A sale of a product by a patentee or its licensee exhausts all patent rights in that item, regardless of restrictions or location of the sale.

In a sweeping decision, the Supreme Court held, in *Impression Products Inc. v. Lexmark International, Inc.*, that the patentee’s sale of “a product exhausts all of its patent rights in that item, regardless of any restrictions the patentee purports to impose or the location of the sale.” In a 7-to-1 decision, only Justice Ginsburg dissented, and only in-part, from the Court’s holding regarding international exhaustion.

Lexmark International, Inc. (Lexmark) sold toner cartridges domestically and internationally under two programs, either at full price and without restriction, or at a twenty percent discount under a “Return Program” that included an agreement that toner cartridges purchased under the program would be used only once and without transfer of the empty cartridges to any third party. This restriction was intended to prevent so-called “remanufacturers,” either in the United States or abroad, from refilling empty cartridges with toner for resale.

In 2010, Lexmark filed suit against remanufacturers, including Impression Products, Inc. (Impression) for domestic sales of cartridges originally sold under the Return Program, and for importation of all remanufactured toner cartridges, whether or not they were part of the Return Program. In an en banc decision, the Federal Circuit ruled in favor of Lexmark with respect to both domestic sales of remanufactured Return Program cartridges and importation of all remanufactured cartridges. The Federal Circuit reasoned that the authority of a purchaser to use or resell an item under the so-called “exhaustion doctrine,” which terminates a patentee’s exclusionary rights upon sale, was only a presumption and, as phrased by the Supreme Court, “does not run with the item when the seller restricts post-sale use or resale.” Regarding importation of remanufactured cartridges, the Federal Circuit held that overseas sales do not provide the “reward available from American markets,” that would justify exhaustion of exclusionary rights under United States patent law.

The Supreme Court reversed the holdings of the Federal Circuit on sales of both domestically remanufactured Return Program cartridges and importation of all remanufactured cartridges. As recited by the Supreme Court, exclusionary rights under 35 U.S.C. § 154(a) entitle a patent holder to “exclude others from making, using, offering for sale, or selling [its] invention throughout the United States or importing the invention into the United States.” Under 35 U.S.C. § 271(a), anyone who “without authority” engages in any of the activities enumerated in § 154(a) is liable for infringement of the patent. According to the Supreme Court, the Federal Circuit, “got off on the wrong foot” in that “exhaustion doctrine is not a presumption about the authority that comes along with a sale; it is instead a limit on ‘the scope of the patentee’s rights’” to “prevent others from engaging in those practices [of using, selling or importing an item].” That limited exclusionary right is exhausted upon sale, meaning that “the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce.” Further, and also contrary to the reasoning of the Federal Circuit, the Supreme Court found that a “patentee’s authority to limit licensees does not ... mean that patentees can use licenses to impose post-sale restrictions on purchasers that are enforceable.
through the patent laws.” The only remedy is that available through contract law. Recourse for a patentee or the licensee for any violation of an agreement between a licensee and a purchaser also is only through contract, “just as if the patentee itself sold the item with a restriction.” According to the Court, a patentee’s “sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose, either directly or through a license.”

Similarly, the Court found that an “authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act.” Lexmark’s arguments that “a patentee selling in a foreign market may not be able to sell its products for the same price it could in the United States” was immaterial to the Court in that “[e]xhaustion is a separate limit on the patent grant, and does not depend on the patentee receiving some undefined premium for selling the right to access the American market.” Moreover, “international exhaustion,” such as under the “first sale doctrine” of copyrights, codified at 17 U.S.C. § 109(a), derives from “the common law’s refusal to permit restraints on the alienation of chattels,” and applies equally to patent exhaustion. For the Court, “differentiating the patent exhaustion and copyright first sale doctrines would make little theoretical or practical sense: The two share a ‘strong similarity ... and identity of purpose....’” The Court concluded that “exhaustion occurs because, in a sale, the patentee elects to give up title to an item in exchange for payments,” and that “[a]llowing patent rights to stick remora-like to that item as it flows through the market would violate the principle against restraints on alienation.” In short, “restrictions and location are irrelevant; what matters is the patentee’s decision to make a sale.”

Hamilton Brook Smith Reynolds is devoted to the practice of intellectual property law. The firm specializes in patents, IP litigation, trademarks, copyrights, licensing, due diligence, opinions, and IP counseling.

This advisory provides information only and no attorney-client relationship is created by presentation of it. The information provided herein does not constitute legal advice and is not a substitute for professional advice and may be considered advertising under the rules of the Supreme Judicial Court of Massachusetts and the U.S.P.T.O.

Recipients of the alert are expressly licensed to circulate the alert to others in substantially the same form. If you wish to republish the contents of this alert, please contact Judy White, Director of Marketing, at 978.341.0036.

Scott Pierce
Principal
For over 20 years, Scott has practiced in the areas of biotechnology, chemistry, chemical engineering, electronics, medical devices, and pharmaceuticals. Recent work has included semiconductors, heterojunction bipolar transistors, lithium ion batteries, abdominal and thoracic stent grafts, biomechatronics, renewable energy, water denitrification, antioxidants, wearable computers, nanotechnology, and living cationic polymerization.

Scott.Pierce@hbsr.com
T: 978.341.0036