LEXMARK INTERNATIONAL, INC. v. IMPRESSION PRODUCTS, INC., Appeal Nos. 2014-1617 and 1619 (Fed. Cir. February 12, 2016). Decided en banc, majority opinion by Taranto. Appealed from S.D. Ohio (Judge Barrett).

Background:

Lexmark sold patented printer cartridges to both U.S. and non-U.S. buyers and also imposed post-sale restrictions on lower-priced cartridges that the buyer agreed to use them only once and then return them to Lexmark. However, after Lexmark's lower-priced cartridges are used by the buyer, Impression obtained the cartridges from the buyers and then remanufactured, refilled and resold them at a substantially higher price.

Lexmark sued Impression for infringement, based upon Impression reselling Lexmark's cartridges that were first sold by Lexmark to buyers both inside and outside of the U.S..

Impression argued that Lexmark's rights were exhausted under two theories: (1) Lexmark's rights were exhausted because Lexmark's cartridges were first sold outside of the U.S., and (2) Lexmark's post-sale restrictions on the lower-priced cartridges cannot avoid exhaustion of Lexmark's rights under *Quanta*. The district court disagreed with Impression's first theory but agreed with Impression's second theory, and held that Impression did not infringe because Lexmark's rights were exhausted. Lexmark appeals.

Issues/Holdings:

Did Lexmark exhaust their rights by selling the cartridges outside of the U.S.? No, affirmed-in-part. Did Lexmark's post-sale restrictions preserve their patent rights from exhaustion? Yes, reversed-in-part.

Discussion:

Regarding sales outside of the U.S., the Federal Circuit cited *Jazz Photo Corp. v. ITC*, 264 F.3d 1094 (Fed. Cir. 2001), which held that overseas sales of a product do not exhaust a patent owner's right to sue in the U.S., and also concluded that a 2013 U.S. Supreme Court decision that foreign sales exhaust copyrights rights in the U.S. has no impact on patent law.

Regarding post-sale restrictions, the Federal Circuit relied on a *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), holding that when a patentee sells a patented article subject to sales restrictions that are lawful and clearly communicated to the purchaser, such sale does not give the buyer resale rights that were expressly denied. The court also concluded that the 2008 *Quanta* case did not overrule the *Mallinckrodt* decision because *Quanta* addressed a different scenario with different imposed restrictions. Last, the Federal Circuit stated that interpreting every sale by the patent owner as an exhausting "authorized sale," as Impression argues, would be inconsistent with 35 U.S.C. § 271(a), which prohibits sale or use of a patented article "without authority."

Thus, the Federal Circuit held that Lexmark did not exhaust their rights, and remanded the case for entry of a judgment of infringement for Lexmark.

In dissent, Judge Dyk argued that foreign sales should result in exhaustion if the seller does not explicitly reserve its U.S. patent rights using sale restrictions.