



Intellectual Property Law Section

State Bar of Texas

Winter 2014

Inside this newsletter...

Update From The Chair	1
Mark Your Calendar	2
In The Section	3
Women in IP Taskforce	3
In Memoriam	3
IP Section to Award 2014 Women and Minority Scholarships at Annual Meeting	5
Call for Submissions	6
Section Member Profiles	6
Practice Points	8
Patent Lost Profits and The Curious Role of Willfulness Beyond Enhanced Damages	8
The First Sale Doctrine and Patent Exhaustion: The Supreme Court’s View on Exercising Control after a Sale	11

Update From The Chair

By Paul Morico

Welcome to our Section’s latest newsletter!

We are pleased that you want to learn more about the exciting things that are going on in our section by reading our newsletter. It is a valuable resource for keeping you informed and is our primary means of communicating with you. In that vein, it is with deep sadness that I inform you of the loss of several of our members: Priscilla Dunckel, Bud Evans, Randy Furlong, and Bill Pravel. These individuals contributed greatly to our section and our profession as a whole and will be sorely missed. We can learn much from their lives and the examples they set.



There are also a few changes that we have instituted within the past year. We established our first ever Lifetime Achievement Award, which was fittingly named after Tom Arnold and awarded

posthumously to Genie Hansen at this past year’s Annual Meeting. We have also reinvigorated our substantive law committees, which are planning activities around our upcoming spring and annual CLE programs. If you are interested in getting more involved in our section, our committees are a good place to start. I would especially like to encourage our members just beginning their careers in IP law to get involved in the section. I can assure you that if you get involved in our section, you will find the experience rewarding. To learn more about our committees log onto texasbariplaw.org/committees. Additionally, our section leadership is having its first ever retreat this spring during which we will be exploring additional ways that we can be of better service to our members. If you have any ideas in this regard that you would like to share with me, I invite you to email me at paul.morico@bakerbotts.com. Our retreat will take place in early April, so please submit your ideas before then.

This newsletter also reports on a recent

Women in IP Taskforce Event, which occurred in Plano, Texas on November 11, 2013. Other highlights include Section Member Profiles of two of our past Section Chairs, Shannon Bates and Bart Showalter, and practice points on lost profits and enhanced damages as well as the first sale doctrine and patent exhaustion.

Coming up next month, we have our Advanced Intellectual Property Spring CLE in Dallas. This program will feature a presentation by Judge Kathleen M. O'Malley of the Federal Circuit. The program includes two full days of timely and informative CLE and ethics topics and is preceded by a half day workshop on challenging patents in the PTO and the district courts. Vice Chair Stephen Koch has put together an outstanding program, which you will not want to miss. Other upcoming programs are noted in this issue.

Thank you for keeping abreast of the exciting things going on in the IP Section! We hope to see you at our upcoming events.



Mark Your Calendar

State Bar of Texas Intellectual Property LawSection

- The 27th Annual March Advanced Intellectual Property Law CLE will be held at the Westin Galleria Hotel in Dallas on March 20-21, 2014. Prior to the two day CLE, a half day CLE entitled “Challenging Patents – PTO Proceedings or the Courts” will be held on March 19, 2014.

- The SBOT IP Law Section Annual Meeting will be held in Austin on June 26-27, 2014, in conjunction with the State Bar of Texas annual meeting.

For more information regarding the SBOT IP Law Section CLE events, go to www.texasbarcle.com.

Austin Intellectual Property Law Association March CLE lunch will be held at the Westwood Country Club in Austin on March 25, 2014 beginning at 11:30 a.m. The lunch speaker will be Peter Ayres speaking on “Inter-Partes Review.” For more information, go to www.austin-ipla.org.

Dallas Intellectual Property Law Section March CLE lunch seminar will be held on March 28, 2014 at the Belo Mansion, 2101 Ross Avenue in Dallas, featuring Austin Champion from Klemchuk Kubasta who will be speaking on “Staying Litigation Pending Post-AIA Patent Review.” For more information, go to www.dbaip.com.

