Federal Circuit Holds En Banc Hearing in Lexmark v. Impression Products

On October 2, all those interested in patent law in general and how patent law impacts the printer supplies industry in particular had their eyes and ears on Washington, DC, where the U.S. Court of Appeals for the Federal Circuit heard oral arguments in Lexmark v. Impression Products.

A panel of three judges heard oral arguments in this case once before (see “Federal Circuit Hears Oral Arguments in Lexmark v. Impression Products”). However, in April, the Federal Circuit called for the full panel of judges to review the cases, which is called an en banc hearing and is relatively rare (see “Federal Circuit Wants All Judges to Weigh In on Lexmark v. Impression Product Appeal”).

Looking at Two Issues

We have lots to write about the hearing itself and have written many times in the past about the road that led Lexmark and Impression Products to the Federal Circuit (see the tag Lexmark v. Impression Products [2014] for examples), so we won’t recap the entire history of the case here.

The purpose of the Federal Circuit’s October 2 en banc hearing was to address the following issues:


2. Whether the Federal Circuit’s decision in Mallinckrodt, Inc. v. Medipart, Inc. (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” should be overturned in light of the Supreme Court’s decision in Quanta Computer, Inc. v. LG Electronics, Inc. (2008)?

The Jazz Photo case was focused on laws regarding the repair and reconstruction of patented items—in this case Jazz Photo’s refurbishment of disposable cameras made by Fuji Photo Film. Fuji brought a Section 337 complaint before the U.S. International Trade Commission (ITC) against Jazz Photo and others, and the ITC found in Fuji’s favor and ruled that Jazz Photo had infringed Fuji’s patents. Jazz Photo then appealed the decision to the Federal Circuit where Fuji argued that what Jazz Photo did with the cameras amounted to impermissible reconstruction, while Jazz Photo argued it was permissibly repairing the cameras. The Federal Circuit reversed the ITC’s decision. Part of the ruling had to do with the “first sale doctrine,” which is essentially that a patentee exhausts its patent rights after the first sale of a patented product. The Jazz Photo decision said that “to invoke the
protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.” Impression Products is arguing that the first sale of a Lexmark cartridge overseas should exhaust the OEM’s patent rights. Lexmark believes Jazz Photo should remain the law of the land and that it should retain patent protections in products sold overseas after first sale.

The Mallinckrodt ruling put some limits on patent-exhaustion doctrine. In this case, patentee Mallinckrodt sold a medical device that dispensed a mist into patients’ lungs. The devices were sold with the notice “single-use only.” Medipart essentially recycled these devices so hospitals could reuse them. Mallinckrodt sued Medipart for patent infringement in district court, but Mallinckrodt lost on summary judgment. The Federal Circuit reversed the lower court’s decision and held that patent holders like Mallinckrodt can sell patented products with certain post-sale restrictions. The point of contention between Impression Products and Lexmark regarding this case centers on Lexmark’s Return Program (aka Prebate) post-sale restriction. Lexmark has argued that it retains patent rights in cartridges sold with this restriction. While Impression Products would like to see Mallinckrodt overturned, Lexmark obviously wants to see it upheld.

Because it was so central to the arguments on October 2, we should also briefly note that in Kirtsaeng v. John Wiley and Sons the Supreme Court ruled that copyrights are exhausted on any authorized sale, wherever the sale is made.

Arguing for Impression Products on October 2 was Edward F. O’Connor of Avyno Law. Arguing for Lexmark was Constantine L. Trela, Jr., of Sidley Austin LLP. Three attorneys who filed amici curiae, or “friend of the court,” briefs were also given time to speak and field questions, including Andrew J. Pincus, who spoke on behalf of Google Inc., Intel Corporation, L Brands Inc., LG Electronics, Inc., Newegg, Inc., Ninestar Image Tech Limited, QVC, Inc., SAS Institute, Inc., Samsung Electronic Co., Ltd. and Xilinx, Inc. and who was in support of Impression Products; Barbara A. Fiacco who spoke on behalf of Biotechnology Industry Organization and CropLife International and was in support of Lexmark; and Melissa N. Patterson who spoke on behalf of the U.S. government. The U.S. government supports Impression Products’ position that Mallinckrodt should be overturned, but the government wants to see Jazz Photo overturned only to the extent it holds that foreign sales can never exhaust U.S. patent rights (see “U.S.A. Mostly (But Not Completely) Supports Impression Products in Lexmark v. Impression Product Appeal”). The U.S. government wants to see a return to a system that existed before Jazz Photo in which U.S. patentees could expressly reserve U.S. patent rights in overseas sales.

