summary of *Quanta* case

- LGE acquired a portfolio of computer patents relating to data transfers between components within a computer.
- **Intel acquired a license to the LGE patents:**
  - to "make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of" Intel products practicing the LGE patents. *Quanta*, 553 U.S. at 623.
  - ***provided*** that Intel gave written notice to its customers stating "any Intel product that you purchase is licensed by LGE . . . [but the license] does not extend . . . to any product that you make by combining an Intel product with any non-Intel product." *Quanta,* 553 U.S. at 623-24.
- Quanta purchased Intel microprocessors and combined those components with other components to manufacture computers.
- LGE sued Quanta for infringing the method claims of its patents.

Patent Exhaustion - Overview

- "Substantial Embodiment" Test:

  The sale of an item that does not completely practice the patent may still be subject to patent exhaustion if:

  1. the item "embodie[s] essential features of [the] patented invention,"
  2. such that its "only reasonable and intended use [is] to practice the patent" *Quanta,* 553 U.S. at 631, *citing Univis Lens Co.*, 316 U.S. at 250-51, 249 (alterations added).

3) The “Territoriality Requirement” of Patent Exhaustion - the *Jazz Photo* cases

"Territoriality Requirement" of Patent Exhaustion

- The Federal Circuit has held that there is a "Territoriality Requirement" for Patent Exhaustion.
- ***Jazz Photo v. ITC*, 264 F.3d 1094 (Fed. Cir. 2001)**
  - Judges Newman, Michel, Gajarsa.
  - "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***." *Jazz*, 264 F.3d at 1105, *citing Boesch v. Graff*, 133 U.S. 697, 701-03 (1890) (emphasis added).
  - "Imported [patented products] of ***solely foreign provenance*** are not immunized from infringement of United States patents by the nature of their refurbishment." *Jazz*, 264 F.3d at 1105.

"Territoriality Requirement" of Patent Exhaustion

- ***Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005)**
  - Judges Clevenger, Rader, Linn.
  - "[T]his court does not read *Boesch* or the ['solely foreign provenance'] language to limit the exhaustion principle to unauthorized sales. Jazz therefore does not escape application of the exhaustion principle because Fuji or its licensees authorized the international first sales of these [patented products]."
  - "***The patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States***. Moreover, the 'solely foreign provenance' language does not negate the exhaustion doctrine when either the patentee or its licensee sells the patented article abroad."
  - "Read in full context, this court in *Jazz* stated that only [patented products] 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. ***In* Jazz**, therefore, ***this court expressly limited first sales under the exhaustion doctrine to those occurring within the United States***." *Fuji Photo Film*, 394 F.3d at 1176 (internal citations omitted, emphasis added).

"Territoriality Requirement" of Patent Exhaustion

- ***Fuji Photo Film Co. v. ITC*, 474 F.3d 1281 (Fed. Cir. 2007)**
- ***Fujifilm v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010)**
  - Judges Michel, Mayer, Linn (per curiam).
  - **Held:** *Quanta* "did not eliminate the first sale rule's territoriality requirement." *Id.* at 1371.
  - Defendants argued *Quanta* created a rule of "strict exhaustion," citing footnote 6:
    - "LGE suggests that the Intel Products would not infringe its patents if they were sold overseas, used as replacement parts, or engineered so that use with non-Intel products would disable their patented features. But *Univis* teaches that the question is whether the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing. ***Whether outside the country*** or functioning as replacement parts, the Intel Products would still be *practicing* the patent, even if not infringing it." 553 U.S. 617, 632 n.6 (2008) (citations omitted)(emphasis in original).
  - **Court**: A practicing use may occur outside the country, but infringing use must occur in the country: "***Read properly, the phrase defendants rely on supports, rather than undermines, the exhaustion doctrine's territoriality requirement.***" *Fujifilm*, 605 F.3d at 1372.

