



# Lexmark v. Impression

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# Lexmark v. Impression

- In a 10 – 2 decision on February 12, 2016, the U.S. Court of Appeals for the Federal Circuit *en banc* decided:
- When a product is sold subject to a lawful re-sale or use restriction, this restriction is effective to prevent exhaustion of rights with respect to downstream sales in breach of the restriction, and
- Contrary to the position in copyright law there was no international exhaustion when a patent owner sold patented products abroad that were subsequently imported into the United States.

- The case related to reconditioning of patented toner cartridges. Cartridges were sold by the patent owner in the United States either at “full price” or at a discount subject to an express single use/no resale restriction. Cartridges were also sold abroad by the patent owner, some, but not all of which were subject to the same restriction. The defendant sold reconditioned cartridges some of which were originally sold by the patent owner in the United States and some originally sold by the patent owner abroad.

- Thus the court upheld its 1992 decision in **Mallickrodt v. Medipart** that domestic exhaustion would not apply to questions of patent infringement where lawful restrictions applied at the time of the first sale had been breached and its 2005 decision in **Fuji Photo Film Co, v. Jazz Photo Corp** that international exhaustion did not apply at all.



**BACKGROUND**

# Restrictive covenants at Common Law

- While common law has recognized that sale of land can include a restrictive covenant enforceable against subsequent purchasers, this is not the position with chattels.

# Lord Coke, Institutes of the Laws of England 1628

- “[If] a man be possessed of . . . a . . . chattell . . . give or sell his whole interest . . . therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d]”
- As being an unlawful restraint on trade.
- As noted by the Supreme Court in the copyright case of **Kirstaeng v. Wiley**, this principle has been accepted in American law.

# Is it different for a Patented Chattel?

- A long line of cases (dating back to the nineteenth century cases of **Bloomer v. McQuewan** (1852) and **Adams v. Burke**(1873) has held that a patentee's monopoly rights are exhausted by first authorized sale of a patented product in the United States

- In **Henry v. A.B. Dick Co.**, (1912) the Supreme Court adopted the principle that a patent right was enforceable even if a product had initially been sold subject to an unlawful restriction; but the Court quickly rejected that broad principle and its application to resale price maintenance, **Bauer v. O'Donnel** (1912), and to tie-ins, **Motion Picture Patents**, (1917), the latter expressly overruling **A.B. Dick**.

- **U.S. v. General Electric Co. (1926)** “Patent rule of reason” –license restraints may be lawful if within the patent reward.
- **General Talking Pictures v. Western Electric Co (1939)** – Patent enforceable against downstream purchaser from licensee where licensee sold to a purchaser outside its authorized field of use. (*nemo dat quod non habet*)

# BUT - United States v. Univis Lens Corp (1942)

- Held it to be a *per se* anti-trust violation to impose a restriction on bulk sales on purchasers of the patented product where the patentee wished distribute at the wholesale level itself.
- “purpose of the patent law was fulfilled ... when the patentee received his reward ... by the sale of the article, ... once that purpose is realized the patent law provides no basis for restricting use and enjoyment of the thing sold.”

# Mallinckrodt v MediPart (1992)

- Patentee Mallinckrodt sold to various hospitals patented medical devices for delivery of therapeutic or radioactive materials to patients. The devices were marked “for single use only”. After using the devices the hospitals sent the devices to Medipart for re-conditioning so that the hospitals could re-use them. Mallinckrodt sued Medipart for patent infringement.

- The Federal Circuit reversed the trial court decision that Mallickrodt's right to sue for patent infringement had been exhausted by the first sale holding
- “The appropriate criterion is whether Mallinckrodt's restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.”

- Patentee Mallinckrodt sold to various hospitals patented medical devices for the delivery to patients of radioactive or therapeutic material. The devices included the inscription “single use only.”
- Medipart was in the business of reconditioning the devices without permission from Mallinckrodt

# Held

- Since the single use restriction was not itself unlawful, the restriction was within the patent grant and so any “making or using” outside what was authorized under the original sale was an infringement.

# Quanta Computer v. LG Electronics

- Federal Circuit again held that the exhaustion was only triggered by an unconditional sale of the item in question. Thus there was no exhaustion when the sale of microprocessors and chipsets was, in its view, conditioned on their only being used in combination with components supplied by Intel.
- Supreme Court ducked holding that the sale was unconditional so exhaustion applied.

# Jazz Photo Corp. v. ITC (2001)

- In a case relating to import of camera bodies that had been repaired in China, some of the cameras having been sold originally in the United States and some outside of it, the Federal Circuit, apparently sua sponte held:

- In **United States v. Mansonite Corp**, the Court explained that exhaustion of the patent right depends on “whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article”. ... United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.

- exhaustion of the patent right depends on “whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article”. ... United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.

# District Courts and Commentators

- Questioned whether this holding survived Quanta where it was said the Supreme Court had known that some of the sales that were found to have exhausted the patentee's rights were made abroad.



