

Lexmark v. Impression Products: En Banc Federal Circuit Reconfirms
Pro-Patentee Limitations on Doctrine of Patent Exhaustion
by David R. Todd

On February 12, 2016, the *en banc* Federal Circuit issued its decision in *Lexmark Int'l, Inc. v. Impression Products, Inc.*, addressing two patent exhaustion issues: First, whether a patent owner can prevent application of the doctrine of patent exhaustion by selling a patented product subject to otherwise-lawful restrictions on post-sale use or resale. Second, whether a patent owner's sale of a patented product outside of the United States gives rise to patent exhaustion. In answer to the first question, the Federal Circuit answered "yes," reconfirming its ruling in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). In answer to the second question, the Federal Circuit answered "no," reconfirming its ruling in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001).

Lexmark owns a patent on toner cartridges and sells its patented toner cartridges under two alternative options. Under the "Regular Cartridge" option, customers pay full price subject to no restrictions. Under the "Return Program Cartridge" option, customers get a 20% discount if they agree to a "single use only" restriction. Lexmark sells some of the cartridges outside of the United States and others inside the United States. Impression Products, the defendant in the case, acquired used cartridges from Lexmark customers who had chosen the "Return Program Cartridge" option or who were outside the United States, refurbished them, and then sold them to consumers in the United States. Lexmark sued Impression Products for patent infringement, and Impression Products raised the doctrine of patent exhaustion as a defense.

The Federal Circuit decided to hear the case *en banc* to consider whether it should overrule its holding in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), particularly after the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013). In *Jazz Photo*, the Federal Circuit held that a patentee's sale of a product outside of the United States did not subject that product to exhaustion. In *Kirtsaeng*, however, the Supreme Court held that for purposes of copyright law, a copy of a work first sold outside the United States was subject to exhaustion.

The Federal Circuit also decided to hear the case *en banc* to decide whether to overrule its holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) after the Supreme Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008). In

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Mallinckrodt, the Federal Circuit had held that a patentee that sells a patented article subject to an otherwise lawful single-use/no-resale restriction does not by that sale preclude an infringement action against the buyer or downstream buyers that violate that restriction. In *Quanta*, the Supreme Court held that a sale made by a patentee-licensed manufacturer gave rise to patent exhaustion but used language suggesting that any “authorized sale” would give rise to patent exhaustion.

The Federal Circuit reconfirmed its prior holdings 10-2. Judge Taranto, writing for the majority, first analyzed the *Mallinckrodt* issue. It began by explaining that the exhaustion doctrine must be understood as an interpretation of the language of 35 U.S.C. § 271(a), which defines direct infringement as specified acts done “without authority.” According to the majority, that authority is implied-in-law (and perhaps implied-in-fact) when the patentee sells a patented article without any restrictions. However, that authority is not present when the patentee expressly denies that authority at the time of sale. The majority bolstered its conclusion by relying on the Supreme Court’s 1938 decision in *General Talking Pictures*, which held that a patentee could restrict a licensee from selling within certain fields of use and that a product sold by a licensee outside of the licensee’s authorized field of use was not subject to exhaustion. The majority explained that “[t]here is no good reason that a patentee that makes and sells the articles itself should be denied the ability that is guaranteed to a non-practicing entity patentee” and that the opposite result “appears to be unjustifiably formalistic, not founded in relevant economic substance.” Thus, the majority concluded: “unless a sale restriction is improper under some other body of law . . . , a patentee’s own sale of its patented article subject to a clearly communicated restriction does not confer authority to sell or use the article in violation of that restriction, i.e., does not exhaust the patentee’s § 271 rights against such conduct involving that article.” Elsewhere, it reiterated: “A patentee already may preserve its patent rights against downstream buyers (with notice) through otherwise-lawful restrictions, by licensing others to make and sell its patented articles. We conclude that the law does not forbid the patentee to do the same when making and selling the articles itself.”

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On this point, Judge Dyk dissented, joined by Judge Hughes. In Judge Dyk's view, the Supreme Court's cases, including *Quanta*, stand for the proposition that any "authorized sale" of a product (i.e., any sale that transfers ownership of a product) gives rise to exhaustion as to that product. Judge Dyk read the Supreme Court's 1917 decision in *Motion Picture Patents* to have "settled the ineffectiveness of all post-sale restrictions under the patent law." The majority, on the other hand, read *Motion Picture Patents* merely to stand for the proposition that a certain type of post-sale restriction, namely resale price maintenance, was unlawful. The majority distinguished *Quanta* on grounds that it did not involve the issue of a restricted sale by a patentee.

The majority addressed the *Jazz Photo* issue second. It concluded that *Jazz Photo* had correctly concluded that a foreign sale of a patented product by a U.S. patentee does not presumptively or conclusively give rise to exhaustion of U.S. patent rights. The majority stated: "We . . . hold that a foreign sale of a U.S.-patented article, when made by or with the approval of the U.S. patentee, does not exhaust the patentee's U.S. patent rights in the article sold, even when no reservation of rights accompanies the sale. Loss of U.S. patent rights based on a foreign sale remains a matter of express or implied license." The majority explained that the Supreme Court's decision in *Kirtsaeng* in the context of copyright law did not require the opposite result, because the copyright regime involves a statute governing exhaustion and involves very different considerations than are present in the patent regime. The majority also rejected the Solicitor General's suggestion that a foreign sale should give rise to a presumption of exhaustion that could be overcome by a restriction imposed at the time of sale. The majority's primary reasoning was that the rationale for inferring authorization from an authorized sale in the United States is that the patentee has received his reward from that sale, but "foreign markets are not the predictable equivalent of the American markets in which the U.S. patentee is given a right to exclude and the rewards from that exclusivity." The majority distinguished a series of Second Circuit and Eighth Circuit decisions that applied the Solicitor General's rule by observing that in all of those cases, no exhaustion was found as a result of the foreign sale.

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Again, Judge Dyk dissented on this point, joined by Judge Hughes. Judge Dyk agreed with the majority that patent law is different from copyright law but would have adopted the Solicitor General's proposed rule: "a foreign sale does result in exhaustion if an authorized seller has not explicitly reserved the United States patent rights." This is because "[t]he patentee is in a better position to reserve its rights than the purchase is to inquire into any reservation." Thus, although Judge Dyk would preclude a U.S. patentee from avoiding the exhaustion doctrine with restrictions accompanying a U.S. sale, he would allow a U.S. patentee to avoid the exhaustion doctrine with restrictions accompanying a foreign sale. Judge Dyk pointed out that "every one of the lower court decisions before *Jazz Photo* applied exactly the rule for which the government argues."

Impression Products has now filed a petition for certiorari on both issues in the Supreme Court. Therefore, it remains to be seen whether the Federal Circuit's views on patent exhaustion will remain the law of the land.