



Patent Exhaustion After *Lexmark*

*Lexmark Int'l, Inc. v. Impression
Prods.*, 816 F.3d 721 (Fed. Cir. 2016)



Birch
Stewart
Kolasch
Birch LLP

Patent Exhaustion



FATIGUE

Patent Exhaustion

"The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta v. LGE*, 553 US 617,625 (2008)

Framework for CAFC Decision

"Except as otherwise provided in [the Patent Act], whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a)

Framework for CAFC Decision

The doctrine of patent exhaustion addresses the circumstances in which a sale of a patented article confers on the buyer the "authority" to engage in acts involving the article, such as resale, that are infringing acts in the absence of such authority.

Facts

With Newest Chip
3BK+1C+1Y+1M



With Ink Ready for Using

Facts

- Lexmark owns number patents covering cartridges and their use
- Cartridges at issue sold by Lexmark, some in US and some abroad
- Some foreign-sold, and all domestically sold, cartridges sold at discount subject to an express single-use/no-resale restriction

Facts

- Lexmark offers “regular” cartridges at full price – no limitations
- “Return Program Cartridge” – 20% discount; single-use/no-resale restriction
- Microchip in cartridges that prevents use of a refilled cartridge

Facts

- Impression acquired cartridges to re-sell them in the US
- Restricted cartridges were modified by third-party to allow re-use
- Impression re-sold patented Lexmark cartridges, and imported into the US and sold those it purchased abroad

Procedural History

- Lexmark sued Impression for direct and contributory patent infringement
- Allegation includes two groups of cartridges
 - Return Program cartridges (restricted use) sold in the US
 - All cartridges sold abroad
- Impression relied solely on patent exhaustion defense

Procedural History

- District court granted Impression's motion to dismiss Lexmark's claim of infringement re: the single-use cartridges sold in the US, i.e., exhaustion applied
- Exhaustion did not apply to cartridges Lexmark had sold abroad
- Impression appealed; Lexmark cross-appealed

Issues

(a) In light of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008), should this court overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent it 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?

Issues

(b) In light of *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 185 L. Ed. 2d 392 (2013), should this court overrule *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion?

Holding

Should the Fed. Cir. overrule *Jazz Photo* in view of *Kirtsaeng*?

No. A sale of a patented item outside the United States does not give rise to United States patent exhaustion.

Holding

Should the Fed. Cir. overrule *Mallinckrodt* in view of *Quanta*?

No. 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

Single use/no re-sale issue

- *Mallinckrodt (1992)*: sale of medical devices to hospitals subject to “single use only” restriction
 - Nebulizer for delivering mist of radioactive or therapeutic material
 - Some hospitals sent used devices to Medipart for reconditioning

Mallinckrodt

- Mallinckrodt sued Medipart for infringement
- District court granted Medipart summary judgment, concluding that Mallinckrodt's sale to the hospitals exhausted its patent rights
- Relying on *General Talking Pictures*, Fed. Cir. reversed

General Talking Pictures

- Patentee authorized **licensee** to make and sell amplifiers embodying patented invention for a specified use
- Defendant purchased patented amplifier from mfg licensee, and used contrary to restriction
- Supreme Court held that the defendant was liable for infringement; observed that a restrictive license to a particular use was permissible, and treated the purchaser's unauthorized use as infringement of the patent

Quanta

- Sale made to computer maker (Quanta) not by licensee (LGE) but by mfg licensee, Intel
- LGE authorized Intel to make and sell chips for installation in computers that would be covered by LGE patents
- patentee's authorization to the licensee to make (the first) sales was *not* subject to any conditions
- *Quanta* did not involve same issues – (1) no patentee sales, and (2) no restrictions on sales made by licensee

Conclusion re: use restrictions

a patentee may preserve its § 271 rights when itself selling a patented article, through clearly communicated, otherwise-lawful restrictions, as it may do when contracting out the manufacturing and sale

Foreign sale issue

Whether Lexmark's sales of its cartridges abroad ***conferred authority*** on its buyers to import them into the US and to sell and to use them there

Jazz Photo (2001)

