

The Federal Circuit Upholds Express Restrictions on Downstream Sales of Patented Articles, Affirming *Mallinckrodt* in Light of *Quanta*

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The Federal Circuit issued its *en banc* opinion in *Lexmark International, Inc. v. Impression Products, Inc.*

("Lexmark") on February 12, 2016. *Lexmark* is the most recent in a series of cases to address the patent exhaustion doctrine, in particular the issues of: (1) to what extent restrictions imposed by a patentee when selling a patented article bind downstream purchasers; and (2) whether infringement occurs when importing into the United States a patented article that was sold outside the United States under circumstances that did not include permission for such importation.

Lexmark addressed re-sales of printer cartridges covered by various Lexmark patents. Both within and outside of the United States, Lexmark offers its printer cartridges for sale as either "Regular Cartridges" that may be reused or resold without restriction, or as "Return Program Cartridges" that are sold at a discount and subject to an express, written restriction prohibiting both reuse of the

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cartridges and precluding return of the cartridges to anyone other than Lexmark. Lexmark at p. 11. The Federal Circuit's analysis of the first issue considered "Return Program Cartridges" first sold in the United States, and accounted for the recent Supreme Court ruling in Quanta Computer, Inc. v. LG Electronics, Inc., 553 U.S. 617 (2008). The Federal Circuit's analysis of the second issue considered all printer cartridges first sold outside of the United States and subsequently imported into the United States and, also, considered recent Supreme Court precedent (Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351 (2013)).

As to the first question – to what extent restrictions imposed by a patentee when selling a patented article bind downstream purchasers – the Court found that its prior decision in Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992), was not inconsistent with the Supreme Court's more recent decision in Quanta, and held that "[a] sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes." *Lexmark* at pp. 23, 25. The Federal Circuit distinguished *Lexmark* – in which there were clearly communicated restrictions on reuse and resale – over the facts in Quanta, where "the patentee's authorization to the licensee to make (the first) sales was *not* subject to any conditions, much less conditions to be embodied in those sales." *Lexmark* at p. 29.

It is important to note that, in *Lexmark*, the parties stipulated that the restrictions imposed on the Return Program Cartridges were binding on the end-user customers and that end users received "adequate notice" of the restrictions prior to making their purchases. *Lexmark* at p. 11. Thus, Court expressly did not consider what constitutes adequate notice of restrictions or whether restrictions would be binding upon "a downstream re-purchaser . . . with less than actual knowledge of such a restriction." *Id.* at p. 13. In addition, the *Lexmark* restrictions were presumed lawful; the Court did not consider whether "the particular restriction at issue gives rise to a patent-misuse defense, constitutes an antitrust violation, or exceeds the scope of the

Patent Act's express grant of exclusive rights over patented articles." *Id.* Thus, *Lexmark* does not address all issues that may arise in connection with post-sale restrictions.

As to the second issue – whether infringement occurs when importing into the United States a patented article that was sold outside the United States under circumstances that did not include permission for such importation – the Federal Circuit declined to extend the Supreme Court's ruling in *Kirtsaeng*, a copyright case. Instead, the Federal Circuit continued to apply *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), in which it held that a sale authorized outside of the United States "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."

In *Lexmark*, the products sold outside the United States were not subject to an express prohibition on importation. However, it was "undisputed that Lexmark never granted anyone permission to import these cartridges into, or sell or use them in, the United States." *Lexmark* at p. 13. This left the issue, as described by the Court, as selecting "between a rule leaving the matter to the reseller's affirmative proof of a license (express or implied) and a rule of presumptive exhaustion (subject to disproof by the U.S. patentee)." *Lexmark* at p. 98. The Federal Circuit concluded that, given "genuine uncertainties about whether a license could be established", a presumption of exhaustion was not appropriate. *Id.*

Thus, as with its decision regarding enforceability of express post-sale restrictions, the *Lexmark* decision on this issue also left various questions unanswered. For example, the Federal Circuit did not expressly address under what circumstances an implied license might be deemed to have been granted for importation into, or other uses within, the United States.

If you would like to discuss how the *Lexmark* ruling may affect your business, please contact a member of Bryan Cave's Intellectual Property Client Service Group.

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