**LEXMARK – THE KEY**

- The court’s opinion was authored by Judge Taranto. 35 USC 271(a) states “whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent” . Judge Taranto noted that the key words here for both domestic and international exhaustion were “without authority”.



**NO DOMESTIC EXHAUSTION  
WHERE BREACH OF A LAWFUL  
CONDITION IN ORIGINAL SALE**

- In its arguments in *Lexmark*, the government had taken the view that in contrast to sales by licensees where the patent owner had the right to control downstream sales, almost any sale by the patentee was an “authorized sale”

- Judge Taranto: this read too much into the Supreme Court’s “authorized sale” language.
- “a patentee may preserve its patent rights against downstream buyers by arranging ... even a nonexclusive licensee, to make and sell patented articles, under clearly stated restrictions on post-sale activities.

- There 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. No precedent requires a contrary conclusion.

- This being the case, in his view a “clearly communicated, otherwise lawful restriction” did not result in the first purchaser having “authority” to make further sales in contravention of that restriction, whereas a sale without such a restriction presumptively did give authority to resell a patented product obtained from the patentee



**INTERNATIONAL EXHAUSTION**

- The patent statute has no provisions similar to those of the Copyright Act limiting the patent owner's exclusive rights or the right to sue for infringement.
- Therefore the Supreme Court's decision in *Kirstaeng v. John Wiley* is not directly applicable.

- The Patent Act question is whether a foreign sale of a U.S.-patented article made or authorized by a U.S. patentee, standing alone, confers on the buyer authority to import the article into the United States and sell and use it here, even though such an act would be infringing in the absence of authority. The best answer to that question, ... is that such a foreign sale does not confer such authority.

- a foreign sale, standing alone, is not reasonably viewed as providing the U.S. patentee the reward guaranteed by U.S. patent law. Such a sale is not reasonably viewed as itself a waiver by the patentee of its U.S. patent rights to prevent the buyer or others from bringing that article into the United States and selling or using it to satisfy a U.S.-market demand that the patentee could otherwise help satisfy at U.S.-market prices, as guaranteed by the Patent Act.

# Dissent by Dyk and Hughes JJ

- Mallinckrodt had been wrongly decided because, although the Supreme Court had in 1912 adopted similar reasoning to that of Mallickrodt in *Henry v. A.B. Dick*, it had expressly overruled that decision five years later in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.* Contrary to the majority view, *Motion Picture Patents* was not confined to situations where the restriction imposed on the first purchaser was unlawful, but applied irrespective of any post-sale restriction imposed in the first sale

- if there was a logical inconsistency between the Supreme Court's view that breach of restrictions imposed on a licensee could result in the patentee being able to sue downstream purchasers for infringement but breach of conditions imposed on a purchaser did not give that right, this was no reason for the Federal Circuit to fail to follow Supreme Court case law,

- As to foreign sales, there was a difference both in the statutory basis and the real world between patents and copyrights. Copyright granted an effective worldwide right patent protection was territorial. However, sale by the patent owner anywhere in the world granted the purchaser an implied license to import into the United States which could be negated by clearly expressed terms at the time of sale, thus in effect adopting a view similar to that of the Japanese Supreme Court in the Jap Auto case.

The holding on domestic exhaustion is likely to remain controversial

The two “unlawful” restrictions mentioned in *Mallinckrodt*, resale price maintenance and tying may no longer be unlawful in view of the Supreme Court’s decisions in **Leegin Creative Leather Products Inc v. PSKS Inc** and **Independent Ink Inc v. Illinois Tool Works Inc.**

- On the facts of the Lexmark case, it seems “fair” that domestic exhaustion did not apply. The original purchaser was given a choice as to whether it wanted cartridges at a discount, in which case it had no right to resell or to pay a higher price and avoid that restriction. There seems no good reason why downstream purchasers should be entitled to profit from breach of the limitation so-imposed. In other cases, the equities might not be so clear.

# Petition for Writ of *Certiorari*

- Impression filed for *certiorari* on March 21 presenting the following questions:
- 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 ... infringement remedy.

- 2. Whether, in light of this Court's holding in **Kirtsaeng v. John Wiley & Sons, Inc.**, 133 S. Ct. 1351, 1363 (2013), 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.

# What to do?

- It is difficult to predict what the Supreme Court will do. The number of “unlawful” sales restrictions under the antitrust laws is at present quite limited (although this could change) and so, while recognizing the logical inconsistency between its decisions on licensing and sales, the Court could hold that its prior decisions require a general application of the exhaustion doctrine to domestic sales and that any remedy is for Congress to provide.

- It seems desirable to continue to try to use contract to control downstream sales and to include in the initial sales contract not only the desired restriction but also that such restriction is included in any sales agreement made by that original purchaser and to the extent possible under have the patent owner expressly noted as a third party beneficiary of that contract.

# Thank You!

Feel Free to direct any questions you may have to:

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