

## IP monitor

### Lexmark Int'l, Inc. v. Impression 24 Prods., Inc. – This is so exhausting

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**February 2016**

**Patents**

**Technology and innovation**

The United States Court of Appeals for the Federal Circuit, in *Lexmark Int'l, Inc. v. Impression 24 Prods., Inc.* 2014-1617, 2014-1619, (February 12, 2016) has released an important decision concerning the controversial question of international patent exhaustion. It has also strengthened the hand of U.S. patent owners domestically to impose post sale restrictions on patented articles.

In respect of international exhaustion, the majority has now held that a sale outside of the United States from the owner of the patent worldwide does not presumptively exhaust the patent rights of the patent owner within the United States. By so holding, the default position for U.S. patent owners internationally will be market segmentation, absent an express or implied agreement to the contrary. Previously it had been thought that when the foreign sale was made by an entity not holding U.S. patent rights, or when the authorized foreign seller clearly reserved U.S. rights, there was no exhaustion. However in the absence of such divided ownership or where there was no reservation of U.S. rights, it was thought that exhaustion did occur.

Now however there is no presumption of exhaustion. Canadian purchasers from U.S. patent owners in Canada must be careful to obtain express authority to deal with the purchased goods in the United States if manufacturing, use or sale is contemplated there.

In a strongly worded dissent, Judge Dyk argued that prior cases had uniformly recognized or assumed that where the foreign sale was made by a seller who also held the U.S. patent rights and where there was no contractual reservation of U.S. rights, exhaustion occurred as a result of such authorized foreign sale. This was also the position advocated by the U.S. Department of Justice on behalf of the United States.

However unless this decision is successfully appealed to the U.S. Supreme Court, it will be up to the Canadian (or any foreign) purchaser to obtain a clear right to use the purchased product in the U.S. or to argue that circumstances clearly require an implied right.

Indeed one of the leading prior cases on U.S. exhaustion involved a Canadian purchaser of airplanes Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp., 266 F. 71 (2d Cir.1920). Here the U.S. patent owner licensed a corporation to build airplanes in Canada under the Canadian patents, with no express mention of the U.S. patents and with no restriction or limitation as to time, or place, or manner of use of the airplanes. The Second Circuit

held that there was no infringement because a license granted without restriction in Canada exhausted the U.S. patent holders rights to enforce the U.S. patents against the Canadian made airplanes in the U.S. Presumably post-*Lexmark*, no such presumption of right to use will exist.

In respect of domestic post-sale restrictions within the U.S., the Court of Appeals also strengthened the hand of patent owners to impose post sale restrictions on permissible use by holding that such restrictions do bind purchasers, even purchasers who acquire, full and complete title to the goods from the patent owner. Restrictions imposed on such purchasers at the time of sale can run with the goods and restrict the original purchaser and any subsequent purchasers who have knowledge of the restriction.

The majority rejected the dissent of Judge Dyk and Hughes who were of the opinion that the Supreme Court case in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), case was controlling and would have had the court hold that the authorized sale of a patented article exhausted all of the patentee's patent rights in that article, and freed the article from any restrictions on use or sale based on the patent laws. The dissent would have had the court hold that post-sale restrictions were enforceable only as a matter of state contract law.

However as mentioned above, such restrictions are now apparently allowed to run with the goods as against those who have notice, even in the absence of a contractual relationship.

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