

Weil Briefing: Patent Litigation and Licensing

June 3, 2010

Patent Law Update: *Fujifilm Corp. v. Benun* Federal Circuit Rejects Foreign Sales as Triggering Patent Exhaustion

Patent exhaustion (also known as the “first-sale doctrine”) is a judicial doctrine that recognizes limitations on the statutory grant of exclusivity to a patentee. In broad terms, the first authorized sale of a patented product places that product outside the patent owner’s rights of exclusion. In *Fujifilm*,¹ a panel of the Federal Circuit held that a patent owner’s foreign sales do not exhaust its US patent rights. In reaching its decision, the Court declared that the seminal Supreme Court decision on patent exhaustion, *Quanta Computer, Inc. v. LG Elecs., Inc.*,² “did not eliminate the first sale rule’s territoriality requirement.”³ In its first ruling on “international exhaustion” – *i.e.*, whether foreign sales exhaust US patents – since *Quanta*, the Federal Circuit upheld its own prior precedent on this topic.⁴

Background

Fujifilm is the owner of fifteen patents related to the design and production of single-use, disposable cameras, also known as lens-fitted film packages (“LFFPs”). To process the film, the LFFPs are typically taken to a film processor who opens the LFFP to retrieve the film, leaving it devoid of such film afterwards. The empty LFFP may be refurbished by a company with the means of replacing the film as well as any parts which have become worn or broken.⁵ Fujifilm sells LFFPs both in the United States and abroad.

Defendant Polytech (Shenzhen) Camera Company (“PC”), a subsidiary of co-defendant Polytech Enterprise Ltd. (“PE”), operated a factory in China that refurbished LFFPs originally sold by Fujifilm outside the US. Defendant Jazz Products LLC (“Jazz”) purchased LFFPs refurbished by PE and PC and imported them into the United States to be re-sold. Fujifilm filed a patent infringement suit against Defendants on April 18, 2005 based on the Defendants’ importation and sales. The U.S. District Court for the District of New Jersey entered judgment in favor of Fujifilm, finding that Defendants infringed Fujifilm’s patents.

On appeal, Defendants raised, *inter alia*, the issue of whether *Quanta* eliminated the territoriality requirement of *Jazz Photo Corp. v. Int’l Trade Comm’n*, so that Fujifilm’s sales of LFFPs outside the US would exhaust its rights, allowing Defendants to repair and re-sell them into the US.⁶ The Federal Circuit rejected that argument, holding that *Quanta* did not eliminate the first sale rule’s territoriality requirement and only sales made in the US will exhaust a patent owner’s US patent rights. The Federal Circuit distinguished *Quanta* as a case not involving foreign sales. The Defendants also pointed to language in footnote 6 in the *Quanta* decision referring to sales outside the US:

“LGE suggests that the Intel Products would not infringe its patents if there were sold overseas, used as replacement parts, or engineered so that use with non-Intel products

would disable their patent 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.” *Quanta*, 553 U.S. at ___, 128 S. Ct. at 2119 n. 6 (citations omitted) (emphasis in original).

Defendants argued that the reference to products practicing the patent even if sold outside the United States supported the notion that exhaustion applies whenever there is a sale that practices the patent, even if there is no actual infringement due to, for instance, extraterritoriality. The Federal Circuit explained that this phrase only highlighted the distinction between “practicing” and “infringing” the patent, and that, read properly, this reference supported a territoriality requirement for patent exhaustion.^{7,8}

Analysis and Conclusion

Although the *Fujifilm* case is a panel opinion (and not *en banc*), the Federal Circuit has now established precedent subsequent to the *Quanta* decision that sales abroad will not exhaust US patents. From a licensing perspective, licensees of patent rights should continue to be wary of *Fujifilm* and carefully structuring appropriate contract rights from licensors to protect their customers, users, resellers and other downstream parties. In particular, licensees should not rely solely on exhaustion where sales will be made outside the United States. On the other hand, licensors will want to continue to avoid inadvertently granting greater rights than they intended. They will want to assess whether any rights granted to customers, users, resellers and other downstream parties will be limited in connection with the products or services of licensee, and not open themselves up to further exhaustion arguments in connection with these additional rights granted. From a litigation perspective, this territoriality requirement for exhaustion will also limit the extent of any exhaustion arguments that may be made by defendants.

¹ *Fujifilm Corp. v. Benun et al.*, No. 2009-1487, 2010 U.S. App. LEXIS 10827 (Fed. Cir. May 27, 2010). (Michel, Mayer, and Linn presiding).

² 553 U.S. 617, 128 S.Ct. 2109 (2008). See also Patent Law Update: *Quanta Computer, Inc., et al. v. LG Electronics, Inc.* Supreme Court Expands Patent Exhaustion by Sandhu, Charan J., Rovner, Amber H., Berezin, Robert S., Ger, Kwang-chien B. (June 20, 2008, Weil Briefings) at <http://www.weil.com/news/pubdetail.aspx?pub=7822>.

³ *Fujifilm* at 9.

⁴ See *Jazz Photo Corp. v. Int’l Trade Comm’n*, 264 F.3d 1094 (Fed. Cir. 2001); *Fuji Photo Film Co., LTD v. Jazz Photo Corp.*, 394, F.3d 1368 (Fed. Cir. 2005).

⁵ See *Fujifilm* at 2 and *Fujifilm Corp. v. Benun et al.*, 2008 U.S. Dist. LEXIS 49719 (D.N.J., June 30, 1998); see generally *Jazz Photo*, 264 F.3d 1094 (Fed. Cir. 2001) (describing in great detail the process for refurbishment of a LFFP).

⁶ *Jazz Photo v. ITC* held that “United States patent rights are not exhausted by products of foreign provenance.” *Jazz Photo v. ITC* at 1105.

⁷ *Fujifilm* at 10-11.

⁸ But see *LG Electronics, Inc., v. Hitachi LTD. et al.*, 655 F. Supp. 2d 1036 (2009) where the District Court for the Northern District of California found that there was no territoriality requirement for exhaustion on the basis that the referenced footnote 6 indicated the Supreme Court was aware of foreign sales of the Intel Products by the defendants in that case and nonetheless declined to limit its holding to sales in the United States.