Exhaustion based on Worldwide Licenses

- Recent cases have found patent exhaustion where a patentee grants a worldwide license to sell products embodying a patent.
  - *STMicroelectronics, Inc. v. Sandisk Corp.*, 2007 U.S. Dist. LEXIS 21226 (E.D. Tex. Mar. 23, 2007)
  - *LG Elecs., Inc. v. Hitachi Am. Ltd.*, 655 F. Supp. 2d 1036 (N.D. Cal. 2009)
  - ***Tessera, Inc. v. ITC*, 646 F.3d 1357 (Fed. Cir. 2011)**
  - ***MultiMedia Patent Trust v. Apple Inc.*, No. 10cv2618, 2012 U.S. Dist. LEXIS 167479 (S.D. Cal. Nov. 9, 2012) ("*MMPT*")**

Exhaustion based on Worldwide Licenses

STMicroelectronics, Inc. v. Sandisk Corp. (E.D. Tex. 2007)

- "[D]oes the patent exhaustion doctrine apply where United States patents are covered in a world wide license even when the first sale occurs outside the United States?" *STMicroelectronics*, 2007 U.S. Dist. LEXIS 21226 at *11.

- "[*Jazz Photo*] does not stand for the proposition that only sales within the United States can trigger the doctrine when there is a valid license covering the products. STM gave Toshiba a license in all types of patents with respect to the licensed products *in all countries of the world. . . .* Therefore, Toshiba . . . had the right to sale any of the licensed products under [the asserted patents] in the United States or anywhere in the world." *Id.* at *12 (emphasis in original).

Exhaustion based on Worldwide Licenses

LG Elecs., Inc. v. Hitachi Am. Ltd (N.D. Cal. 2009)

- After *Quanta*, LGE sued Hitachi on the same patents, arguing that ***foreign sales*** **did not exhaust the patent holder's rights**
- The court (Judge Wilken) disagreed:
  - Undisputed that Intel's foreign sales to Hitachi were specifically authorized by the worldwide license agreement between Intel and AT&T (LGE's predecessor). Rationale for *Quanta* decision supports conclusion that the Supreme Court "meant 'authorized sales' to include 'authorized foreign sales.'" *Hitachi*, 655 F.Supp.2d at 1044.
  - "Accepting LGE's argument that authorized foreign sales do not exhaust a patentee's rights would permit [an] 'end-run around exhaustion' . . . " *Id.* at 1044-45.

- "The Court therefore concludes that ***Quanta's*** **holding** -- that exhaustion is triggered by the authorized sale of an article that substantially embodies a patent – **applies to authorized foreign sales** as well as authorized sales in the United States." *Hitachi*, 655 F. Supp. 2d at 1047.

Exhaustion based on Worldwide Licenses

Tessera, Inc. v. ITC (Fed. Cir. 2011)

- A Federal Circuit panel (Linn, Lourie, and Dyk) affirmed the ITC's finding of exhaustion where Tessera had granted its licensees an unconditional license to sell the accused products.
- The court rejected Tessera's argument that any sales by its licensees were unauthorized until the licensee paid Tessera royalties; **"[t]he proper focus is on whether the sales were authorized.**" *Tessera*, 646 F.3d at 1370.
  - The "absurd result [of an initially licensed sale later becoming unauthorized if the licensee defaulted on a royalty payment] would cast a cloud of uncertainty over every sale, and every product in the possession of a customer of the licensee, and would be wholly inconsistent with the fundamental purpose of patent exhaustion – to prohibit postsale restrictions on the use of a patented article." *Id.*

Exhaustion based on Worldwide Licenses

MultiMedia Patent Trust v. Apple Inc. (S.D. Cal. 2012)

- Relying on *Tessera*, the *MMPT* court distinguished "foreign sales made directly by the patentee" from "sales made pursuant to an unconditional worldwide license." *MMPT*, 2012 U.S. Dist. LEXIS 167479 at *18.