We do not identify in this article which judge posed questions of these various attorneys. This was not made clear in the recording of the oral arguments, so we won’t attempt to hazard guesses, especially because the hearing was before the full panel of judges.

Impression Products Kicks Things Off

Mr. O’Connor commenced the hearing by discussing why he believes Mallinckrodt should be overturned. He argued that in previous cases post-sale restrictions, such as Lexmark’s Prebate restriction, have been found to be outside the scope of patent claims, “When a sale is made under a restriction that is otherwise lawful and … within the scope of the patent grant … on rereading the cases I fail to find any cases where a restriction was held to be within the scope of the patent grant … Every attempt to restrict or add value has been held to be outside the scope of the patent grant.”
In response to a question about whether Lexmark’s particular restriction falls outside the bounds of the patent claims, Mr. O’Connor responded, “In every case I know of, the restriction was an additional benefit to the patentee outside the patent claims ... Once you are outside of the four corners, if I have a patented product and I give you a license to sell that product, that product alone is described in the four corners of the claims. Every claim element is there. If you go beyond that ... and say incidentally when you use that patented product only I can repair it only, I can provide the ink, you can only use my films in conjunction with your projector, what I have done then is gone outside of my four corners of my claims and claimed for myself under the patent law some additional value or benefits for myself and restrictions on what you can do with the product. Restrictions are outside the patent grant.”

Among other issues, the judges questions Mr. O’Connor about General Talking Pictures Corp. v. W. Elec. Co., a Supreme Court decision related to “field-of-use” limitation on patent licenses. Mr. O’Connor was asked how he could reconcile his view on Mallinckrodt “with the decision in General Talking Pictures where it didn’t just hold the licensee to be guilty of infringement but also held the end-user who used it in a way that was outside the scope of the license also guilty for infringement”?

Mr. O’Connor responded, “That was not an authorized sale. That’s the simple answer. It wasn’t an authorized sale.”

This sparked a discussion of exactly what is meant by an authorized sale and how this pertains to licensees, the ability of patentees to sue licensees under patent law for exceeding licenses, what this means for patentees and their ability to convey licenses with limitations on use, and whether licenses are implied by a sale.

A judge asked, “So then you’re saying that if I sell a product and I tell you I am giving you this product for a cheaper price in return for your promise to only use it one way as opposed to another, that restriction, you can agree to it, but it is not enforceable except by contract?”

Mr. O’Connor agreed and said, “Selling something to somebody and then saying, ‘Oh incidentally I am just giving you a license and there’s a restricted use.’ That’s just playing games with words. If you sell it, you sell it. And saying, ‘I am calling my sale to you a license,’ that doesn’t make it a license.”

Arguments for Overturning Jazz Photo

Next to address the court was Mr. Pincus, who tackled the issue of why Impression Products and the many corporations that Mr. Pincus represents believe Jazz Photo should be overturned.

Mr. Pincus began by pointing out something we have seen Mr. O’Connor argue many times before: that the Supreme Court based its decision in Kirtsaeng on seventeenth century common-law writings by Lord Coke “about the common law’s refusal to permit restraints on the alienation of chattels,” in which Lord Coke essentially wrote the first-sale doctrine and how after a sale of a product the seller extinguishes its general rights in that product.

A judge interrupted Mr. Pincus to ask, “Why is that the starting point? What the Supreme Court is actually interpreting in Kirtsaeng is 109(a), which among other things, prescribes ... a rule defining what rights are lost and in that text there is zero room for giving any consideration to sale location, which is why there was no meaningful discussion in Kirtsaeng of sale location. It was all about
manufacturing location, and it is why the court was able to say there is this very stark choice of consequences: Either there is exhaustion on a foreign sale or there is never exhaustion even on a U.S. sale so the copyright owner retains rights … We don’t have any of that here. We don’t have a text.”

