

WILL THE UNITED STATES INTRODUCE INTERNATIONAL PATENT EXHAUSTION IN *LEXMARK*?*

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DETAILED TABLE OF CONTENTS	2
I. OVERVIEW	3
II. PATENT “EXHAUSTION” CASE LAW	5
III. SHOULD <i>KIRTSAENG</i> BE FOLLOWED FOR PATENTS?	15
IV. <i>LEXMARK EN BANC</i> AT THE FEDERAL CIRCUIT	20
V. <i>LEXMARK</i> AT THE SUPREME COURT	23
VI. CONCLUSION	25
About the Author	26

*This paper is published on the website of the Los Angeles Intellectual Property Law Association, under “Wegner’s Writings”, <http://www.laipla.net/category/wegners-writings/>. This version June 12, 2015. It is adapted from *Lexmark: Whither International Patent Exhaustion*, prepared for a presentation, *International Patent Exhaustion: What Will Happen in the Lexmark Case now en banc at the Federal Circuit*, AIPPI Japan, Tokyo, June 25, 2015.

**This paper represents the views of the writer without sponsorship by any other person or organization. Contact information appears at page 26.

DETAILED TABLE OF CONTENTS

I. OVERVIEW	3
II. PATENT “EXHAUSTION” CASE LAW	5
A. “The Patentee’s “Authorized Sale” under <i>Quanta</i>	
B. Third Party “Authorized Sale” under <i>Boesch v. Graff</i>	
C. <i>Kirtsaeng</i> “Nongeographic” Exhaustion Rule	
1. The Factual Context of <i>Kirtsaeng</i>	
2. International Exhaustion, a “Nongeographic” Interpretation	
III. SHOULD <i>KIR TSAENG</i> BE FOLLOWED FOR PATENTS?	15
A. The Reopened Question at the Federal Circuit	
1. The <i>En Banc</i> Hearing in <i>Lexmark</i> to Reconsider <i>Jazz Photo</i>	
2. <i>Jazz Photo Déjà vu</i>	
B. Is <i>Jazz Photo</i> Good Law in view of <i>Kirtsaeng</i> ?	
1. <i>Boesch</i> Dictum does not Mandate Stare Decisis Treatment	
2. Does the Policy of the <i>Jazz Photo</i> Holding Make Sense	
IV. <i>LEXMARK EN BANC</i> AT THE FEDERAL CIRCUIT	20
A. <i>Ninestar</i> Confirmation of <i>Jazz Photo</i>	
B. A Supported “Geographical” Interpretation	
C. Adoption of <i>Kirtsaeng</i> for Patent Exhaustion	
D. An Opinion Limited to the Second Issue	
V. <i>LEXMARK</i> AT THE SUPREME COURT	23
A. What the Supreme Court May Do	
B. An Uncertain Fate until 2017	
VI. CONCLUSION	25
About the Author	26

I. OVERVIEW

“Patent exhaustion” is the doctrine whereby a patent owner on his “first sale” loses all right to control the use or resale of patented goods as explained in recent precedent of the Supreme Court. See *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U. S. 617 (2008); *Bowman v. Monsanto Co.*, 133 S.Ct. 1761 (2013). The Supreme Court has yet to issue an opinion where the patent owner’s American patent rights are “exhausted” by the patentee’s first sale in a foreign country – which would require a “nongeographic” interpretation of the relevant patent infringement statute. In simple terms, this would mean that there *is* “international patent exhaustion”. While the Supreme Court has refrained from issuing a holding of a “nongeographic” scope of exhaustion in patent law, the Court *has* done so for copyrights in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2012).

At some point as early as 2016 and possibly 2017 or later, the Federal Circuit or the Supreme Court will issue a definitive ruling to determine whether there is a “geographic” or “nongeographic” scope to the “first sale” doctrine of patent exhaustion. A nongeographic approach would for the first time introduce international patent exhaustion into United States law and practice. The vehicle for reaching a decision is a case is now before the *en banc* Federal Circuit, *Lexmark International, Inc. v. Impression Products, Inc.*, No. 2014-1617, *unpublished* (Fed. Cir. April 14, 2015)(*en banc*)(Order granting *en banc* review). The *en banc* Court will consider whether the “nongeographic” approach for copyrights in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013), should be adopted for patents:

A “nongeographic” approach would mean that the *en banc* Court would overrule the panel “geographic” interpretation in its leading case, *Jazz Photo Corp. v. Int’l Trade Comm’n*, 264 F.3d 1094 (Fed.Cir.2001) (Newman, J.). Particularly if the Federal Circuit sustains the *Jazz Photo* holding the possibility then would exist for grant of *certiorari* in *Lexmark* and – if review is granted – a Supreme Court ruling at some point possibly in 2017.

