

Keywords: 35 U.S.C. § 271(a); Patent Infringement: Defenses; Copyright; Foreign Sale; Patent Exhaustion

General: Federal Circuit finds the holdings of *Mallinckrodt, Inc. v. Medipart, Inc.* and *Jazz Photo Corp. v. International Trade Comm’n* are not overruled by *Quanta Computer, Inc. v. LG Electronics, Inc.* and *Kirtsaeng v. John Wiley & Sons, Inc.*

Lexmark Int’l, Inc. v. Impression Prods., Inc.
Nos. 2014-1617, -1619 (Fed. Cir. Feb. 12, 2016) (en banc)

I. Background Information

The **doctrine of patent exhaustion** (or the *first sale* doctrine) governs the circumstances in which the sale of a patented article, when the sale is made or authorized by the patentee, authorizes the buyer to engage in acts involving the article, such as resale, which would normally constitute infringement without that authority.

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992):

- **Facts:** Mallinckrodt sold its medical device to hospitals subject to a “single use only” restriction with post-use disposal instructions. Some purchasers instead sent used devices to Medipart for reconditioning. Mallinckrodt sued Medipart for infringement in violation of the restriction.
- **Holding:** A patentee, when selling a patented article subject to a single-use/no-resale restriction, which is otherwise lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority expressly denied in the restriction. Such resale or reuse, when the lawful restrictions are known, constitutes infringement under § 271. A patentee may preserve its § 271 rights through such restrictions when licensing others to make and sell patented articles or when the patentee makes or sells the patented articles itself.

Quanta Computer, Inc. v. LG Electronics, Inc., 553 U.S. 617 (2008):

- **Facts:** A sale was made by a separate manufacturing licensee, which the patentee had authorized to make and sell the articles at issue – chips for installation in computers. The patentee’s authorization to the licensee to make the first sales was not subject to any conditions.
- **Holding:** Patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.

Jazz Photo Corp. v. International Trade Comm’n, 264 F.3d 1094 (Fed. Cir. 2001):

- **Facts:** Fuji Photo sold two groups of cameras: those sold initially in the U.S., refurbished abroad, and imported back into the U.S.; and those initially sold abroad, refurbished abroad, and imported back into the U.S.
- **Holding:** 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.

Kirtsaeng v. John Wiley & Sons, Inc. (JWS), 133 S. Ct. 1351 (2013):

- **Facts:** JWS is an academic textbook publisher and the copyright owner of books it publishes in the United States. JWS licenses to its foreign subsidiary rights to publish, print, and sell English language textbooks in foreign countries. Kirtsaeng asked his friends and family to ship him foreign copies of textbooks. Kirtsaeng would then sell the textbooks in the U.S. for profit.
- **Holding:** 17 U.S.C. § 109(a) entitles owners of copyrighted articles to make certain acts, such as resale, without the authority of the copyright holder. The statute’s guarantee is not limited geographically as long as the maker of the copies had permission from the copyright owner.

II. Facts

Lexmark International, Inc. makes and sells printers and toner cartridges for its printers. Lexmark owns a number of patents that cover its cartridges and their use. Lexmark offers two choices to buyers of its cartridges: a “Regular Cartridge” and a “Return Program Cartridge.” All the cartridges at issue were first sold by Lexmark, both abroad and in the United States.

Regular Cartridge	Return Program Cartridge
Full price	20% Discount
Not subject to any reuse/resale restrictions	Subject to a single-use/no-resale restriction*
Microchip allows reuse after cartridge refill	Microchip prevents use of a refilled cartridge

*The single-use/no-resale restriction states that the buyer may not reuse the cartridge after the toner runs out and may not transfer it to anyone but Lexmark once used.

Impression Products, Inc. acquired both the Regular Cartridges and the Return Program Cartridges to resell them in the United States, and import those it acquired abroad, without affirmative authorization from Lexmark. The acquired Return Program Cartridges were physically modified by a third party to enable re-use in violation of the single-use/no-resale restriction.