Houston Intellectual Property Law Association 30th Annual Institute on Intellectual Property Law will be held at the Moody Gardens Hotel and Convention Center in Galveston, Texas on October 9-11, 2014. More information on speakers and special events will be provided soon. For more information, go to www.hipla.org.



In The Section

Women in IP Taskforce



The “Pioneering Women in IP” panel discussion held at the CAIL 51st Annual Conference on Intellectual Property on November 11, 2013, was a great success. Over 60 women and men gathered to hear an engaging discussion among the three panelist, Hilda Galvan, Betty Ungerman and Wei Wei Jeang, and moderator Megan Hoyt, over current challenges facing women with sage advice based experience in the IP field.

In Memoriam

Priscilla Dunckel (1946-2013). Priscilla L. Dunckel, a Partner at the law firm Baker Botts LLP and head of its Dallas trademark practice, lost her courageous battle with cancer and passed away peacefully in her

home on November 11, 2013. She was a terrific lawyer, partner, and colleague and a wonderful, genuine person who had a significant impact on the lives of those who had the good fortune to know her.

Priscilla began her professional life as a teacher. She earned real-world experience -- that proved tremendously valuable in her legal career -- by working as a manager in a franchise company and owning two businesses. She earned her undergraduate degree from Michigan State University and her law degree from the Southern Methodist University Dedman School of Law in Dallas. Following law school, Priscilla joined the firm of Thompson & Knight where she developed her expertise in intellectual property law with a specialty in trademark, copyright and unfair competition law.

Priscilla joined Baker Botts in 2001 as a partner in the Intellectual Property department. Under her watchful eye, the Dallas Trademark & Copyright Practice Group thrived and expanded to include a wide array of clients across a vast spectrum of industries. Throughout her career, she provided valuable legal counsel to clients on a broad range of critical IP issues, including the protection, enforcement and licensing of trademarks, copyrights, and trade secrets; the enforcement of unfair competition laws; the negotiation of technology transfers and licensing (domestic and international); and the implementation of anti-counterfeiting programs.

Priscilla was a driving force behind the Enterprising Women’s Series Events in Dallas for many years and was voted one of the top female lawyers in Dallas by *D Magazine* in 2010 in recognition of her substantial legal acumen and dedication to women’s issues. Her legacy to many of her colleagues and friends was her supportiveness and willingness to look out for others.

Priscilla's intense commitment to her practice was surpassed by her devotion to her family, which includes her loving husband of almost 50 years, Creig Dunckel, her children, Denise Dunckel of Alexandria VA, and Erin and Darren Dunckel of Los Angeles, CA, grandsons Dylan, Parker and Carson, sister Judy Ritter of Vista, CA, three step-grandsons and numerous nieces and nephews.

Priscilla will certainly be missed by her family, friends and colleagues throughout the world.

Bud Evans (1931-2013). Alfred H. "Bud" Evans, well-known throughout Texas as an IP lawyer and litigator, passed away February 24, 2013, after a lengthy illness. Bud practiced with the Vinson & Elkins law firm for forty years and served as Head of its Intellectual Property Law Section for more than a decade.

Born in Okmulgee, Oklahoma, Bud grew up in Phillips, Texas. After graduating from the University of Oklahoma with an engineering degree, Bud served in the United States Air Force before attending the University of Texas Law School. He then joined Vinson & Elkins in Houston and practiced there for four decades. Upon retirement, he opened a private law office and continued an active practice in IP law and litigation until shortly before his death. From 1983 to 2006 he also served as Chairman of the Board of Keais Records Service Inc.

Throughout his long career, Bud was active in the Houston and Texas State Bar Associations and IP Law Sections, as well as in a variety of civic, religious and philanthropic organizations.