Mr. Pincus responded, “Well, respectfully, your honor, I think that makes this an easier case. Because I think what the Supreme Court said was, ‘Our starting point is the common law.’ And it pointed out that in the 1909 Copyright Act there was no restrictive language and then it looked at the language in the 1976 act to see if it restricted the common-law rule.”

Mr. Pincus was again pressed about why the Federal Circuit should be bound by Kirtsaeng. A judge pointed out (as Lexmark has on more than one occasion): “The elephant in the room is that Kirtsaeng is a copyright case not a patent case.”

Mr. Pincus said, “Common law didn’t draw such distinctions. And both this court and the Supreme Court have relied on Lord Coke’s statement of what the basic rule was about chattel.”

Mr. Pincus was also questioned about his view about the U.S. government’s position on Jazz Photo, which one judge described as “more moderated” than a complete overturn of Jazz Photo. A judge asked Mr. Pincus if he would describe the government’s position on overturning Mallinckrodt but only partly overturning Jazz Photo as hypocritical, a word Mr. Pincus was loathe to use. However, Mr. Pincus ultimately labeled the government’s position as “inconsistent” and said that while he did not want to delve into the Mallinckrodt issue, “If there’s a problem with the government’s position I think it is a problem with its Jazz Photo position and not its Mallinckrodt position.”

Mr. Pincus concurred with one judge that it would be logical if the Mallinckrodt and Jazz Photo issued “rose and fell together.” In other words, the Federal Circuit should overturn both or neither, although, of course, Mr. Pincus was arguing for the former.

Mr. Pincus was also asked about the single-use post-sale restriction in the Mallinckrodt case. A judge said, “I want to bring you back to the fact in Mallinckrodt that the restriction was on a product, a nebulizer, which when reused can be filled with pneumococcus and other deadly bacteria and viruses from the lungs. So the producer said, ‘You can’t reuse this. You can kill everybody.’ And yet here we are saying it’s not allowed. Don’t we have to allow our evolution of the law to recognize the complexities of practice? And the same philosophy would apply to the foreign sales for the reusable cameras. There was a very strong argument that once the [camera] case is destroyed and you put it together and use it again that perhaps it is the customer who is being injured and not the purveyor. And yet I hear from everybody that there should be one rule that fits all. I think that experience shows, the evolution of the cases before us shows, that one rule does not fit all. But is your position, ‘Never mind. We’ll simplify it.’”

Mr. Pincus said, “Our position is you can’t do it under the patent law. Obviously if there are public health problems there are lots of other regulatory authorities.”

**U.S. Government Speaks Out**

Ms. Patterson spoke for the U.S. government. Ms. Patterson began by saying, “The government’s view of the inquiry on both questions the court posed should be the same. And that’s whether has
there been a sale authorized under the U.S. patent? And if so, then all post-sale conditions the vendor attempts to impose are invalid.”

Addressing Mallinckrodt, she said, “We don’t think anyone, a patentee or a licensee, can impose a post-sale condition on the article itself under patent law. As a matter of contract law, they may be able to, but not as a matter of patent law.”

As happened earlier with Mr. O’Connor, Ms. Patterson was then questioned about General Talking Pictures, with the judge pointing out that the remedy that was afforded in that case was an infringement remedy. Ms. Patterson responded similarly to Mr. O’Connor, saying, “That’s because it was an unauthorized sale. It was just as if a stranger came along and sold to the purchaser something for which it did not have the patent rights … He was acting outside the scope of his license … if they go outside the scope of that they have made an unauthorized sale and the rights in that good haven’t been exhausted.”

The judges questioned Ms. Patterson on whether the U.S. government’s views on Mallinckrodt and Jazz Photo are inconsistent with each other. One judge asked, “You seem to have endorsed a default position [on Jazz Photo] where there can be exhaustion but one can reserve rights. Is this in conflict with your position on Mallinckrodt?”

While Mr. Pincus characterized the government’s position as inconsistent, Ms. Patterson disagreed, saying, “No and this is a key point: … your U.S. patent rights are entirely divisible, entirely separate, from any foreign patent rights you may have. And we think this rule is pretty well fleshed out in the common-law cases that have to deal with that exact problem.”