III. District Court Proceedings

Lexmark sued Impression for infringement under 35 U.S.C. § 271 for two groups of cartridges:

- (1) Return Program cartridges that Lexmark sold in the United States under the restriction denying authorization for resale and reuse
- (2) All cartridges that Lexmark sold abroad, including Return Program and Regular cartridges

Impression claimed that Lexmark had exhausted its U.S. patent rights in the cartridges through Lexmark’s initial sales, and, therefore, the single-use/no-resale restriction should be disregarded. Impression further argued that the Supreme Court’s recent decisions of *Quanta Computer, Inc. v. LG Electronics, Inc.* and *Kirtsaeng v. John Wiley & Sons, Inc.* had overruled *Mallinckrodt, Inc. v. Medipart, Inc.* and *Jazz Photo Corp. v. International Trade Comm’n*, respectively, and filed motions to dismiss regarding each group of cartridges.

The district court granted Impression’s motion to dismiss Lexmark’s claim of infringement involving the single-use cartridges Lexmark had first sold in the United States. The district court concluded that *Quanta* overruled *Mallinckrodt* sub silentio (implicitly) and held that post-sale use restrictions do not prevent rights from being exhausted from an authorized and unrestricted initial sale.

The district court dismissed Impression’s motion to dismiss Lexmark’s claim of infringement involving the cartridges Lexmark sold abroad and held that *Kirtsaeng* does not overrule *Jazz Photo*. The district court maintained that under *Jazz Photo*, an initial authorized sale of a U.S. patented product outside of the United States would not exhaust the U.S. patent rights of a U.S. patent holder. Therefore, Impression’s imports and domestic resales constituted infringement. The parties cross-appealed.

II. Issues

- (1) Whether Lexmark’s initial sale of the cartridges constitutes the grant of authority that makes Impression’s later resale and importation non-infringing under the doctrine of exhaustion?
 - a. Whether a sale, accompanied by a clearly communicated and otherwise-lawful denial of such authority, nonetheless has the legal effect of conferring such authority?
 - b. Whether a foreign sale has the legal effect of conferring such authority where neither a grant nor a reservation of § 271(a) rights was communicated to the purchaser before the foreign sale?

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- (2) Whether *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) remains good law in light of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008)?
 - (3) Whether *Jazz Photo Corp. v. International Trade Comm’n*, 264 F.3d 1094 (Fed. Cir. 2001) remains good law in light of *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)?

III. Discussion

(1)(a) and (2) No. Under *Mallinckrodt*, a sale or manufacturing license made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not grant the buyer and a subsequent purchaser the “authority” to engage in the use or resale that the restriction precludes.

Section 271(a) of the Patent Act states that whoever, *without authority* during the term of a patent, makes, uses, offers to sell, or sells any patented invention within the United States or imports any patented invention into the United States infringes the patent. Nothing in the Patent Act supersedes the § 271 requirement of authority from the patentee before engaging in otherwise infringing acts.

The court determined that the rule from *Mallinckrodt* flows logically from the language of § 271(a), stating that a sale or use of a patented article “without authority” is an infringement. A clear denial of authority leaves a buyer without the denied authority.

In contrast, the Copyright Act includes a provision, 17 U.S.C. § 109(a), granting a right of sale to certain article owners which supersedes the infringement, importation, and exclusive-rights provisions of the Act. The Patent Act does not contain a congressionally prescribed exhaustion rule.

Furthermore, the court held that there is no distinction between a practicing-entity patentee’s rights and a non-practicing entity patentee’s rights regarding authority over prohibiting a subsequent purchaser from engaging in acts that a clearly communicated, lawful restriction precludes. The court distinguished *Quanta* because the case did not involve a patentee’s sale of a patented article subject to a clearly communicated single-use/no-resale restriction. In *Quanta*, the Supreme Court also did not address the distinction between patentee sales and licensee sales.