The starting point for this paper is a review of the Supreme Court caselaw relating to “exhaustion” See § II, *Patent “Exhaustion” Case Law*. The Supreme Court has recently spoken on the topic of patent exhaustion in *Quanta Computer and Bowman v. Monsanto*. See § II-A, *Quanta and Bowman View of Patent “Exhaustion”*.

The Court has reiterated in *Quanta* that exhaustion occurs where *the patentee* makes the “first sale”. See § II-B, *The Patentee’s “Authorized Sale” under Quanta*.

In distinction to an authorized sale *by the patentee*, a governmentally sanctioned (and in that sense “authorized”) sale that is not by the patentee (or his licensee or other party authorized by the patentee) is not basis for exhaustion. See § II-C, *Third Party “Authorized Sale” under Boesch v. Graff*.

Historically, the United States has taken a “geographic” view of intellectual property right exhaustion for patents and copyrights. However, in *Kirtsaeng* the Supreme Court has reached a “nongeographic” conclusion: The offshore first sale of copyright-protected material by the copyright holder *does* result in international exhaustion. See § II-D, *Kirtsaeng “Nongeographic” Exhaustion Rule*.

With a “nongeographic” interpretation for copyright exhaustion, should the same result apply for patent exhaustion? This is the question squarely before the *en banc* Federal Circuit where the court could go either way. No matter what decision the Federal Circuit reaches it is likely that the losing party will seek Supreme Court review. *See* § III, *Should Kirtsaeng Be Followed For Patents?*

The vehicle for the Federal Circuit to rethink *Jazz Photo* is the *Lexmark* case which squarely raises the issue as to whether there is or is not international patent exhaustion. *See* IV, *Lexmark En Banc at the Federal Circuit*. Absent settlement by the parties, it is likely that the losing party in *Lexmark* will seek *certiorari* review at the Supreme Court. *See* § V, *Lexmark at the Supreme Court*. Grant of Supreme Court *certiorari* review would be enhanced, particularly if the petitioner presents a tightly crafted *Question Presented*, the Federal Circuit reaffirms *Jazz Photo* and there are multiple opinions by the Federal Circuit. Depending upon whether *certiorari* is granted or not, the final outcome in *Lexmark* may not be reached until 2017 or later.

II. PATENT “EXHAUSTION” CASE LAW

A. *Quanta* and *Bowman* View of Patent “Exhaustion”

After the patent owner has received whatever reward through the purchase price or otherwise in the first sale, the customer is then free to resell or otherwise dispose of the patented product free from the patent right. Already by 2008 in *Quanta* the Supreme Court had signaled the importance of the exhaustion issue. *See* Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, 7 J. Marshall Rev. Intell. Prop. L. 682, 698 (2008).

As explained by the Supreme Court in *Quanta Computer*:

“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item. This Court first applied the doctrine in 19th-century cases ***. The Court held that [during the period of a patent term extension] the extension of the patent term did not affect the rights already secured by purchasers who bought the item for use ‘in the ordinary pursuits of life.’ *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1853); see also *ibid.* (‘[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly’); *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 351 (1864). In *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873), the Court affirmed the dismissal of a patent holder's suit alleging that a licensee had violated postsale restrictions on where patented coffin-lids could be used. ‘[W]here a person ha[s] purchased a patented machine of the patentee or his assignee,’ the Court held, ‘this purchase carrie[s] with it the right to the use of that machine so long as it [is] capable of use.’ *Id.*, 84 U.S. (17 Wall.) at 455.”

Quanta Computer, 533 U.S. at 625.

“Patent exhaustion” is the denial of a patentee’s right to control his patented product upon *the patentee’s* “first sale” of that product. Upon such first sale, the patentee has received his patent-keyed reward, whereupon his patent right has been “exhausted”: He no longer has any power under the patent law to control what the purchaser does with that product, whether it is to use that product himself or to sell the product to a third party. Patent exhaustion case law became well established in the nineteenth century: “For over 150 years [the Supreme] Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item.’ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U. S. 617, 621 (2008). ‘Under the doctrine of patent exhaustion, the *authorized sale* of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article.’” *Bowman v. Monsanto*, 133 S.Ct. at 1764 (emphasis supplied).