Ms. Patterson was then pressed about whether she knew how expensive it would be for an entity to obtain patents in various countries around the world, but Ms. Patterson said that in the end, “Our answer is the same, If you are silent in the sale, your purchaser gets to assume it is acquiring all the rights that you may have. Now we do think because your U.S. rights are not triggered when you are acting abroad you are not exercising your exclusive rights because those exclusive rights only adhere within the United States. We think if you make very clear that whatever you are selling whether under foreign authorization, a foreign patent, or not, when you act abroad if you make clear, ‘I am not intending to part with any U.S. patent rights in this article,’ then that sort of express reservation should be held good.”

Still, a judge complained, “But the inconsistency between that and your argument on Mallinckrodt is very difficult to follow. You say if you sell in the United States you can’t reserve anything and if you sell outside the United States we automatically assume you have given everything up but we will let you reserve it. And yet I am not sure how you can differentiate between those two positions.” Ms. Patterson was also asked if U.S. patent rights aren’t implicated when you act abroad, why isn’t Jazz Photo just fine the way it is written?

Ms. Patterson explained, “We’re not advocating for some sort of Mallinckrodt-style rule when you are acting abroad. We don’t think that a U.S. patentee acting abroad could say, ‘OK I am parting with my U.S. rights but only to the extent that you use it a single time in the U.S.’ We don’t think you could impose the kind of condition that this court has suggested in Mallinckrodt on an international sale, the only thing you can reserve are your U.S. rights.”

Lexmark Argues against Overturning
Mr. Trela followed the U.S. government and presented Lexmark’s view, which is that neither Jazz Photo nor Mallinckrodt should be overturned. He began, “Mallinckrodt and Jazz Photo have been the law of this Circuit for roughly for 25 and 15 years, respectively. They were correct when this court decided them, and they are correct today. Both cases follow from and are consistent with Supreme Court precedent going back more than 100 years.”

Mr. Trela was questioned about the Mallinckrodt decision, whether it is supported by any Supreme Court decisions, authorized versus unauthorized sales, and different types of post-sale restrictions. He described Lexmark’s post-sale restriction thusly. “Lexmark sold the item and the license to use it for a single use for a discounted price. Customers had a choice. Do I want to buy the cartridge with the rights to use it forever and ever and use it however I like or do I want to what most people do as a matter of fact: buy this thing, use it, and then pay for another one. If that’s what I want, why do I want to pay for the right to reuse it?”

Mr. Trela was then asked about whether the Prebate/Return Program restriction was really an unfair tying restriction not within the bounds of the patent grant. Mr. Trela responded by saying the laws on tying restrictions have changed a lot. Moreover, he said that in Lexmark’s case, “Any user who wants the right to reuse a cartridge can get that right … But for buyers who don’t want that right and don’t want to pay for it, they buy … and pay for what they want. So there is no tying here in the sense that anybody is forced or the patent is being used as leverage.”

Mr. Trela then turned to the issue of Jazz Photo. He was almost immediately interrupted by a judge asking, “Let me just push you straight to the issue. Why doesn’t Kirtsaeng govern? I mean who cares what we said in all the cases that led up to Kirtsaeng because why isn’t Kirtsaeng the end of it for all of us?”

Mr. Trela answered, “Kirtsaeng is not the end of it for a bunch of reasons your honor. To start with … it was a copyright case, but more than that it was a statutory construction case. Kirtsaeng turned on the meaning of five words in Section 109(a) of the Copyright Act, ‘Lawfully made under this title.’ The court answered that statutory construction question by looking at the statutory language of that provision and of its predecessor, and other provisions in the Copyright Act, the legislative history.”

He added, “I want to disagree with Mr. Pincus. The starting point in Kirtsaeng was not the common law. The starting point was the statute. The Court looked at the common law as a tool in its statutory construction exercise … It looked to the common law to say, ‘Well, OK, we haven’t found anything so far that had a geographic limitation. Is there anything in the common law we should assume that Congress intended to import?’ Really the common law was more of a footnote on the analysis than the starting point.”