Bud's approach to the law and to life was one of great enthusiasm. He just charged right in--sometimes knocking over a few things along the way. In lawsuits he was a happy warrior. He loved what he was doing,

he was very good at it, and he fought fiercely for his clients. But he managed it all in a wonderfully gentlemanly fashion, full of wit and good humor and without any of the malice and personal animosity so common in litigation. He will be sorely missed by all who knew him.

Bud is survived by his wife of 62 years, Carolyn O. Evans, three daughters and their husbands, Lynn and Marty Hokanson, Karen and Jim McCord, and Cheryl and Michael Lehane, all of Houston, and his seven grandchildren, along with their spouses and children.

Randy Furlong. Randall Collins "Randy" Furlong, 55, a beloved and respected member of the Houston Intellectual Property Bar, died on April 19, 2013. Randy graduated from Rice University. He went on to earn a Phd. in physics from the Rockefeller University and a law degree from Georgetown University Law Center.

Randy specialized in high tech patents, particularly those involving accelerator physics applications. He worked for several law firms in Houston and spent his last years as Patent Counsel & Physicist for Muons Inc., a private-sector high-energy accelerator physics firm.

Randy also served as chair of the Inventor of the Year Committee of the Houston Intellectual Property Lawyers Association. He was a great friend and mentor to many people in the intellectual property community, and will be remembered for his brilliant mind and his gentle spirit. Those fortunate enough to have known Randy will forever cherish his friendship.

Bill Pravel. Bernarr Roe Pravel (Bill) passed away on April 28, 2013 in Houston, Texas. He was 89. Bill was a giant in Intellectual Property Law. He earned a BS in chemical engineering from Rice and graduated with honors from the George Washington School

of Law. He began his career in patent law by working as a patent examiner, when the Department of Commerce was located at the Herbert C. Hoover Building in DC. Bill briefly worked for Gulf Oil then joined Vincent and Elkins. He then became a partner with Hayden & Pravel. Later he became the senior founding member of Pravel, Gambrell, Hewitt & Krieger, which grew to become one of the most well known and influential intellectual property boutique law firms in the world.

After achieving the pinnacle of success as a patent practitioner, Bill excelled as a patent litigator for most of his long career. He then spent many years working as an expert witness in hundreds of patent cases including many famous cases such as Polaroid v. Kodak. Bill retired from the full time practice of law after working for several years with Akin, Gump, Strauss Hauer & Feld. Throughout his incredible career, Bill consistently wrote about the finer points of patent law and litigation. He was an accomplished leader who held many positions including Chairman – PTC Section of the ABA, President – AIPLA, Chairman – National Council of Patent Law Association, Chairman – PTC Section of the State Bar of Texas, Director – State Bar of Texas, First Vice President – Houston Bar Association and President – HIPLA. Bill was known for his civility, high standards, dedication, work ethic, friendliness, and his ability to focus on difficult issues. He was respected and greatly admired and he will be missed by all who were fortunate enough to know him.

If you know of an intellectual property lawyer who recently passed away and would like to submit a one or two paragraph “In Memoriam” article for publication in the newsletter, please email your submission for consideration to texasbaripsection.newsletter@gmail.com.

IP Section to Award 2014 Women and Minority Scholarships at Annual Meeting

Each year, the Intellectual Property Law Section of the State Bar of Texas awards two \$5,000 scholarships to a woman and/or minority law student attending a Texas law school. The purpose of this scholarship is to facilitate and encourage women and minorities to enter the practice of intellectual property law in Texas, and to become active members of the State Bar IP Section, by assisting these students with their financial needs.

Selection criteria of the scholarships include: merit, scholastic performance, and financial need. Consideration is also given to extracurricular activities both inside and outside law school. Applications for the Scholarship will be available for download from the IP Section’s website (texasbariplaw.org). All completed applications must be postmarked or time stamped by no later than **May 12, 2014** to qualify. The scholarships will be awarded at the IP Section’s luncheon during the 2014 State Bar of Texas Annual Meeting in Austin.