Thus, “[t]he doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention. Under the doctrine, ‘the initial authorized sale of a patented item terminates all patent rights to that item.’ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). And by ‘exhaust[ing] the [patentee's] monopoly’ in that item, the sale confers on the purchaser, or any subsequent owner, ‘the right to use [or] sell’ the thing as he sees fit. *United States v. Univis Lens Co.*, 316 U.S. 241, 249–50 (1942). We have explained the basis for the doctrine as follows: ‘[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward ... by the sale of the article’; once that ‘purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.’ *Id.*, at 251.” *Bowman*, 133 S.Ct. at 1766 (emphasis added; footnote omitted)

As explained in *Aro Manufacturing Co v. Convertible Top Replacement Co*, 377 U.S. 476 (1964), the essence of patent “exhaustion” is that upon the first sale of a patented product by the patentee the patentee has received his reward, whereupon the patent right in that particular article of commerce is “exhausted. Thus, “[w]hen *the patentee* has sold the patented article or authorized its sale and has thus granted to the purchaser an ‘implied license to use,’ it is clear that he cannot thereafter restrict that use; ‘so far as the use of it was concerned, *the patentee had received his consideration*, and it was no longer within the monopoly of the patent.’ *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873). In particular, he cannot impose conditions concerning the unpatented supplies, ancillary materials, or components with which the use is to be effected.” *Aro*, 377 U.S. at 497 (citations omitted).

B. The Patentee’s “Authorized Sale” under *Quanta*

Sales by other than the patentee may create patent exhaustion where the sale can be traced to the patentee who has received his reward for the sale. In the wording of *Quanta*, exhaustion is triggered by an “authorized sale of a patented item [which] terminates all patent rights to that item.” *Quanta Computer*, 533 U.S.at 625. The key point is that the item entered the stream of commerce where the patent owner had transferred his patent rights to that item to the purchaser, either directly (by a sale from the patentee himself) or indirectly (e.g., a sale by a licensee of the patentee).

C. Third Party “Authorized Sale” under *Boesch v. Graff*

The holding in *Boesch v. Graff*, 133 U.S. 697 (1890), had nothing to do with “first sale” exhaustion of the patentee’s right because the sale was in question was by one Hecht who was authorized to sell the patented lamp-burners in question by virtue of an act of the German government under the German national prior user right statute. The patentee’s patent rights were never “exhausted” by its first sale because the first sale by Hecht was not authorized by the patentee.

Hecht was authorized to sell the patented lamp-burners under German law by a ruling of a criminal court in Berlin under the prior user right statute: Hecht was *not* authorized to sell the lamp-burners by the patentee who had brought Berlin criminal infringement proceedings against Hecht.*

Hecht was a prior inventor in the sense that he had begun commercialization of the lamp-burners independent of the patentee before the patentee's filing date. The German patent law was much different from that of the United States law up until the *Leahy Smith America Invents Act* when first-to-file was introduced. Under the United States law of the time, claims of the patent could have been copied to provoke a patent interference to determine who the first inventor and hence owns the patent right; but, in Germany, patent rights were determined under the first-to-file principle subject to a prior user right statute whereby an independent inventor who had commenced commercialization prior to the patentee's filing date was authorized to practice the invention independent of the patent. In *Boesch v. Graff* the prior user right was established by Hecht in the Berlin criminal court proceeding.

**Boesch v. Graff*, 133 U.S. at 701 (“Letters patent had been granted to the original patentees for the invention by the government of Germany in 1879 and 1880. A portion of the burners in question were purchased in Germany from on Hecht, who had the right to make and sell them there. By section 5 of the imperial patent law of Germany, of May 25, 1877, it was 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 for such use.' 12 O. G. 183. Hecht had made preparations to manufacture the burners prior to the application for the German patent. The official report of a prosecution against Hecht in the first criminal division of the royal district court, No. 1, at Berlin, in its session of March 1, 1882, for an infringement of the patent law, was put in evidence; wherefrom it appeared that he was found not guilty, and judgment for costs given in his favor, upon the ground 'that the defendant has already prior to November 14, 1879,—that is to say, at the time of the application by the patentees for and within the state,—made use of the invention in question, especially, however, had made the necessary preparations for its use.’”).

