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IP Alert: Federal Circuit’s En Banc Decision in Lexmark International, Inc. v. Impression Products, Inc. Makes Significant Determinations Relating to the Doctrine of Patent Exhaustion

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FEDERAL CIRCUIT’S EN BANC DECISION IN LEXMARK INTERNATIONAL, INC. V. IMPRESSION PRODUCTS, INC. MAKES SIGNIFICANT DETERMINATIONS

RELATING TO THE DOCTRINE OF PATENT EXHAUSTION

By Jason S. Shull

On February 12, 2016, the Federal Circuit issued its *en banc* decision in*Lexmark International, Inc. v. Impression Products, Inc.* The *en banc* decision made two significant determinations relating to the doctrine of patent exhaustion, also referred to as the "first sale" doctrine. First, the Federal Circuit found the first sale doctrine does not apply to patented articles sold subject to restrictions on resale and reuse communicated to the buyer at the time of sale. Second, the Federal Circuit determined the first sale doctrine does not apply to patented articles first sold outside of the United States.

CASE BACKGROUND

Lexmark manufactures toner cartridges, which it sells either unrestricted at full price (Regular Cartridges) or at a discount in return for the buyer's agreement to use the cartridge only once and then return the used cartridge to Lexmark for recycling or reuse (Return Program Cartridges). The Return Program Cartridges bear a label stating that by opening the package, the buyer agrees to return the empty cartridge to Lexmark for recycling, and that if the buyer declines, then it may return the unopened cartridge and obtain a Regular Cartridge. Lexmark's Regular Cartridges and Return Program Cartridges are sold both abroad and in the United States.

In the district court, Lexmark sued a number of defendants, including Impression Products, asserting that the defendants infringed certain Lexmark patents by: (1) acquiring, refilling, and selling used Return Program Cartridges in violation of Lexmark's post-sale restriction; and (2) acquiring, refilling, and selling used Regular Cartridges that were first sold outside the United States. Impression Products moved to dismiss the case for failure to state a claim.

The district court determined that Lexmark's post-sale use restrictions on Return Program Cartridges were invalid under Q*uanta Computer, Inc. v. LG Electronics, Inc.,* 553 U.S. 617 (2008). Accordingly, the district court ruled that the acquisition and sale of used Return Cartridges first sold in the United States did not infringe Lexmark's patent rights. The district court also determined that the first sale doctrine does not apply to patented articles purchased abroad, despite the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013), which rejected a territorial limitation in copyright law. Accordingly, the district court ruled that the acquisition and sale of cartridges first sold abroad constituted infringement Lexmark's patent rights.

Both rulings were appealed. After hearing oral arguments from both parties, the Federal Circuit *sua sponte* ordered *en banc* consideration of the following two issues:

> (1) Should the court overrule Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992) in view of Quanta Computer to the extent that Mallinckrodt ruled that a sale of a patented

article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?

(2) Should the court overrule Jazz Photo Corp. v. Int'l Trade Comm'n, 264 F.3d 1094 (Fed. Cir. 2001) in view of Kirtsaeng to the extent that Jazz Photo ruled a sale of a patented item outside the U.S. never gives rise to U.S. patent exhaustion?

THE *EN BANC* DECISION

The *en banc* decision, garnering support from 10 of the 12 active Federal Circuit judges, sided with Lexmark on both issues. With respect to the first issue, the Federal Circuit held: "[W]e adhere to the holding of *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), 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 by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied." Opinion, p. 8. The Federal Circuit determined *Mallinckrodt* was not inconsistent with *Quanta*. The Federal Circuit explained that in *Quanta* "the patentee's authorization to the licensee to make (the first) sales was not subject to any conditions, much less conditions to be embodied in those sales." *Id*. at p. 29. After an in-depth analysis of Supreme Court precedent and the Patent Act, the Federal Circuit ultimately concluded:

> [A] patentee sells a patented article under otherwise-proper restrictions on resale and reuse communicated to the buyer at the time of sale, the patentee does not confer authority on the buyer to engage in the prohibited resale or reuse. The patentee does not exhaust its § 271 rights to charge the buyer who engages in those acts—or downstream buyers having knowledge of the restrictions—with infringement.

Id. at 98.

With respect to the second issue, the Federal Circuit determined that *Jazz Photo*remains good law even in view of *Kirtsaeng*. The Federal Circuit stated: "[W]e adhere to the holding of *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), that a U.S. patentee, merely by selling or authorizing the sale of a U.S.-patented article abroad, does not authorize the buyer to import the article and sell and use it in the United States, which are infringing acts in the absence of patentee-conferred authority." Opinion, p. 8. The Federal Circuit explained that *Kirtsaeng* "did not address patent law or whether a foreign sale should be viewed as conferring authority to engage in otherwise-infringing domestic acts . . . ." *Id*. at p. 9. The Federal Circuit further explained: "*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." *Id*. The Federal Circuit also stated: "Nothing in the [Patent] Act supersedes the § 271 requirement of authority from the patentee before a person in Impression's position may engage in the itemized acts without infringing." *Id*. at p. 21. After an in-depth analysis of Supreme Court precedent and the Patent and Copyright statutes, the Federal Circuit ultimately concluded:

> [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.

Id. at p. 99.

In view of its two holdings, the Federal Circuit "reverse[d] the district court's judgment of non-infringement as to the Return Cartridges first sold in the United States" and "affirm[ed] the district court's judgment of infringement as to the cartridges first sold abroad." *Id*. at pp. 98-99. The Federal Circuit remanded the case for entry of a judgment of infringement in favor of Lexmark. *Id*. at p. 99.

Lexmark is represented in this matter by Banner & Witcoff attorneys Timothy C. Meece, V. Bryan Medlock, Jr., Jason Shull and Audra Eidem Heinze.

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