If you know of a deserving Texas law school student who may benefit from the Scholarship, please encourage that student to apply.

Bhaveeni Parmar
Chair, IP Section Diversity Committee
Bhaveeni@parmarlawoffice.com

Call for Submissions

The IP Section Newsletter is a great way to get published! The Newsletter Committee welcomes the submission of articles for potential publication in upcoming editions of the IP Law Section Newsletter, as well as any information regarding IP-related meetings and CLE events. If you are interested in submitting an article to be considered for publication or add an event to the calendar, please email your submission to texasbaripsection.newsletter@gmail.com.

Article Submission Guidelines:

STYLE: Journalistic, such as a magazine article, in contrast to scholarly, such as a law review article. We want articles that are current, interesting, enjoyable to read, and based on your opinion or analysis.

LENGTH: 1-5 pages, single spaced.

FOOTNOTES AND ENDNOTES: Please refrain! If you must point the reader to a particular case, proposed legislation, Internet site, or credit another author, please use internal citations.

PERSONAL INFO: Please provide a one-paragraph bio and a photograph, or approval to use a photo from your company or firm website.

If you have any questions, please contact Indranil Chowdhury, Newsletter Officer, at ichowdhury@cgiplaw.com.

Section Member Profiles

The following section members were asked to answer questions about their professional and personal lives. These questions were:

- Where do you work?
- Describe your legal practice?
- If I weren't an attorney, I would be...
- My favorite (or dream) vacation is...
- In my spare time, I enjoy...
- The best dessert in the world is...
- My favorite movie is...
- If I won the lottery, I would...
- I recommend reading...
- Most SBOT IP Section members probably don't know that...
- You forgot to ask me about...

Shannon W. Bates:

Work? Klemchuk Kubasta LLP.

Legal practice? My personal practice is focused on domestic and international patent and trademark prosecution, trademark oppositions and cancellation proceedings, intellectual property portfolio management and client counseling. My partners handle all types of intellectual property litigation.

If I weren't an attorney, I would be... (1) an investigative journalist (I like to research and write); (2) an event planner (why I help plan the SBOT IP Section CLEs); (3) a doggy daycare owner (I love dogs); or (4) a movie critic or restaurant critic (who wouldn't want those jobs?)

My favorite (or dream) vacation is... a 5-star spa resort on the ocean or exploring a new city, like San Francisco, that has many tourist destinations

In my spare time, I enjoy... water aerobics, yoga, leading Bible study, spending time with family, volunteering and traveling (but I don't do enough of it).



The best dessert in the world is... bread pudding, of course.

My favorite movie is... ever changing. Currently, *The Matrix* (the original) and *Inception* are high on the list.

If I won the lottery, I would... honestly not change very much about my life (except maybe buy an impractical and possibly overpriced car).

I recommend reading... Daniel Pink's book called *Drive*, a business book that talks about what motivates people in a work environment.

Most SBOT IP Section members probably don't know that... I am a serious classic rock fan, and my dream car is a 2014 Z28 Camaro.

You forgot to ask me about... my best friend Daisy (15-1/2 year old West Highland White terrier).

Bart Showalter:

Work? Baker Botts, LLP

Describe your legal practice? I am the firmwide chair of the Intellectual Property Department of Baker Botts. My practice includes all aspects of intellectual property law, with a particular emphasis on patent litigation, procurement and licensing in the electronics, telecommunications and software fields.



If I weren't an attorney, I would be... an Italian chef that moonlights as a fly fishing guide, or maybe just a gardener.

My favorite (or dream) vacation is... some place in the mountains where I could fly fish, visit interesting vineyards with micro-productions of monster red wines, and take cooking classes. Does that place exist?

In my spare time, I enjoy... spending time in our place in East Texas, going to Rangers baseball games, and reading

really cool patents (kidding).

The best dessert in the world is... something with dark chocolate, preferably with an ice cream delivery mechanism.

