

# U.S. Patent Rights Not Exhausted by Patent Owner's Lawful Restricted Sale of Product or by Sale of Product Abroad

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## Summary

In *Lexmark International, Inc. v. Impression Products, Inc.*, Case No. 14-1617 (February 12, 2016), the U.S. Court of Appeals for the Federal Circuit issued its en banc decision, by a 10-2 majority, holding that:

1. A patent owner could preserve its patent rights when selling a patented article, through a clearly communicated, otherwise-lawful restriction. In other words, a patentee's sale of a patented article, made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion.
2. A foreign sale of a U.S.-patented article, when made by or with the approval of a U.S. patentee, does not exhaust the patentee's U.S. patent rights. Thus, a foreign sale of a U.S.-patented article made or authorized by a U.S. patentee, does not give the buyer the authority to resell or use the article in the U.S. or import it into the U.S.

## Background

This case involved patented toner cartridges produced by Lexmark for use in its printers. Impression Products, acquired used Lexmark cartridges, refilled them with new toner, and resold them in the U.S. Two types of Lexmark cartridges were at issue in the case: (a) certain cartridges that Lexmark sold in the United States subject to an express single-use/no-resale restriction (*i.e.*, "Return Program" cartridges) and (b) all cartridges that Lexmark sold abroad.

Lexmark asserted that patent exhaustion did not apply to sale of refilled "Return Program" cartridges - and those sales were infringing - because the cartridges were originally sold by Lexmark with an explicit restriction, based on the Federal Circuit's precedent in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). Impression Products argued that the Supreme Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) implicitly overturned *Mallinckrodt*.

Lexmark also asserted that importation into the U.S. and resale of refilled cartridges that Lexmark sold abroad infringed its U.S. patents because the foreign sale did not give rise to exhaustion, based on the



Federal Circuit's precedent in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001). Impression Products argued that *Jazz Photo* had been implicitly overturned by the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013) (where a 6-to-3 majority said people may import and resell textbooks that were first sold abroad because the copyright in the books was exhausted).

The case was initially argued before a panel of three judges on March 6, 2015. Following the oral argument the Federal Circuit *sua sponte* ordered the case to be heard en banc in order to address the two issues.

### ***Mallinckrodt* Upheld - *Quanta* Did Not Overturn Restricted Sale Single-Use Licenses**

The majority concluded that the Supreme Court's decision in *Quanta* did not overturn *Mallinckrodt*. In finding that *Mallinckrodt*'s principle remained sound after *Quanta*, the majority observed that the Supreme Court did not have before it or address a patentee sale at all, let alone one made subject to a restriction.

Thus, the Federal Circuit adhered to the holding of *Mallinckrodt* that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied. Specifically, the court looked to the "without authority" language of 35 U.S.C. § 271(a) and found that:

Congress straightforwardly prescribed, in §271(a), that a sale or use of a

patented article "without authority" is an infringement. Under that language, a clear denial of authority leaves a buyer without the denied authority.

The Federal Circuit further noted that it has long been recognized that a patentee may preserve its patent rights through similar restrictions when licensing others. The court reasoned that there is no sound legal basis for denying the same ability to the patentee. The court noted that a contrary finding:

would draw a sharp line between practicing-entity patentees (those who themselves make and sell the articles at issue) and non-practicing-entity patentees (those who do not). Non-practicing-entities would have greater power to maintain their patent rights than practicing entities.

While the court held that a patentee may preserve its patent rights by an express denial of resale/reuse authority, it recognized that exhaustion is presumed:

It is reasonable for the courts to treat a patentee-made or patentee-authorized sale of a patented article (without distinction) as *presumptively* granting "authority" to the purchaser to use it and resell it. Such an approach recognizes the utility of having a default rule for determining whether authority has been conferred in the many circumstances where an express conferral is missing. And it chooses as the default a principle that sensibly accords with parties' likely expectations as to a domestic sale.

### **Jazz Photo Upheld - Foreign Sales Do Not Exhaust U.S. Patent Rights**

The majority also upheld its prior ruling in *Jazz Photo* and held that foreign sales do not exhaust U.S. patent rights.

The Federal Circuit explained that the Supreme Court's decision in *Kirtsaeng* did not control the case here. The court stated that the patent exhaustion question presented here and the analysis both were different from those in *Kirtsaeng* which related to the copyright statute. In particular, the court found:

*Kirtsaeng* is a copyright case holding that 17 U.S.C. § 109(a) entitles owners of copyrighted articles to take certain acts "without the authority" of the copyright holder. There is no counterpart to that provision in the Patent Act, under which a foreign sale is properly treated as neither conclusively nor even presumptively exhausting the U.S. patentee's rights in the United States.

While the court found that exhaustion cannot rest on a foreign first sale, it noted that an express or implied license might be found based on the circumstances of particular foreign sales.

### **The Dissent**

The dissent contended that *Mallinckrodt* could not be reconciled with *Quanta* and that the Federal Circuit exceeded its role as a subordinate court. Judge Dyk, writing for the dissent, stated:



The patent exhaustion doctrine, as stated by *Quanta*, admits of no exception. Authorized sales "prevent [] the patent holder from invoking patent law to control postsale use." *Quanta*, 553 U.S. at 638.

The dissent also would have only retained *Jazz Photo* insofar as it holds that a foreign sale does not in all circumstances lead to exhaustion of U.S. patent rights. In the dissent's view a foreign sale does result in exhaustion if an authorized seller has not explicitly reserved the U.S. patent rights. This was also the position advocated by the U.S. Government during the proceedings.

### **Practice Notes**

While the issues decided by the Federal Circuit have been clarified, whether the defense of patent exhaustion may apply in a particular situation is still very fact dependent. Other defenses to charges of patent infringement under these circumstances may still apply.

For example, with respect to use restrictions, the Federal Circuit noted that it did not have before it the questions that would arise, whether under principles governing bona fide purchasers or otherwise, if a downstream re-purchaser acquired a patented article with less than actual knowledge of such a restriction. Thus, the question of whether a first purchaser or a subsequent re-purchaser had adequate notice of a restriction is likely to be a heavily fact-intensive inquiry which will affect the determination of whether a patentee has preserved its right.

Also, the Federal Circuit did not consider whether the particular restrictions at issue gave rise to a patent-misuse defense, constituted an antitrust violation, or exceeded the scope of the Patent Act's express grant of exclusive rights over patented articles because Impression Products did not challenge the restrictions on those grounds. Accordingly, those defenses may be available to challenge restrictions imposed by patentees in other cases.

With respect to foreign sales the Federal Circuit's no-exhaustion conclusion leaves undisturbed the availability of an express - or implied - license defense to infringement. In addition, facts concerning the "regional" character foreign-sold products should be explored. As the court noted, the district court's rationale as to the unavailability of exhaustion did not depend on the facts in the record that Lexmark identifies as suggesting the "regional" character of its foreign-sold cartridges, and those facts went unexplored in the district court.

If you have any questions regarding this alert, please reach out to your Lathrop Gage attorney, or one of the two attorneys listed above.