As stated in *Boesch v. Graff*, “[t]he exact question presented is whether a dealer residing in the United States can purchase in another country articles patented there, from a person *authorized to sell them*, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent.” *Boesch v. Graff*, 133 U.S. at 702.

To be sure, there is also *dictum* unnecessary to the holding which provides support for the view that a foreign sale is not basis for exhaustion of the United States patent right: “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 or 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.” *Boesch v. Graff*, 133 U.S. at 703. Cf. *Keeler v. Standardco*, 157 U.S. 659, 665-66 (1895)(Shiras, J.) (“The exact question presented [in *Boesch v. Graff*] was whether a dealer residing in the United States could purchase in another country articles patented there from a person *authorized there to sell them*, and import them to and sell them in the United States without the license or consent of the owners of the United States patent, and the court held that the sale of articles in the United States under a United States patent cannot be controlled by foreign laws.”)(emphasis added).

D. *Kirtsaeng* “Nongeographic” Exhaustion Rule

Supreme Court holdings of patent exhaustion have been in the context of a *domestic* first sale by the patentee or an “authorized sale” based upon the patent right. Does the patentee’s “first sale” in a foreign country under his foreign patent “exhaust” the patent right in the United States? Under modern terminology in *Kirtsaeng*, is there a “geographic” limitation to exhaustion so that a first sale *outside* the United States does not create exhaustion of the American patent right. Or, is the exhaustion law “nongeographic”: Does the first sale by the patentee *anywhere* in the world create exhaustion of the United States patent right? In more traditional terminology, the “nongeographic” view of exhaustion is termed “international patent exhaustion”: The patentee’s first sale in any market of a patented item exhausts the American patent right.

There is no Supreme Court holding on all fours that permits the conclusion of international patent exhaustion. But, in *Kirstaeng* the Supreme Court established a doctrine of international *copyright* exhaustion.

A critical question is whether the reasoning in *Kirtsaeng* that can be applied to patent exhaustion. Phrased differently, is there a reasoned basis to make a meaningful distinction from *Kirtsaeng* to permit a continued denial of international patent exhaustion?

In neither the patent nor copyright statute is there a textual indication whether the “first sale” exhaustion rule be based upon a “geographic” or “nongeographic” interpretation of the law. In other words, if there is a “nongeographic” interpretation of the intellectual property law, there *is* international exhaustion of the intellectual property right: Phrased differently, the “nongeographic” interpretation is a repudiation of the traditional view that there is

no exhaustion of the right to sue for infringement in the United States where the accused product was purchased in a foreign country from the same intellectual property right holder.

In *Kirtsaeng*, the Court adopted for copyright law a “nongeographic” interpretation: The statute makes no mention whether there is exhaustion of the intellectual property right based upon a first sale keyed to the location of the first sale. In reaching a “nongeographic” interpretation, the Court thus established a rule of international exhaustion of intellectual property rights in the factual context of the Copyright Act.

1. The Factual Context of *Kirtsaeng*

In *Kirtsaeng*, copyright owner John Wiley publishes two versions of its academic textbooks, a “domestic” version at a relatively high price and a “foreign” market version at a much lower price. The lower foreign price has less to do with altruistic virtues to make its textbooks available in poorer economies, but more to do with the reality that only with a lower priced version are significant sales possible in such markets.

Thai national and accused copyright infringer Supap Kirtsaeng witnessed the reality of the pricing disparities when he spent several years in the United States pursuing higher education opportunities at Cornell University (where he gained an undergraduate degree in mathematics) and Southern California (where he earned his Ph.D.). As a condition of his scholarship funded by the Thai government, he returned home to his native country where he supported himself in part by purchasing the “foreign” edition in Thailand and then having them resold in the United States in competition with the “domestic” version.

2. International Exhaustion, a “Nongeographic” Interpretation

The resale raised the question answer in *Kirtsaeng*: Is the resale in the United States an act of infringement under the Copyright Act? Or, is there a denial of a rule of international exhaustion under a “geographic interpretation” of the Copyright Act? Or, should there be a “nongeographic interpretation” of the Copyright Act so that a copyright holder’s sale anywhere in the world “exhausts” the American copyright protection for that specific product?