In support of retaining the rule outlined in Jazz Photo that a foreign sale of a product does not exhaust its U.S. patent rights, Mr. Trela explained, “The underlying premise of the exhaustion doctrine is it is supposed to lift restrictions to what a buyer can otherwise do. That explains why the default rule in the U.S. is exhaustion applies in the U.S. But in a foreign country, the U.S. patent doesn’t pose any restrictions at all to what the buyer just bought. There may be foreign patent restrictions. But the U.S. patent is not in any way constraining what the buyer can do so there is not any reason to presume a transaction in a foreign country would be automatically lifting those restrictions.”
Lexmark Gets Support from Biotech

Ms. Fiacco spoke on behalf of Biotechnology Industry Organization and CropLife International and in support of Lexmark’s position. She said that members in the organizations she represents “feel very strongly that this goes far beyond printer cartridges or software or cell phones.”

She said that on the issue of international exhaustion in the Jazz Photo case, “We side with Mr. Trela … You shouldn’t be able to convey a multinational license through silence.”

Ms. Fiacco was then repeatedly queried by the judges on what the problem is with patentees being required to provide notice if they want to reserve U.S. patent rights. (This is basically what the U.S. government wants to see happen on the international exhaustion issue.) One judge demanded, “You’re the patentee, you are the seller, you are in a better position to know what rights you have and what rights you don’t have in various countries as opposed to buyer who presumes he has the right to use it. The onus should be on patentee or seller.”

Ms. Fiacco responded that in the 15 years following Jazz Photo, the expectation has been that with overseas sales the patentee is not conveying U.S. patent rights, but again she was asked, “But let’s say that now we’re saying you have to provide notice. Why is that so burdensome?” She responded, “We need to address downstream purchasers with whom we have had no contact with whom there is no notice. The reason we feel that foreign sales shouldn’t exhaust U.S. patent rights is that we need a way to enforce regional pricing and prevent arbitrage.”

Rebuttal by Impression Products

Mr. O’Connor had the final word, providing rebuttal for Impression Products. He began by focusing on Jazz Photo and why it should be overturned in light of Kirtsaeng. “I do want to mention one thing right out of the box,” he said. “I do believe that Kirtsaeng does control. Regardless of what we may think about whether it should or shouldn’t, Kirtsaeng does control. The particular statement in Kirtsaeng is the following, ‘The common law doctrine makes no geographical distinctions.’ Now they are talking about the common law.”

Mr. O’Connor also highlighted LifeScan Scotland v. Shasta Technologies, LLC (see “Will a Recent Federal Circuit Decision Undermine Lexmark’s Suit in Ohio?”), a Federal Circuit decision in which it was noted that the first-sale doctrine in copyright law is comparable to the patent exhaustion doctrine. He said that this case “clearly identifies that the basis for the Court’s decision in Kirtsaeng was the determination made by Lord Coke which was adopted not specifically to any particular type of property but as to general common law.”

Mr. Connor also responded to Mr. Trela’s description of the Kirtsaeng decision being based on a statutory construction of the Copyright Act in which common law was just a footnote. Mr. O’Connor said, “As to the notion that this decisions in Kirtsaeng was made on copyright law, it just wasn’t.”

A judge pointed out that in Kirtsaeng, the Supreme Court never said, “We extend this to patent law.” Mr. O’Connor agreed but added, “But this court did. In LifeScan [it] said it extends to patent law.” He added, “I know there are differences between patents and copyrights. To me those differences are not relevant to the legal principle here.”
A judge asked Mr. O’Connor to respond to what Mr. Trela said about Jazz Photo being the law of the land for 15 years now and whether that weighs at all on the applicability of Kirtsaeng. He responded, “I guess part of it how it depends on how you look at 15 years. Fifteen years in the context of this law is yesterday.”

Mr. O’Connor also took the opportunity to address some of the health and safety issues that the judges raised about potentially overturning the Mallinckrodt decision, especially when questioning Mr. Pincus. One judge pointed out that such health and safety issues are “really what concerns me about what we are discussing,” adding, “We aren’t considering the implications … In Mallinckrodt there was a lot of emphasis on the justification for the restraint. And as I listen to what we are saying I wonder isn’t that what we’re dealing with: the justifications for the restraint that are here being challenged. Rather than school’s out, you can’t do it, never mind, enter the jungle.” (As an editorial aside, we absolutely had to share that question with readers because the “enter the jungle” line was probably our favorite of the whole hearing.)