- "In the present case, the ***sales were made pursuant to a license*** between Fujitsu and AT&T (patentee's predecessor-in-interest) ***where AT&T granted Fujitsu and its subsidiaries an unconditional worldwide license to practice the '377 Patent***. . . . In *Tessera*, the Federal Circuit found that the doctrine of patent exhaustion applied where the patentee gave the licensee 'an unconditional grant of a license "to sell . . . and/or offer for sale" the accused products' even though the authorized sales were made in a foreign jurisdiction." *Id.*

Ninestar Technologies v. ITC

667 F.3d 1373 (Fed. Cir. 2012),
cert. denied 568 U.S. ___ (2013).

Ninestar Holding (Fed. Cir. 2012)

- A panel of the Federal Circuit (Newman, Schall and Linn) reaffirmed that "**[*Quanta*] did not eliminate the first sale rule's territoriality requirement.**"
  - And rejected Ninestar's argument that *Quanta* overruled *Jazz Photo*, stating that "neither the facts nor the law in *Quanta Computer* concerned the issue of ***importation into the United States of a product not made or sold under a United States patent***." *Ninestar*, 667 F.3d at 1378.
- Affirmed U.S. International Trade Commission (ITC) ruling.

Summary of *Ninestar*

- Ninestar purchased spent Epson printer cartridges, mostly from Asia and Europe, refilled them with ink, and imported them to the U.S.
- 2007: As Epson's printer cartridges were patented in the U.S., Epson initiated an ITC action. The ITC ruled that Ninestar's ink printer cartridges infringed Epson's U.S. patents. It issued exclusion and cease and desist orders against Ninestar.
- 2010: The ITC brought an enforcement proceeding against Ninestar for continuing to import and sell infringing cartridges. Ninestar was found in violation of the exclusion and cease and desist orders, and assessed a civil penalty. *Certain Ink Cartridges & Components Thereof*, USITC Publication 4195 (December 2010).
- 2012: Ninestar appealed the ITC's finding of infringement and assessment of a civil penalty, to the Federal Circuit.

Ninestar – Cert. Petition

- Question Presented:
  - whether the initial authorized sale outside the United States of a patented item terminates all patent rights to that item.

- Mar. 25, 2013: Supreme Court denied the petition for certiorari.

Ninestar – Cert. Petition

1. *Jazz Photo* was "an aberrant departure" from over a century of contrary practice.
2. The Supreme Court in *Quanta* "unmistakably indicated" that patent exhaustion has no territorial limitation:
   - *Fujifilm v. Benum*'s dismissal of *Quanta*'s significance cannot withstand scrutiny: *Quanta* clearly indicates that (1) a patented good sold abroad still practices a U.S. patent, and (2) a good authorized for sale by the U.S. patent holder that practices the patent exhausts the patentee's rights.
   - "*Quanta*'s holding—that exhaustion is triggered by the authorized sale of an article that substantially embodies a patent—applies to authorized foreign sales as well as authorized sales in the United States." (internal citations omitted).

Brief for Petitioner at 9, *Ninestar Technologies v. ITC,* No. 12-552 (2013).

Ninestar – Cert. Petition

- **Policy arguments** for "international patent exhaustion:"
  - would help U.S. Economy by increasing parallel import of patented goods, and import of used products.
  - *Jazz Photo*'s territoriality requirement results in higher prices for American consumers.
  - *Jazz Photo* creates an incentive for companies to move manufacturing facilities abroad.
  - "international patent exhaustion" would strike balance between encouraging innovation and avoiding monopolies.

Brief for Petitioner at 21-24, *Ninestar Technologies v. ITC,* No. 12-552 (2013).

Ninestar – Opposition Brief

- Not the right procedural vehicle to decide issue.
  1. Even if the authorized foreign sale exhausted the patentee's rights, Ninestar's remanufactured cartridges ***would still infringe*** if the remanufacturing process constituted reconstruction rather than repair.
     - ITC ALJ: Defense of permissible repair had been waived because Ninestar failed to produce evidence on the issue.
  2. Procedural Posture complicates issues.
     - Ninestar violated exclusion and cease and desist orders "with knowledge and in bad faith."

- Brief for Respondent at 8-14, *Ninestar Technologies v. ITC,* No. 12-552 (2013).

Patent Exhaustion: After *Kirtsaeng* and *Ninestar*

The Federal Circuit will likely continue to uphold the "territoriality requirement."