My favorite movie is... *Casablanca*, *Blade Runner*, *Cinema Paradiso*, *Being There*, *French Connection*, *Godfather I and II*, *Amadeus* (oh, i have to pick just 1!)

If I won the lottery, I would... Buy a big ranch nestled in the Colorado mountains with a sweet trout stream running through it.

I recommend reading... Something other than legal briefs and patents.

Most SBOT IP Section members probably don't know that... I married my high school sweetheart, and I played baseball in college.

You forgot to ask me about... My beautiful family – Elizabeth (married for 26 yrs), and our kids Meg, Charlotte, and Barton.

The State Bar of Texas Intellectual Property Law Section has over 2000 members and the Newsletter Committee is eager to get to know each of you! To this end, each newsletter will publish the profiles of one or two members providing information on where the member works, their practice area, interests and other fun facts! If you are interested in being profiled, send an email to the Newsletter Committee at texasbaripsection.newsletter@gmail.com and we will email you a questionnaire.



Practice Points

Patent Lost Profits and The Curious Role of Willfulness Beyond Enhanced Damages

By Robert W. Payne

Most of the highest patent infringement awards are based on lost profits damages, even though the more common award in patent infringement cases is based merely on reasonable royalties. Royalty awards tend to be lower, as the “floor” for patent damages. Especially in multi-seller markets a plaintiff’s challenge in proving a case for lost profits is often seen as insuperable, due in large part to the issue of availability of non-infringing substitutes in the market and thus difficulty in proving causation of lost profits.

This is not a matter of academic interest. In the seminal *Grain Processing* case, for example, the claimed lost profits were \$35 million but plaintiff received only a reasonable royalty of \$2.4 million, almost a fifteenth of the former figure. Couple that with trebling in the event of willful infringement, and the difference would be nearly \$95 million.

Non-infringing substitutes is the usual focus of the battle for lost profits. However, few

patent litigators or patent owners realize that willful infringement plays an important role. Willfulness, in other words, is not simply a question of determining trebling of patent damages. It also plays a key role in proof of entitlement to lost profits in the first instance. Note however that non-infringing substitutes does not play a significant role in two-supplier markets. There, causation analysis is simplified: an infringer’s sales would presumably have gone to the plaintiff, but for infringement.

To prove lost profits in the context of multi-supplier markets, the parties and courts generally refer to the *Panduit* elements. The test is said to require a plaintiff to prove (1) demand for the patented product; (2) absence of acceptable, non-infringing substitutes; (3) its capacity to meet demand and (4) the amount of profit it would have made. *Panduit Corp. v. Stahl Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978). However, the absence of non-infringing

substitutes, I argue, is less relevant than willfulness, when willfulness exists.

THE ACCEPTED WISDOM

Damages law seeks to reconstruct the market that would have existed “but for” the infringement, to measure loss. *Panduit*

reasons that a sale to an infringing defendant presumably would not have gone to the plaintiff if a defendant could choose to select a different, available (non-infringing) design, even where it chose instead to continue infringing. A rational would-be infringer is assumed to be likely to offer an acceptable non-infringing alternative, if available, to compete with the patent owner rather than leave the market altogether.

Non-infringing substitutes is the usual focus of the battle for lost profits. However, few patent litigators or patent owners realize that willful infringement plays an important role... It also plays a key role in proof of entitlement to lost profits in the first instance.

THE BLIND SPOT: WILLFUL INFRINGEMENT

Virtually no case has ruled on non-infringing alternatives where an infringer acts willfully. *Grain Processing* extended the rationale of “available” alternatives even to products not yet on the market, but it expressly noted that it was doing so where the infringement in question was not willful. *Grain Processing Corp. v. American Maize*, 185 F.3d 1341 (Fed. Cir. 1999). As one district court noted, defendant may have proved the existence of a non-infringing alternative, but its clear willfulness there “presents a problem that has not been clearly addressed by the Federal Circuit.” *Linear Tech. Corp. v. Micrel, Inc.*, 2006 U.S. Dist. Lexis 96860 (N.D.Cal. 2006).