Mr. O’Connor said, “I understand your concern … The other side has raised the issue that we need it for health and safety reasons. How do we reach that determination that we need it for safety reasons? That would lead us to a mini trial in each and everyone of these issues.” He suggested that all these issues can be addressed by contract.

When asked about whether remedies allowed under contracts and patent law are “dramatically different,” Mr. O’Connor opined, “You can put any remedy you want in a contract. You can put all of your patent remedies into a contract as well. There’s no limitation as to what you can do. You have far greater flexibility in a contract situation than in a patent situation.”

A judge responded, “So we shouldn’t worry that there is a need for HIV drugs to be available to those who can’t afford them.” Mr. O’Connor answered, “Again that is not the proper provenance of the patent laws.”

**Mr. O’Connor Feels Confident**

We reached out to representatives from Lexmark and its attorneys, who chose not to comment on the case or the October 2 hearing.

Mr. O’Connor agreed to speak with us. He expressed confidence that the Federal Circuit will agree with his position that Mallinckrodt should be overturned. He told Actionable Intelligence, “I think Mallinckrodt has been living on borrowed time for a long time now.” He explained why, in his view, Mallinckrodt was wrongly decided. “If you are trying to expand your patent rights from making, using, selling a product to give yourself additional rights, such as being the only one who can provide ink for a product, or being the only one who can repair a product, or being the only one who can provide film for a projector, that gives you additional economic benefits that aren’t contemplated with the patent. While you can use contract law to give yourself those benefits, you can’t use patent law to give yourself those benefits because you would be expanding your patent rights beyond what was contemplated under the patent statutes.”

As for the issue about which Mr. O’Connor is most passionate—Jazz Photo—he said he is confident the Federal Circuit will find in his client’s favor on that issue as well. He suggested that to say that the Supreme Court’s decision in Kirtsaeng hinges on copyright law and not common law is a fallacy. “There’s just no ambiguity there,” Mr. O’Connor said. “The decision was based on the common
law.” Mr. O’Connor explained that this is why upon rebuttal he focused on how this case is really governed by the Kirtsaeng and Kirtsaeng’s basis in common law as well as on the Federal Circuit’s decision in the LifeScan case, which specifically discussed Kirtsaeng in a patent context.

When asked about the likelihood of the parties appealing whatever decision the Federal Circuit issues to the Supreme Court, Mr. O’Connor said, “I think whoever loses will ask the Supreme Court to take the case.” However, he pointed out that just because a party appeals, doesn’t mean the Supreme Court will elect to take up the issue. Mr. O’Connor said, for example, that if the Federal Circuit sides with him on Jazz Photo and Lexmark appeals, he suspects the Supreme Court will decline to hear the issue because he believes the Supreme Court made its intentions quite clear with Kirtsaeng and will side with Impression Products on this issue. “And if they agree with us,” he added, “Why would they take the case? They will let stand the decision by the Federal Circuit, which has jurisdiction over patent issues.”

Waiting Game

And so now the waiting game commences. A date has not been set for a decision by the Federal Circuit. Mr. O’Connor said his best guess was that we will see a decision in January 2016.

As for what the Federal Circuit will decide, it is anyone’s guess. While Mr. O’Connor is confident the October 2 hearing went well for him, the judges asked hard questions of those seeking to overturn Jazz Photo and Mallinckrodt—just as they did of those who want to see these cases upheld.

We are hesitant to read too much into the intent behind the judges’ questions. When the judges pursue a line of questioning are they showing what they truly believe, are they trying to get a better understanding of your position, or are they looking to poke holes in your argument? The answer is probably all of the above.

While we won’t know for months whether the judges will overturn Jazz Photo and/or Mallinckrodt or uphold these decisions as cases that will continue to govern patent exhaustion, we agree with Mr. O’Connor that it is indeed a foregone conclusion that we will see appeals to the Supreme Court, whatever the Federal Circuit decides. So, for now, those who need firm guidance on what exactly the rules are regarding patent exhaustion are on unsettled ground. And with an appeal to the Supreme Court likely questions will persist.

Actionable Intelligence will continue to follow this case and look forward to bringing you news of the Federal Circuit’s decision.