The court found no other body of Supreme Court case law on exhaustion overrules *Mallinckrodt* nor does any likely real-world consequences give reason to depart from *Mallinckrodt*. Moreover, the court found no problems with enforcing Lexmark’s patent rights. Lexmark’s conduct in providing two choices for cartridges provides benefits to its customers – a choice of a lower cost cartridge. Additionally, Lexmark may have a plausible legitimate interest in preventing strangers from modifying its products and introducing those modified products into the market – to prevent harm to Lexmark’s reputation from lower quality remanufactured cartridges.

Longstanding Supreme Court precedent allows a patentee to preserve its patent rights against downstream buyers by arranging with someone else to make and sell patented articles under clearly stated restrictions on post-sale activities. Therefore, the court found no good reason to deny this same ability to a patentee that makes and sells the articles itself.

Additionally, the court held that a U.S. patentee, through a license or a sale, does not exhaust its rights to charge a buyer, who has engaged in prohibited resale or reuse, or downstream buyers, having knowledge of the restriction at the time of the sale, with infringement.

(1)(b) and (3) No. Under *Jazz Photo*, a foreign sale of a U.S.-patented article does not exhaust the patentee’s U.S. patent rights in the article sold regardless of whether or not a reservation of rights accompanied the sale.

The Federal Circuit determined that the Supreme Court’s decision in *Kirtsaeng* was not controlling and did not undermine the no-exhaustion conclusion of *Jazz Photo*. *Kirtsaeng* did not address patent law or whether a foreign sale should be viewed as conferring authority to engage in otherwise-infringing domestic acts. Under *Jazz Photo*, the foreign sale of a U.S. patented article when the sale is either made or authorized by the U.S. patentee does not confer on the buyer authority to import the item into the United States or to sell and use it here, and such acts are infringing under § 271(a).

The court held that the Copyright Act is different from the Patent Act: the Copyright Act has no right to exclude anyone from use and § 109(a) of the Copyright Act expressly overrides the copyright holder’s rights to exclude from importing or selling copies, permitting acts without the authority of the rights owner. There is no counterpart of § 109(a) of the Copyright Act in the Patent Act.

Additionally, the court stated that exhaustion is tied to the idea that the patentee has received its U.S. reward, but a patentee cannot reasonably be treated as receiving that reward from sales in foreign markets. The reward of a U.S. patentee is the reward available from the right to exclude in the United States. This reward is inherently a market reward available from American markets subject to American laws. U.S. patentees may not even choose to seek patent protection in foreign countries due to varying standards and separate examination processes and fees. Additionally, foreign sales may not occur under protections likely to produce market returns comparable to the reward under U.S. patent law.

The court maintained that patent law is especially territorial and laws vary considerably from country to country. Foreign markets are not the predictable equivalent of American markets in which the U.S. patentee is given a right to exclude and the rewards from that exclusivity. Sales in foreign markets are not presumed to confer on the buyer authority to displace sales in American markets.

IV. Holding:

- (1) The federal circuit reverses the district court’s judgment of non-infringement as to the Return Cartridges first sold in the United States; and
- (2) affirms the district court’s judgment of infringement as to the cartridges first sold abroad.

V. Moving Forward: A petition for writ to the Supreme Court has been filed regarding two issues:

- (1) Whether a “conditional sale” that transfers title to the patented item while specifying post-sale restrictions on the article’s use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law’s infringement remedy; and
- (2) Whether, in light of this Court’s holding in *Kirtsaeng* that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine “makes no geographical distinctions,” a sale of a patented article – authorized by the U.S. patentee – that takes place outside of the United States exhausts the U.S. patent rights in that article?

IV. Conclusion

The Federal Circuit has determined that the recent Supreme Court cases of *Quanta* and *Kirtsaeng* do not overrule *Mallinckrodt* and *Jazz Photo*, respectively. Therefore, when a patentee sells a patented article under otherwise-lawful restrictions on resale or reuse communicated to the buyer at the time of the sale, the patentee does not confer authority on the buyer to engage in the prohibited resale or reuse. The patentee can further charge the buyer or downstream buyers having knowledge of the restrictions with infringement. Additionally, a foreign sale of a U.S. patented article, made by or with 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.