Putting the burden on the plaintiff to show that no non-infringing substitute exists creates a de facto, rebuttable presumption

against lost profits damages. The irony is that this *Panduit* requirement provides protection when it is least deserved, i.e., by the willful infringer. An infringer is only liable for damages for infringing sales after it had notice of the patent owner rights. If a willful infringer acts

where no available substitute exists, then *Panduit*’s non-availability requirement has no impact. If an available substitute does exist and the infringer promptly converts to the non-infringing substitute in a commercially prompt manner, minimal damages result. However, where an available substitute does exist and the willful infringer chooses not to convert to the substitute and continues to sell infringing sales, then *Panduit*’s protection is undeserved and bars justifiable compensation on lost profits.

WILLFULNESS AND CAUSATION

No allowance is made in *Panduit* for the likelihood that customers would have preferred the patent owner’s product – rather than a substitute – if the infringing item were removed. In fact, the infringer – armed with that knowledge and option – willfully opted to forego changing products, sensing some competitive advantage by doing so. Hindsight informs us. It suggests, at the very least, that the features found only in the patent and infringing product responded to or created consumer preference. It thus destroys the fallacious presumption that the sale would not have gone to the plaintiff in a “but for” world, and tips the scale somewhat to the opposite conclusion.

Sound public policy suggests the same: courts should not reward infringing behavior.

...in a multi-supplier market, any presumption requiring a showing in all cases by plaintiff of the lack of available, non-infringing substitutes to establish a prima facie case for lost profits is overbroad.

In fact, even statutory construction could be applied to contradict the *Panduit* rebuttable presumption. Nothing in the patent damages statute requires the *Panduit* showing. Acceptance of causation from infringement is instead presumed by statute, at least in the

context of reasonable royalties. Per section 284, upon a finding of infringement the court “shall” award nothing less than a reasonable royalty. Did Congress intend presumption of causation only in the case of royalties or instead presumption of the “fact” of causation of injury?

Construction of the *Panduit* hypothetical assumes away highly relevant facts and focuses on the wrong actor. The question by that approach is not what the infringer would have done in this make-believe world,

but what consumers would have purchased in a world of non-infringing alternatives to plaintiff's patent-covered sales. In that world, the infringing defendant's informed choices must not be ignored but rather embraced as a key, actual fact. This competitor, having alternative options and facing significant financial risk in threatened or actual litigation, chose to continue sales of the infringing product. With its fortunes on the line, it predicted consumer preference with highly incentivized insight. It thus "voted" that the sales would have gone to plaintiff, had its own infringing products not been sold. Defendant chose to move ahead with the sale, because the patented feature was inferentially superior to the known alternatives. That should count for something. That choice, when alternatives were known, suggests the sale would "often" have swung to the only other party selling products with the features closest to the patent -- plaintiff's.

REJECTION OF THE REBUTTABLE PRESUMPTION

To receive damages, a plaintiff should of course be obliged to prove that "but for" infringement, it would not have suffered loss. However, in a multi-supplier market, any presumption requiring a showing in all cases by plaintiff of the lack of available, non-infringing substitutes to establish a prima facie case for lost profits is overbroad. If anything, a modest presumption should go in the opposition direction, when willfulness applies. A sale to a willful infringer "probably" would have gone to the patent holder, by virtue of the infringer's informed choice to adhere to selling features unique to the patent. A willful infringer, faced with this alternative presumption, would still easily overcome it by any countervailing proof of causation to the contrary.

It should be noted as an aside that case law does not mandate the *Panduit* approach as

the sole method for determining lost profits. However, it is by far the guidepost applied in most lost profits cases in multi-supplier markets.