In neither the patent law nor the Copyright Act is infringement *literally* interpreted in terms “geography”. In other words, should there be a “geographical” interpretation of either law? In terms of the Copyright Act, the Supreme Court in *Kirtsaeng* stated that “[t]he language of [the Copyright Act] read literally favors [accused infringer] Kirtsaeng's nongeographical interpretation * * *. The language of [the Copyright Act] says nothing about geography. * * * [T]he nongeographical reading is simple, it promotes a traditional copyright objective (combatting piracy), and it makes word-by-word linguistic sense.” *Kirstaeng*, 133 S.Ct. at 1358.

In reaching a conclusion in favor of international exhaustion – or a “nongeographical” interpretation of the Copyright Law – the Court also relied upon public policy considerations: “[C]onsiderations of simplicity and coherence tip the purely linguistic balance in [accused infringer] Kirtsaeng's, nongeographical, favor.” *Kirstaeng*, 133 S.Ct. at 1360.

Beyond specific public policy concerns unique to copyright the Court also traced the Copyright Act to the English common law heritage applicable to both patents and copyrights:

“A relevant canon of statutory interpretation favors a nongeographical reading [which leads to a conclusion of exhaustion based upon a foreign sale]. ‘[W]hen a statute covers an issue previously governed by the common law,’ we must presume that ‘Congress intended to retain the substance of the common law.’ *Samantar v. Yousuf*, 560 U.S. 305 n. 13 (2010). See also *Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952) (‘Statutes which invade the common law ... are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident’).

“The ‘first sale’ doctrine is a common-law doctrine with an impeccable historic pedigree. In the early 17th century Lord Coke explained the common law’s refusal to permit restraints on the alienation of chattels. Referring to Littleton, who wrote in the 15th century, Gray, *Two Contributions to Coke Studies*, 72 U. Chi. L.Rev. 1127, 1135 (2005), Lord Coke wrote:

“‘[If] a man be possessed of ... a horse, or of any other chattell ... and give or sell his whole interest ... therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest ... is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him.’ 1 E. Coke, *Institutes of the Laws of England* § 360, p. 223 (1628).

“‘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.’ *Ibid.*”

“With these last few words, Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods. American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer. See, e.g., *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877, 886 (2007) (restraints with ‘manifestly anticompetitive effects’ are *per se* illegal; others are subject to the rule of reason (internal quotation marks omitted)); 1 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 100, p. 4 (3d ed. 2006) (‘[T]he principal objective of antitrust policy is to maximize consumer welfare by encouraging firms to behave competitively’).

“The ‘first sale’ doctrine also frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods. And it avoids the selective enforcement inherent in any such effort. Thus, it is not surprising that for at least a century the ‘first sale’ doctrine has played an important role in American copyright law. See *Bobbs–Merrill Co. v. Straus*, 210 U.S. 339 (1908); Copyright Act of 1909, § 41, 35 Stat. 1084. See also Copyright Law Revision, Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law, 88th Cong., 2d Sess., pt. 4, p. 212 (Comm. Print 1964) (Irwin Karp of Authors' League of America expressing concern for ‘the very basic concept of copyright law that, once you've sold a copy legally, you can't restrict its resale’).

“The common-law doctrine makes no geographical distinctions; nor can we find any in *Bobbs–Merrill* (where this Court first applied the ‘first sale’ doctrine) or in § 109(a)'s predecessor provision, which Congress enacted a year later. See *supra*, at 1360. Rather, as the Solicitor General acknowledges, ‘a straightforward application of *Bobbs–Merrill* ‘ would not preclude the ‘first sale’ defense from applying to authorized copies made overseas. Brief for United States 27. And we can find no language, context, purpose, or history that would rebut a ‘straightforward application’ of that doctrine here.”

Kirtsaeng, 133 S.Ct. at 1363-64.

III. SHOULD KIR TSAENG BE FOLLOWED FOR PATENTS?

A. The Reopened Question at the Federal Circuit

The Federal Circuit for nearly fifteen years has applied a “geographic” limitation to patent exhaustion to deny the existence of international patent exhaustion under its case of first impression, *Jazz Photo v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), in distinction to the “nongeographic” result for copyrights that the Supreme Court reached in *Kirtsaeng*.

1. The *En Banc* Hearing in *Lexmark* to Reconsider *Jazz Photo*

Per the Order in *Lexmark*, this is a “case [which] involves certain sales, made abroad, of articles patented in the United States”. The first issue presented for *en banc* briefing asks whether the rule of international patent exhaustion should apply to the United States:

“In light of *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2012) should this court overrule *Jazz Photo v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent [*Jazz Photo*] ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.”

