UPDATE ON THE "FIRST SALE" DOCTRINE IN LIGHT OF *BOWMAN V. MONSANTO CO.* AND *KIRTSAENG V. JOHN WILEY & SONS*

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I. OVERVIEW

The Supreme Court's recent unanimous decision in *Bowman v. Monsanto Co.*,[2] which addressed the scope of patent exhaustion in the context of self-replicating genetically modified soybeans, confirms that the first sale doctrine provides only a product-based infringement immunity for the purchaser to use or resell that product, and does not carry with it any rights to make new products. The fact that the new products were "made" by virtue of self-replicating technology (termed the "blame the bean" defense) presented no obstacle for the Court. As Justice Kagan explained, "patent exhaustion provides no haven" for depriving the patent owner of the "reward patent law provides for the sale of each article."[3]

In deciding the case on the basis that the infringing products at issue represented a new "making" of the patented technology, the *Bowman* Court did not address the extent to which the doctrine of patent exhaustion may be contractually limited through, for example, conditional sales. This is an issue that had also been left open by the Court in *Quanta* because, although the license grant in that case was limited, the licensee's sales to its customers were unconditional – and therefore, the license restrictions were not passed along to the licensee's customers.[4]

A hint as to where the Court may come out on attempts to contractually limit the first sale doctrine as to the actual product sold may be found in the Court's recent decision in the analogous area of copyright protection. In

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[2] ___ U.S. ___, 133 S. Ct. 1761 (May 13, 2013).

[3] *Id*. at 1769.

[4] *Quanta Computer Inc. v. LG Elecs, Inc.,* 553 U.S. 617 (2008). The Court did suggest, however, the possibility that the patentee might still have recourse against its licensee for breach of contract for failing to place express limits on its customers' uses. *Id*. at 637, n.7.

Kirtsaeng v. John Wiley & Sons,[5] a divided Court held that the copyright holder's attempt to limit the authorization of foreign-manufactured textbooks to resale only in foreign markets was ineffective to defeat application of the first sale doctrine as to resale in the United States. Indicating a bias against post-sale restrictions, the Court explained that one of the purposes of the "first sale" doctrine is that it "frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods."[6] Thus, fallout from the *Kirtsaeng* decision bears watching in the patent context, as that decision may provide a basis for accused infringers to invoke the first sale doctrine with regard to use or resale of products originally subject to an authorized (yet purportedly restricted) sale.[7]

II. BACKGROUND

A. Patent Exhaustion as a Product-Based Infringement Immunity

The doctrine of patent exhaustion divests the patent owner of further rights of exclusion with respect to use or resale of an article once the patent owner has sold, without limitation, an article that fully embodies a patented invention. It is frequently referred to as the "first sale" doctrine because the first (authorized) sale of a patented product exhausts the patent owner's rights of exclusion.[8]

Patent exhaustion may thus be said to provide a product-based infringement immunity that protects the purchaser in an authorized sale of a product from the patent owner's subsequent attempts to enforce its patents against, *inter alia*, use or resale of that product. Such an "immunity" from suit is not

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[5] ___ U.S. ___, 133 S. Ct. 1351 (March 19, 2013).

[6] 133 S. Ct. at 1363.

[7] Notably, however, the Court denied certiorari in *Ninestar Tech. Co. Ltd. v. Int'l Trade Comm'n*, No. 12-552 on March 25, 2013, in which the issue of the territorial reach of patent exhaustion was raised. *See also* 667 F.3d 1373 (Fed. Cir. 2012) (affirming ITC exclusion order against importation of patented ink cartridges, holding that U.S. patent rights are not exhausted by foreign sales).

[8] *Intel Corp. v. ULSI System Tech., Inc.*, 995 F.2d 1566 1568 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1092 (1994); *see also United States v. Univis Lens Co.*, 316 U.S. 241, 249, 62 S. Ct. 1088, 1093 (1942) (acknowledging that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold").

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