This is not an advocacy piece on behalf of non-competitor interests. Lost profits is quintessentially a battleground between business competitors. NPE's have no role. The plaintiff seeking lost profits is thus usually an actively selling business entity. In any dispute between business competitors, one side is comprised of business defendant(s), but the other is also populated by a business plaintiff. Some companies doubtless have been both plaintiff and defendant in patent cases, over time.

Few litigators and patent counsel are aware of this willful blindness. Not being alert to it, they are not presenting the argument to courts as frequently and forcefully as they might. It is time to look at this issue with fresh eyes.



Robert Payne is a partner at LaRiviere, Grubman & Payne, LLP (www.lgpatlaw.com) in Monterey, California. He is a member of the Texas Bar and former Chair of the Patent Litigation Committee of AIPLA. He was lead trial counsel in Phillips v. AWH Corp.

The above article expresses the view of the author and not necessarily that of the State Bar of Texas IP Law Section.

The First Sale Doctrine and Patent Exhaustion: The Supreme Court's View on Exercising Control after a Sale

By Thomas Kelton and Hamilton Simpson

The U.S. Supreme Court recently decided two cases regarding exhaustion of Intellectual Property (IP) rights. One case addresses the copyright first sale doctrine, and the other addresses patent exhaustion. The main takeaway from these cases is that IP exhaustion doctrines give extensive rights to a purchaser of a protected article, but the doctrines do not allow the purchaser to recreate or copy the article. Compare *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355-56 (2013), with *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766-67 (2013).

IP exhaustion doctrines reflect the idea that a rights-holder's sale of a protected item exhausts its rights to that item. An authorized purchaser is free to use or resell that item. Both the copyright first sale and patent exhaustion doctrines originated in the common law, and the Supreme Court first applied these doctrines in the mid-nineteenth and early twentieth centuries. The copyright first sale doctrine has since been codified at section 109(a) of the Copyright Act, while patent exhaustion remains in the common law.

In March 2013, the Court issued an opinion on the first sale doctrine in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1371 (2013). A brief primer on gray market goods is helpful before discussing *Kirtsaeng* in detail. Gray market goods are not pirated copies, but rather, genuine, authorized copies that have been imported or exported

—usually without the permission of the copyright holder. The Supreme Court previously held that it is legal to re-import goods into the United States when those goods were manufactured here and then exported abroad—even if the re-importation was without the copyright holder's permission. *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 145, 154 (1998). In other words, the first sale doctrine exhausts the copyright holder's ability to control the re-importation of domestically-manufactured goods.

The *Kirtsaeng* case addresses the scenario where goods are manufactured abroad. Defendant-appellant Supap Kirtsaeng is a Thai national who attended a university in the United States. John Wiley, the plaintiff-appellee, is a textbook publisher that uses an Asian subsidiary to sell textbooks in Asia at prices substantially lower than the same

Practitioners should counsel their clients that greater price differences for the same goods in different regions leads to a greater potential of arbitrage by gray market importers.

textbooks sold in the United States. See *Kirtsaeng*, 133 S. Ct. at 1356. Kirtsaeng's friends and family bought textbooks in Thailand and sent those textbooks to the United States, where Kirtsaeng would then sell those Asian textbooks at a lower price than John Wiley's U.S. prices. *Id.* at 1356. Kirtsaeng essentially

arbitraged these geographical price differences to capture profit for himself. John Wiley sued Kirtsaeng for an alleged violation of the Copyright Act.

The Court held in *Kirtsaeng* that the first sale doctrine applies to goods manufactured abroad as well as domestically-manufactured goods. *Id.* at 1355-56. Section 109(a) of the Copyright Act applies the first sale doctrine to "a particular copy . . . lawfully made under this title," where "title" refers to the U.S. copyright laws. The Court had to decide whether

“under this title” includes goods manufactured abroad. *Id.* at 1357-58. The majority concluded that it does by reading “under” broadly. See *id.* at 1358-59. The majority reasoned that the statute’s language, its context, and the common-law history of the first sale doctrine favored a non-geographical interpretation. *Id.* at 1358.