The Order was granted prior to any panel decision in the case without dissent or any other separate opinion.*

2. *Jazz Photo Déjà vu*

Jazz Photo has had a remarkable history as precedent within the friendly confines of the Federal Circuit, given the shallow treatment of the issue in that case.

* The Order also includes a *second* issue that asks: “In light of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), should this court overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent [that *Mallinckrodt*] ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?”

The Federal Circuit has repeatedly rubber-stamped *Jazz Photo* essentially based upon the fact that it is precedential. *See Fuji Photo Film Co. v. Int'l Trade Comm'n*, 386 F.3d 1095 (Fed.Cir.2004); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed.Cir.2005); *Jazz Photo Corp. v. United States*, 439 F.3d 1344 (Fed.Cir.2006); *Fuji Photo Film Co., Ltd. v. International Trade Com'n*, 474 F.3d 1281, 1285 (Fed. Cir. 2007); *FujiFilm Corp. v. Benum*, 605 F.3d 1366 (Fed. Cir. 2010)(per curiam); *Ninestar Tech. Co. v. Int'l Trade Comm'n*, 667 F.3d 1373 (Fed. Cir. 2012),

B. Is *Jazz Photo* Good Law in view of *Kirtsaeng*?

1. *Boesch* Dictum does not Mandate Stare Decisis Treatment

In the area of particularly older international intellectual property rights case law there are many statements that were made that were not fully debated nor *necessary* to the decision. As such, they represent *dicta* that is nonbinding on later tribunals. (This is in contrast to a *holding* necessary for a decision, which is given greater weight.)

Boesch v. Graff is not entitled to *stare decisis* respect as to an issue of patent exhaustion. In the first instance, the holding has absolutely nothing to do with exhaustion in any way, shape or form.

As stated in *Kirtsaeng*:

“[W]e are not necessarily bound by dicta should more complete argument demonstrate that the dicta is not correct. *Central Va. Community College v. Katz*, 546 U.S. 356, 363 (2006) (‘[W]e are not bound to follow our dicta in a prior case in which the point now at issue was not fully debated’); *Humphrey's Executor v. United States*, 295 U.S. 602, 627–28 (1935) (rejecting, under stare decisis, dicta, ‘which may be followed if sufficiently persuasive but which are not controlling’).”

Kirtsaeng, 133 S. Ct. at 1368.

Since the beginning of the twentieth century, *Boesch v. Graff* has been a largely forgotten precedent. There has been little case law from the Supreme Court or the federal appellate bench where *Boesch v. Graff* has been cited for its ruling relative to exhaustion.*

2. Does the Policy of the *Jazz Photo* Holding Make Sense

There are many policy arguments in the academic journals that speak against the holding in *Jazz Photo*. Yet, there are also public policy reasons to support a geographical interpretation to continue the denial of international patent exhaustion, particularly in the pharmaceutical field. In pharmaceuticals the price for a patent-protected prescription drug in the United States (or Europe or Japan or

* Cf. *Deepsouth Packing Co v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (“[W]e note that what is at stake here is the right of American companies to compete with an American patent holder in foreign markets. Our patent system makes no claim to extraterritorial effect; ‘these acts of Congress do not, and were not intended to, operate beyond the limits of the United States,’ *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856), and we correspondingly reject the claims of others to such control over our markets. Cf. *Boesch v. Graff*, 133 U.S. 697, 703 (1890).”); *Bourjois Co v. Katzel*, 260 U.S. 689, 692 (1923)(dictum in trademark case) (“Ownership of the goods does not carry the right to sell them with a specific [trademark]. It does not necessarily carry the right to sell them at all in a given place. If the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. *Boesch v. Graff*, 133 U. S. 697 (1890).”)

other developed country) may be many times that in third world country. If there is a nongeographic interpretation of the first sale doctrine, this would mean that drugs purchased in developing countries could be brought back to the United States and sold in competition with the branded manufacturer. Unlimited sales in the developing country would open the door to such competition.

