Federal Circuit Maintains Patent Exhaustion Precedent, Distinguishes Supreme Court Rulings

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Patent owners recently received a favorable decision regarding exhaustion of patent rights from the en banc Federal Circuit. The case, Lexmark International, Inc., v. Impression Products, Inc., concerns aftermarket print cartridge sales and the issue of whether Lexmark’s patent rights are exhausted by (1) sales within the U.S., despite the inclusion of a single-use/no-resale restriction, and (2) sales outside the U.S. The Federal Circuit considered the case en banc to determine whether Supreme Court rulings in Quanta Computer, Inc., v. LG Electronics, Inc., and Kirtsaeng v. John Wiley & Sons, Inc. (see prior Nutter commentary here and here), had any effect on the previously-controlling Federal Circuit precedent. Ultimately, the Federal Circuit distinguished the Supreme Court rulings and found for Lexmark based on the previously-controlling precedent.

With regard to the issue of restricted U.S. sales, the Federal Circuit considered whether the 2008 Quanta decision, in which authorized sales by a licensee were held to exhaust a patent owner’s rights, has any effect on the 1992 Federal Circuit decision in Mallinckrodt, Inc., v. Medipart, Inc., which held that a patent owner can preserve its rights under 35 U.S.C. § 271 through lawful limits conveyed to a purchaser at the time of sale. In Lexmark, the Federal Circuit distinguished Quanta based on the fact that the Supreme Court was not addressing sales by a patentee or sales subject to any restriction, but instead concerned actions of a licensee who had unrestricted authority to sell a patented item. Accordingly, the Federal Circuit found that Lexmark’s sales within the U.S. that were subject to a single-use/no-resale restriction did not exhaust their patent rights under 35 U.S.C. § 271. That is, according to the Lexmark decision, a patent owner can restrict a lawful buyer of its patented products from reselling the patented article.

The Federal Circuit also considered whether the 2013 Kirtsaeng decision, which held that copyright can be exhausted by foreign sales, has any effect on the 2001 Federal Circuit decision in Jazz Photo Corp. v. International Trade Comm’n, which held oppositely in the case of patent rights. Similarly to the consideration of Quanta and Mallinckrodt above, the Federal Circuit distinguished the circumstances of the Kirtsaeng decision, noting that patent law was not at issue and that the holding concerns a section of the Copyright Act that does not have a counterpart in patent law. Accordingly, the Federal Circuit found that Lexmark’s sales outside the U.S. did not exhaust their patent rights under U.S. law.

The Lexmark decision is being touted as a win for patent owners, who avoided a potentially far-reaching weakening of rights if the Federal Circuit had found in favor of Impression. The case may not be over, however, as Impression can appeal the ruling to the Supreme Court, which may find reason to consider whether the Federal Circuit is correctly interpreting its holdings. Indeed, there was dissent even within the Federal Circuit and Judge Dyk’s dissenting opinion went so far as to explicitly state that the court had “[exceeded its] role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court.”
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