- reviewed the ITC's finding that Jazz Photo infringed patents of Fuji Photo Film by importing refurbished disposable cameras originally sold by or with the authorization of Fuji Photo
- Two sets of cameras: (1) sold in US, refurbished abroad, imported back to US; (2) sold abroad, refurbished abroad, and imported into US

Jazz Photo

“United States patent rights are not exhausted by products of foreign provenance," *i.e.*, products previously sold only abroad

Kirtsaeng (2013)

- In 2008, John Wiley & Sons, Inc. filed suit against Thailand native Supap Kirtsaeng over the sale of foreign edition textbooks made outside of the United States marked for sale exclusively abroad which Kirtsaeng imported into the United States
- When Kirtsaeng came to America in 1997 to study at Cornell University, he discovered that Wiley textbooks were considerably more expensive to buy in the United States than in his home country

Kirtsaeng (2013)

- Kirtsaeng asked his relatives from Thailand to buy such books at home and ship them to him to sell at a profit. He sold the imported books on eBay, making \$1.2 million in revenue
- Wiley sued Kirtsaeng for copyright infringement and won in two lower courts

Kirtsaeng (2013)

- The Second Circuit Court of Appeals upheld the ban on importation of copyrighted works without the authority of the U.S. copyright owner
- In 2013, the U.S. Supreme Court reversed the Second Circuit and held that Kirtsaeng's sale of lawfully-made copies purchased overseas was protected by the first-sale doctrine

Kirtsaeng (2013)

The first sale doctrine applies to goods manufactured outside of the United States, and the protections and exceptions offered by the Copyright Act to works "lawfully made under this title" is not limited by geography. Rather, it applies to all copies legally made anywhere, not just in the United States, in accordance with U.S. copyright law

Lexmark

- The Supreme Court's decision in *Kirtsaeng* does not undermine the no-exhaustion conclusion of *Jazz Photo*.
- The Court interpreted § 109(a) of the Copyright Act, which states that "the owner of a particular copy . . . **lawfully made under this title** . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy" 17 U.S.C. § 109(a).
- The Court held that § 109(a)'s guarantee is not limited to copies manufactured in the United States, but applies regardless of the place of manufacture, as long as the maker of the copies had permission from the copyright owner to make them

Lexmark

- For various reasons, the *Kirtsaeng* ruling does not answer the question presented under the Patent Act.
- *Kirtsaeng* says nothing about patent law; and it does not address, even in the context of copyright law, the exhaustion question presented by the Patent Act.

Conclusion

- when 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

Conclusion

- 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, which are defenses distinct from exhaustion

B&B Hardware, Inc. v. Hargis Industries, Inc., 135 S.Ct. 1293 (2015)

- Case argued on December 2, 2014 before U.S. Supreme Court
- Issue: Whether the TTAB's finding of a likelihood of confusion between two marks precludes the parties from relitigating that issue later in infringement litigation in the U.S. District Court.

B&B Hardware, Inc. v. Hargis Industries, Inc. (cont'd)

- B&B registered mark "SEALTIGHT" for fasteners - a high-end self-sealing fastener marketed to the aerospace industry.
- Hargis' mark "SEALTITE" for fasteners - a low-end self-sealing fastener marketed to the construction industry.
- When Hargis' mark was published for opposition, B&B opposed.
- TTAB determined that the two marks created a likelihood of confusion even though they served different industries and different customers.

B&B Hardware, Inc. V. Hargis Industries, Inc. (cont'd)

- Hargis continued to use the mark and B&B sued for infringement.
- B&B argued that the issue of likelihood of confusion should not be considered by the court due to the TTAB decision on the issue.
- District Court held that the TTAB's determination is not binding on federal courts and refused to admit the TTAB decision as evidence to the jury.

B&B Hardware, Inc. v. Hargis Industries, Inc. (cont'd)

- The case was submitted to the jury, which found that there was no likelihood of confusion
- Eighth Circuit affirmed, and B&B appealed to the Supreme Court.

B&B Hardware, Inc. v. Hargis Industries, Inc. (cont'd)

Supreme Court holding: So long as the other ordinary elements of issue preclusion are met, when the usages adjudicated by the TTAB are materially the same as those before the district court, issue preclusion should apply.