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Supreme Court Reinforces Patent Exhaustion, Both Domestically and Internationally

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The U.S. Supreme Court today issued its decision in *Impression Products, Inc. v. Lexmark International, Inc.* In a unanimous 8 – 0 ruling, the Court held that the authorized sale of a patent product in the U.S. exhausted all patent rights, regardless of any post-sale restrictions. The Court also held (with one dissenter) that patent exhaustion applied to authorized international sales as well.

This case pits Lexmark, which designs, manufactures, and sells printer toner cartridges to consumers in the U.S. and abroad, against "remanufacturers," who buy used cartridges, refill them, and sell at a reduced price. To combat this, Lexmark gave its customers two options: they could buy a cartridge at full price with no restrictions, or they could buy at a discounted price under Lexmark's "Return Program," agreeing to use the cartridge only once and to not transfer the cartridge to anyone but Lexmark.

Impression Products was one of many remanufacturers who acquired empty Lexmark toner cartridges from consumers both in the U.S. and overseas. Lexmark sued Impression Products and several other remanufacturers for patent infringement, claiming that they infringed by refurbishing and reselling the cartridges. The Federal Circuit agreed, holding that cartridges sold in the U.S. were subject to a lawful restriction on post-sale use or resale of which the remanufacturers were aware. As for cartridges sold overseas, it held that sales of a patented product did not exhaust patent rights in the U.S.

The Supreme Court reversed on both grounds, holding that "patent exhaustion is uniform and automatic." With regard to post-sale restrictions, it held that a patent owner could not, through patent rights, control the use or disposition of a product after an authorized sale to a purchaser. The doctrine of patent exhaustion "marks the point where patent rights yield to the common law principle against restraints on alienation." While the Patent Act grants to patentees a limited monopoly to secure the financial rewards for their inventions, the patentee has enjoyed all the rights secured by that limited monopoly once the patentee, directly or indirectly, sells an item. Restrictions beyond this first sale would "clog the channels of commerce." While the patent owner may have recourse through contract law for breach of a contractual post-sale restriction, it did not have recourse through patent law.

With regard to the question of international exhaustion, the Court followed its prior ruling in *Kirtsaeng v. John Wiley & Sons*, which held that the first sale doctrine in copyright law applied to copies of a copyrighted work lawfully made and sold abroad. The Court noted that the common-law's refusal to permit restraints on the alienation of chattels "makes no geographic distinctions." Patent exhaustion is a separate limit on patent rights, and does not depend on whether the patentee can command the same price abroad as in the U.S. The patent owner's right to exclude simply ensures that they will receive one reward of whatever amount the patent owner deems satisfactory for every item sold.

The Supreme Court has just told businesses that they get one bite at the apple under patent law, and need to receive whatever compensation they want for the sale of a patented product with the initial sale. While enforcement of post-sale restrictions under contract law remains a possibility, such a course of action is unlikely to be cost-effective or to reach business competitors that are not parties to the contract. The initial

response may be the elimination of offerings like Lexmark's "Return Program," which can lead to higher prices across the board. Alternatively, as patent exhaustion is based on the sale of a product, businesses may look at changing their business model from sales to the licensing of a good or service, although this will not work in all cases.

Additionally, as a result of the extension of patent exhaustion internationally, businesses obviously will need to re-think their international market segmentation strategies for patented products. Sellers will need to consider raising or lowering prices based on their assessments of what the respective markets will bear, and perhaps even withdraw from a particular market as the support for price differences between international segments shrink.

If you have any questions about this alert, please reach out to Edward Ramage, or any member of [Baker Donelson's Intellectual Property Group](#).