The dissent noted that the majority’s broad reading of section 109(a) eviscerates the copyright holder’s protection against unauthorized importation set out in 17 U.S.C. § 602(a)(1). *Id.* at 1378 (Ginsburg, J., dissenting). In other words, as a purchaser’s section 109(a) rights expand, a copyright holder’s section 602(a)(1) rights shrink to become almost insignificant. See *id.* at 1373 (Ginsburg, J., dissenting).

How does *Kirtsaeng* affect those of us who represent copyright holders? It makes it much harder to win a case against a gray market importer. Practitioners should counsel their clients that greater price differences for the same goods in different regions leads to a greater potential of arbitrage by gray market importers. Also, because *Kirtsaeng* is a statutory-interpretation case, Congress has the power to clarify and strengthen section 602(a)(1) and allow copyright holders to keep out unauthorized imports. Accordingly, copyright holders may want to consider different lobbying options if they are substantially affected by this decision.

In the Court’s second opinion on IP exhaustion, *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013), the Court considered whether patent exhaustion applies to self-

replicating technologies, such as soybean seeds, *id.* at 1764, 1769. Vernon Hugh Bowman, a farmer, purchased patented soybean seeds from one of Monsanto’s licensed seed producers. *Id.* at 1764-65. The sale was subject to a limited-use license that provided that a licensed grower may not sell or save the progeny of the patented seeds for planting or replanting. *Id.* at 1764-

Future cases in [patent exhaustion] will likely focus on whether the accused infringer is actually “making” or “using” the patented invention, and practitioners should consider these questions when advising clients who work with self-replicating technologies.

65. Monsanto’s license did, however, authorize farmers to sell second-generation seeds to local grain elevators as a commodity. *Id.* at 1764-65. When Bowman began purchasing commodity seed from a local grain elevator for planting a late-season crop, he noticed that most of the commodity seed possessed the same chemical-resistant properties as the more expensive patented seed he purchased for his

early-season crop. *Id.* at 1765. The progeny of this planted commodity seed also possessed these patented, chemical-resistant properties. *Id.* at 1765. Monsanto sued for patent infringement, alleging that Bowman’s use of the commodity seeds was not within the scope of the limited-use license, which covered only those seeds purchased from Monsanto or a licensed dealer. See *id.* at 1765.

The Supreme Court held unanimously that patent exhaustion does not extend to the *making* of a new article. *Id.* at 1766-67. Therefore, Bowman’s late-season planting and harvest infringed Monsanto’s patents. *Id.* at 1766-67. Although Bowman could resell or use the seeds he purchased from the grain elevator, he could not plant those seeds to make additional soybeans without Monsanto’s permission. *Id.* at 1766-67. The Court was sympathetic to the possibility that,

were the rule otherwise, one single seed unprotected by a license could spawn thousands of non-infringing seeds and render Monsanto's patents (and significant investment) worthless. *Id.* at 1767. In rejecting Bowman's argument that seeds naturally replicate or sprout unless stored in a controlled manner (the so-called "blame-the-bean" defense), the Court noted that Bowman was not a passive observer—he controlled reproduction here. *Id.* at 1768-69.

The Court observed that its holding was limited and did not address every self-replicating technology. *Id.* at 1769. The Court explicitly left for another day the case where self-replication occurs outside of the purchaser's control. *Id.* at 1769. Future cases in this area will likely focus on whether the accused infringer is actually "making" or "using" the patented invention, and practitioners should consider these questions when advising clients who work with self-replicating technologies.

Thus, the Court further defined the limits of IP exhaustion in these cases. *Kirtsaeng* broadens the already-extensive rights of a

purchaser under the first sale doctrine. *Bowman*, on the other hand, shows that a purchaser's rights do not extend to replication.



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The above article expresses the views of the authors and not necessarily that of the State Bar of Texas IP Law Section.