There are two reasons why pharmaceuticals would be hardest hit through a nongeographical interpretation of exhaustion. First, the cost of transportation from the developing country to the United States of a drum of say 10,000 tablets is virtually nonexistent (as compared, for example, with the transportation costs of patented “steel girders”). Second, there is a huge price differential between drugs sold in the United States versus a developing country. Should the sales price be uniform *everywhere* to eliminate price differentials to avoid parallel imports under a nongeographic interpretation? If the local developing country has price regulations for drugs to keep the cost low, should the branded manufacturer refrain from selling in that country?

Beyond the pharmaceutical issue, the policy arguments for and against international patent exhaustion are myriad and will not be repeated here.*

* This writer has been involved with studies of international exhaustion since 1974 while a Visiting Scholar at what is today styled as the Max Planck Institute for Innovation and Competition. The starting point for the studies was the decision that year by the European Court of Justice in the *Negram* case. See F. Müller & H. Wegner, *Negram: The Common Market-Wide Exhaustion of Patent Rights through Territorial Licenses*, 57 JOUR. PAT. & TRADEMARK OFF. SOC'Y 46 (1975). See also *Parallel Imports of Patented Goods: Killing the Technology Transfer Goose*, paper presented to the Licensing Executives Society (France), Paris, May 1998; and presentation at the Fordham University School of Law, Sixth Annual Conference on International Intellectual Property Law & Policy, Apr. 16-17, 1998; *Parallel Imports*, lecture to Peking University Law Faculty, May 1994; *Parallel Import Practice Restored in Japan: Negating the Implied License to Resell a Patented Product*, privately circulated analysis of the 1997 Japanese Supreme Court opinion keyed to the writer's appearance by affidavit as expert in pleadings before the court; *Japan AIPPI Gotemba Intellectual Property Law Conference*, Gotemba, Japan, September 29-30, 1995; *Patent Parallel Imports in Japan, Consumer Promise or Patent Peril: The*

IV. *LEXMARK EN BANC* AT THE FEDERAL CIRCUIT

The Federal Circuit in its series of panel opinions following *Jazz Photo* has chosen to essentially follow that opinion because it is binding precedent – unless overruled *en banc*. This rationale no longer applies in *Lexmark* because the case now *is* before the Court *en banc*.

There is simply no reasoning whatsoever given for a policy to support the position taken in *Jazz Photo*. The entire basis for the “geographical” holding is found in just twenty-one (21) words coupled with citation to *Boesch v. Graff* that is analyzed in a twenty-five (25) word snippet:

“To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent. See *Boesch v. Graff*, 133 U.S. 697, 701-03 (1890) (a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States).”

Remarkable.

There are essentially four options open to the Federal Circuit.

Aluminum Wheels Parallel Import Case (www.foleylardner.com) (1995); *Japan Violation of Patent Trade Principles - Impact, Consequences and Dealing with the Decision Permitting Patent Parallel Imports into Japan*, Dinwoodey Center White Paper, April 28, 1995; *Interview*, Victoria Slind-Flor, *Japanese Ruling Upsets Importers and IP Lawyers: Patent Holders Fear Losing Fair Market Prices*, NATIONAL LAW JOURNAL, p. A7 (May 1, 1995); *Parallel importe unter der Einfluß der Japanischen Rechtsprechung Dazu* (Parallel Imports and the Influence of Japanese Judicial Pronouncements) (GRUR Vortragsabend, October 24, 1995, Frankfurt).

A. *Ninestar* Confirmation of *Jazz Photo*

Kirtsaeng can be factually distinguished. This is the approach that was taken in *Ninestar* to maintain *Jazz Photo* in the wake of *Quanta Computer*.

The *Ninestar* surprise was not in the holding in that case but, rather, in the fact that the Federal Circuit simply chose to ignore the issues involved with international patent exhaustion, and instead chose to parse *Quanta Computer* to draw a distinction to avoid dealing with the merits:

“*Ninestar* focuses on the ruling in *Jazz Photo Corp. v. U.S. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed.Cir.2001), where this court held that United States patents are not exhausted as to products that are manufactured and sold in a foreign country, and that importation of such products may violate United States patents. As stated in *Jazz Photo*, ‘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.’ 264 F.3d at 1105. *Ninestar* states that this case and the precedent on which it relied were incorrectly decided, and were overruled by the Supreme Court in *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 632 n. 6 (2008). However, 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. In *Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed.Cir.2010), the court remarked that ‘*Quanta Computer, Inc. v. LG Electronics, Inc.* did not eliminate the first sale rule's territoriality requirement.’ The patents, products, and methods in *Quanta Computer* all concerned products manufactured and first sold in the United States, and the Court held that method patents as well as product patents are subject to exhaustion upon sale of product or components in the United States.”

