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“That must be exhausting:” Patents ARE different from copyrights!

Client Advisories

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In a case distinguishing overseas inks (that is, ink on the printed page, on the one hand, versus ink in a cartridge, on the other), the United States Circuit Court of Appeals for the Federal Circuit, sitting en banc, today upheld its prior rules on when patent rights have been “exhausted.” In the face of more recent, and seemingly contrary, decisions of the United States Supreme Court, and in a decision extremely favorable to the enforcement rights of US patentholders, the majority of the appeals court in Lexmark International v. Impression Products held: (i) that the sale in the United States of an article covered by a US patent that is subject to certain reuse and resale restrictions does not exhaust the rights of the patent holder as against the purchaser of that article, notwithstanding the 2008 decision of the Supreme Court in Quanta Computer v. LG Electronics; and (ii) that the sale outside of the United States of an article covered by a US patent does not exhaust the rights of the patent holder as against the purchaser of that article on the purchaser’s importation of that article into the United States, notwithstanding the 2013 copyright decision of the Supreme Court in *Kirtsaeng v. John Wiley & Sons*.

Lexmark, well known for its seemingly ubiquitous printers and ink/toner cartridges, holds many US patents and employs its patent rights to the fullest through a bifurcated sales program for its cartridges. The patented cartridges at issue were sold domestically under a “Return Program Cartridge” program at a discounted price subject to a single-use, no-resale restriction, as opposed to its “Regular Cartridges” program by which cartridges were sold at undiscounted prices. In the underlying litigation, among other things, Lexmark accused Impression of reselling the discounted Return Program Cartridges domestically and of importing both Regular Cartridges and Return Program Cartridges that Impression had purchased directly from Lexmark abroad. The lower court: (a) found no infringement on the domestic sales of Return Program Cartridges (even though the Federal Circuit had held in its 1992 decision in *Mallinckrodt v. Medipart* that the patentee cannot be denied the ability to enforce restrictions on its own sales of its patented products) on the basis of the Supreme Court’s later decision in Quanta that found exhaustion in first sales by a separate manufacturer under a license from the patentholder; but (b) found infringement on the importation of either type of cartridge by Impression on the basis of the Federal Circuit’s 2001 holding in Jazz Photo v. International Trade Commission which stands for the proposition that there can be no patent exhaustion in connection with foreign sales since foreign markets under foreign

sovereign control are not equivalent to domestic markets, and refused to apply the Supreme Court's logic in the *Kirtsaeng* copyright case to patents.

In *Kirtsaeng*, a foreign student attending Cornell, on learning that Wiley's copyrighted textbooks were much more expensive to buy in the United States than at home, began importing textbooks from home to be sold domestically at huge profits. While Wiley's copyright infringement action against the wily importing book reseller was successful at both the district and appeals courts levels, the Supreme Court reversed, extending the rule of first sale exhaustion of copyright rights, theretofore applied only to domestic sales, to foreign sales as well. Impression argued that the logic of the Supreme Court in cases sounding in copyright should as well control in the patent arena.

In today's double barreled decision against Impression, the Federal Circuit upholds its earlier rulings in favor of patent holders, saying:

"We hold that, 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. We also hold that 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."

In dissent, Judge Dyk of the Federal Circuit argues strongly that the Supreme Court's Quanta ruling is irreconcilable with the instant ruling on domestic exhaustion, but softens his criticism of the foreign sale holding by agreeing that Kirstaeng should not be imported lock, stock, and barrel into the patent realm, saying that Jazz Photo should not negative exhaustion in the case in which there is no explicit reservation of US patent rights.

Whether or not either barrel of this decision will shoot its way to the Supreme Court is hard to say; however, it goes without saying that this complicated commercial topic of dealing with exhaustion of intellectual property rights is a critical one for many patentees, licensees, and resellers. Its changeable nature and complexity argue for early and continuing analysis of contracts and licensing agreements by your trusted, and never exhausted, intellectual property law advisor.

If you have questions about copyrights or other related intellectual property issues, please contact Gregory J. Winsky or a member of Archer's Intellectual Property Group in Haddonfield, N.J., at (856) 795-2121, in Philadelphia, Pa., at (215) 963-3300, in Princeton, N.J., at (609) 580-3700, in Hackensack, N.J., at (201) 342-6000, or in Wilmington, Del., at (302) 777-4350.

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