1. Prior Cases – *Jazz Photo* line of cases, *Tessera.*
2. *Kirtsaeng*'s rationale predicated on statutory interpretation – patent exhaustion doctrine is not codified.

4) Self-replicating Technology: *Bowman v. Monsanto,* 569 U.S. ____ (2013)

Bowman Holding

- **Held**: Patent exhaustion does not permit a farmer to reproduce patented seeds through planting and harvesting without the patent holder's permission.

- Unanimous decision; opinion authored by Justice Kagan.

Summary of *Bowman*

- Monsanto's patented "Roundup-ready" soybeans are genetically engineered to be resistant to weed-killers like Roundup.
- Farmers purchased these soybean seeds from Monsanto under an agreement that licensed planting for ***only one growing season***, and sold their harvested soybeans to a grain elevator, which resells grain for consumption.
- Bowman purchased soybeans from the grain elevator, and upon planting them, discovered that some were resistant to weed-killers.
- He harvested those beans and replanted them for eight growing seasons.

Bowman Rationale

- Bowman's "***blame-the-bean***" defense: it was the planted soybean, not me, that made replicas of Monsanto's patented invention.

- Court disagreed, finding Bowman was "***not a passive observer.***"
  - He purchased, planted, tended, treated, and harvested the beans.
  - It was Bowman, and not the bean, who controlled the reproduction of Monsanto's patented invention.

Bowman Holding Limited

- "***Our holding today is limited*—addressing** the situation before us, rather than every one involving a self-replicating product. We recognize that such inventions are becoming ever more prevalent, complex, and diverse. ***In another case, the article's self-replication might occur outside the purchaser's control. Or it might be a necessary but incidental step in using the item for another purpose.*** Cf. 17 U. S. C. §117(a)(1) . . . We need not address here whether or how the doctrine of patent exhaustion would apply in such circumstances."
Bowman, 569 U.S. at ____ (emphasis added).

Bowman: Self-Replicating Technology

- **Bowman Rule (seeds):** The initial authorized sale does not exhaust the patentee's right to make additional copies of the patented item.

- Patentee's "right to make" may be exhausted if (a) self-replication occurs ***outside purchaser's control***; or (b) replication is a ***necessary but incidental step in using*** the item for another purpose.

5) Notable Decision: *Keurig v. Sturm Foods*

(Fed. Cir. Oct. 17, 2013)

Summary of *Keurig v. Sturm Foods*

- Keurig makes single-serve coffee makers.
- Consumers insert a "beverage cartridge" into the brewer, the machine forces hot water through the cartridge, and a beverage is dispensed.
- Keurig holds two patents directed to the brewers and methods of using them.
- Sturm Foods made cartridges for use in Keurig's brewers.
- Keuring asserted Sturm's cartridges infringed its ***method*** claims.

Keuring Holding

1. The initial authorized sale ***of a patented item*** exhausts the patentee's rights to assert infringement of ***method*** claims.
   - "[W]here a person ha[s] purchased a patented machine of the patentee or his assignee, this purchase carrie[s] with it the right to the use of the machine so long as it [is] capable of use." *Keurig*, No. 2013-1072, 2013 U.S. App. LEXIS 20962 at *9, citing *Quanta*, 553 U.S. at 625.
2. All claims are judged together for purposes of Exhaustion.

Panel (Lourie, Mayer, and O'Malley) affirmed the district court's finding of exhaustion.

Keurig Rationale

1. **Distinguished sale of *completed* brewer from sales of incomplete parts.**
   - Unlike *Quanta* and *Univis Lens* which involved the sale of unpatented devices, Keurig's brewers were patented; purchasers of the brewers "obtained the unfettered right to use [the brewers] in any way they chose." *Keurig*, 2013 U.S. App. LEXIS 20962 at *9.

2. **Both Apparatus and Method Claims Judged together for purposes of patent exhaustion.**
   - To permit a patentee to reserve specific claims from exhaustion would frustrate the purposes of the doctrine, lead to multiple recovery, and increased uncertainty.

   - Judge O'Malley concurred in the result, but believed "exhaustion should be assessed on *claim-by-claim basis.*"

Questions?

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