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Client Alert: Federal Circuit Affirms Pro-Patent Owner Limits on Patent Exhaustion

An en banc Federal Circuit in *Lexmark Int'l, Inc. v. Impression Prods., Inc.* affirmed pro-patent owner limits on patent exhaustion with respect to post-sale use restrictions, post-sale resale restrictions and foreign sales.¹

Generally, a patent owner's (or its authorized licensee's) sale of a patented product exhausts the patent owner's United States patent rights in that product. The buyer can freely use, offer for sale and resell that patented product without being liable for patent infringement.

A patent owner can avoid exhausting its United States patent rights by selling a patented product subject to a clearly communicated, lawful restriction on post-sale use or resale.² If the buyer violates the restriction, the buyer is liable for patent infringement.³ These post-sale restrictions—and particularly single-use-only restrictions—are common in the medical device industry. They enable manufacturers to control the quality of their patented products by preventing others from repurposing and reselling used products. For instance, if a manufacturer sells a patented medical device with a single-use-only restriction, the medical device is used on a patient, and another party then repurposes and resells that used medical device, that party is liable for patent infringement.

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Selling a patented product in a foreign country also fails to exhaust the patent owner's United States patent rights in that product.⁴ For example, if a patent owner sells a patented product in Europe and the buyer imports that product into the United States and resells that product, the buyer is liable for patent infringement in the United States. Patent owners can take advantage of this exception to prevent arbitrage and sell their products at lower prices outside of the United States.

In *Lexmark*, the Federal Circuit held that these exceptions are still viable and limit the reach of patent exhaustion in view of recent Supreme Court decisions *Quanta Computer, Inc. v. LG Electronics, Inc.*⁵ and *Kirtsaeng v. John Wiley & Sons, Inc.*⁶

For now, this decision resolves the post-*Quanta* and post-*Kirtsaeng* uncertainty surrounding these limits on patent exhaustion. Patent owners can continue to enforce their United States patents against those who violate clearly communicated, lawful post-sale restrictions or those who purchase patented products abroad and import them into the United States for resale.

But take caution—it is likely that the Supreme Court will be asked to hear the case. Given the tension between this case and the Supreme Court's language in *Quanta* and *Kirtsaeng*, along with the discord at the district court level and among commentators before the Federal Circuit's decision, there's a good chance the Supreme Court will do so. Until the Supreme Court has its say, you should take precautions in case the Supreme Court takes an expansive view of patent exhaustion and decides to remove these exceptions.

¹ Nos. 2014-1617 and 2014-1619 (Fed. Cir. Feb. 12, 2016).

² E.g., *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700,

708 (Fed. Cir. 1992).

³ As is a subsequent downstream buyer on-notice of the post-sale restriction.

⁴ *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001).

⁵ 553 U.S. 617 (2008). The Federal Circuit distinguished *Quanta* as considering a different issue—unrestricted sales by an authorized manufacturing licensee—and reasoned that *Quanta's* expansive language regarding patent exhaustion shouldn't be taken at face value.

⁶ 133 S. Ct. 1351 (2013). The Federal Circuit dismissed *Kirtsaeng* as dealing with a non-analogous issue of copyright law.