The Federal Circuit, En Banc, Maintains Prior Law On Patent Exhaustion In *Lexmark v. Impression*

Author(s): Charles R. Macedo,

On Friday, February 12, 2016, the U.S. Court of Appeals for the Federal Circuit issued its long-awaited en banc decision in *Lexmark International, Inc. v. Impression Products, Inc.*, Nos. 2014-1617, 2014-1619, Slip Op. (Fed. Cir. Feb. 12, 2016) (en banc).

In *Lexmark*, the full court considered the impact of recent Supreme Court decisions on its prior jurisprudence in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001) which placed some limits on the judicially created doctrine of patent exhaustion.

In an extensive and lengthy decision authored by Judge Taranto (and joined by nine members of the Court), the Federal Circuit maintained its prior jurisprudence on the two important issues raised:

1. Authorized Sale of Articles Subject to a "Single-Use/No-Resale" Restriction

As Judge Taranto explains, in *Mallinckrodt*, a panel of the Federal Circuit held 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. Such resale or reuse, when contrary to the known, lawful limits on the authority conferred at the time of the original sale, remains unauthorized and therefore remains infringing conduct under the terms of § 271." (Slip op. at 2). The Lexmark panel was asked to consider whether the Supreme Court's 2008 decision in *Quanta Computer, Inc. v. LG Electronics, Inc.,* 553 U.S. 617 (2008), should cause the Federal Circuit to reconsider this decision. Judge Taranto explained "[w]e find *Mallickrodt*'s principle to remain sound after the Supreme Court's decision in [*Quanta*], in which the Court did not have before it or address a patentee sale at all, let alone one made subject to a restriction, but a sale made by a separate manufacturer under a patentee-granted license conferring unrestricted authority to sell." *Id*.

In a dissenting opinion authored by Circuit Judge Dyk and joined by Circuit Judge Hughes, Judge Dyk wrote on this subject, "I agree with the government that *Mallinckrodt* was wrong when decided, and in any event cannot be reconciled with the Supreme Court's recent decision in [*Quanta*]. We exceed our role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court." (Dissent at 2).

2. Authorized Sale of Articles Outside The U.S.

Further, as Circuit Judge Taranto explained, in *Jazz Photo*, a panel of the Federal Circuit held 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 absences of patentee-conferred authority." (Slip op at. 8). In *Lexmark*, the full court was asked to consider the impact of the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013) (a copyright case involving exhaustion principles based on authorized sales abroad of copyrighted books).

Again, Judge Taranto, writing for the Court adhered to the Court's prior ruling in *Jazz Photo* . Judge Taranto summarized the Court's rationale for distinguishing *Kirstaeng,* which relied upon the Patent Act having a different statutory structure from the Copyright Act:

Jazz Photo's no exhaustion ruling recognizes that foreign markets under foreign sovereign control are not equivalent to the U.S. markets under U.S. control in which a U.S. patentee's sale presumptively exhausts its rights in the article sold. A buyer may still rely on a foreign sale as a defense to infringement, but only by establishing an express or implied license—a defense separate from exhaustion, as *Quanta* holds—based on patentee communications or other circumstances of the sale. We conclude that *Jazz Photo*'s no-exhaustion principle remains sound after the Supreme Court's decision in [*Kirtsaeng*], in which the Court did not address patent law or whether a foreign sale should be viewed as conferring authority to engage in otherwise infringing domestic acts. *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.

(Slip op. at 8-9).

On this issue, Circuit Judge Dyk in his dissent wrote, "I would retain *Jazz Photo* insofar as it holds that a foreign sale does not in all circumstances lead to exhaustion of United States patent rights. But, in my view, a foreign sale does result in exhaustion if an authorized seller has not explicitly reserved the United States patent rights." (Dissent at 2).