Ninestar, 667 F.3d at 1378.

The simplest factual distinction for *Jazz Photo* versus *Kirtsaeng* is that only *Jazz Photo* deals with the patent law.

B. A Supported “Geographical” Interpretation

There are many public policy reasons to support a geographical interpretation to continue the denial of international patent exhaustion, particularly in the pharmaceutical field. It remains to be seen whether there will be *amici* to raise these issues.

C. Adoption of *Kirtsaeng* for Patent Exhaustion

The final option would be for the Federal Circuit to adopt a nongeographical interpretation of the first sale doctrine and thus introduce international patent exhaustion.

D. An Opinion Limited to the Second Issue

There is a *second* issue not discussed in this paper. In the *en banc* briefing order the Court asks whether in light of *Quanta* the court should overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), as to the holding in that case “that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion[.]” *See* p. 16 n.*.

The Court could avoid a decision on the question of international patent exhaustion through a ruling limited to this second issue.

V. LEXMARK AT THE SUPREME COURT

A. What the Supreme Court May Do

Most likely, absent a settlement, the losing party in *Lexmark* will file a petition for *certiorari* at the Supreme Court to seek review of the Federal Circuit *en banc* decision.

It is far too early to predict whether the Supreme Court will grant such a petition. Grant of *certiorari* depends upon the affirmative vote of four of the nine members of the Court. The four (or more) voting for *certiorari* are not necessarily siding with the petition on the *merits* of the case, but only as to whether merits consideration is deserved.

Statistically, for every one hundred petitions filed for Supreme Court review, only one is granted. This means that in the case of many important matters where there is a solid reason for grant of review the Court will nevertheless *deny* review. For example, counsel may not have phrased a *Question Presented* that raises an issue that is *certiorari*-worthy. Or, the Court may feel that the issue is better left for another day with a more cleanly presented argument. Or, counsel at the *certiorari* stage may manifest a lack of familiarity with Supreme Court precedent and procedures, also leading toward denial of review.

Factors that would *favor* grant of review would include a divided Federal Circuit: If the *en banc* Court splits into two camps with sharply crafted dissents (particularly with an equally sharply worded rebuttal in the majority opinion), this factor further leads toward a grant of *certiorari*.

It is unlikely that the Federal Circuit will simply rubber stamp *Jazz Photo* without reasons other than a *Ninestar* approach to explain that *Jazz Photo* relates to patent law while *Kirtsaeng* relates to copyright law. Particularly if there is a split opinion by the Federal Circuit, the *Ninestar* approach would push the needle toward grant of *certiorari*.

If there is reasoned policy-based support for a unique basis to maintain a nongeographical exhaustion practice for patents to distinguish the policy and other reasons for the opposite result in *Kirtsaeng*, there would still be a chance that *certiorari* would be granted.

Finally, if the Federal Circuit *overrules* the holding in *Jazz Photo* and adopts international patent exhaustion, then it would be far less likely that the Supreme Court would grant review: The conflict between *Jazz Photo* and *Kirtsaeng* would have been dissipated by such a ruling.

B. An Uncertain Fate until 2017

Lexmark is likely to remain alive at least until 2016 and possibly until 2017. An *en banc* Federal Circuit decision by, say, October 2015 is a likely possibility (although there is no time deadline for a decision). If there is an October 2015 decision then a *certiorari* petition by about January 2016 would be likely; this would mean a decision whether to grant *certiorari* before the June 2016 end of the October 2015 Term of the Supreme Court; an argument would then be likely in late 2016 with a merits decision before the end of June 2017.

VI. CONCLUSION

The American law and practice relating to international patent exhaustion will remain in a state of uncertainty until at least 2016 and quite possibly until 2017 or later, thanks to the factors unfolding in the *Lexmark* case.

Interested parties in the several industries impacted by international patent exhaustion should now actively consider and debate the policy issues involved that differ by industry and by interest of the various sectors of the public and the economy. While such input is important at the Federal Circuit, the views of the private sector will have greater impact in determining whether the Supreme Court ultimately grants *certiorari* to review the merits of the issue, as well as having impact on the merits result in the event *certiorari* is granted.

About the Author



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