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Supreme Court Curtails Use of Patent Rights to Enforce Post-Sale Restrictions

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On May 30, 2017, the United States Supreme Court issued a decision in *Impression Products, Inc. v. Lexmark International, Inc.* (Case No. 15-1189), limiting the use of patent rights to enforce post-sale restrictions on goods sold by the patent owner or the patent owner's licensee. The Court held that "a patentee's decision to sell 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."

Lexmark International ("Lexmark") manufactures and sells laser printer toner cartridges and owns a number of patents covering the cartridges and their use. In order to encourage its customers to return spent cartridges to Lexmark, and to buy new cartridges from Lexmark, Lexmark offers a "Return Program," in which purchasers receive a 20 percent discount on the purchase price of the cartridges in exchange for an agreement to use the cartridges only once and to refrain from providing the spent cartridges to anyone other than Lexmark. Despite the terms of the Return Program agreement, third party "remanufacturers," such as Impression Products ("Impression"), acquire empty cartridges from purchasers in the United States and abroad, refill them with toner, and sell them at a discount relative to new toner cartridges.

Lexmark sued Impression (and several other remanufacturers) for patent infringement with respect to two groups of cartridges: (1) Return Program cartridges sold in the United States; and (2) cartridges that Lexmark sold abroad and that Impression imported into the United States. Impression's defense centered on the doctrine of patent exhaustion, asserting that when a patentee sells a patent-protected product, the purchaser and all subsequent owners should be free to use or resell the product without fear of an infringement lawsuit. The district court dismissed Lexmark's infringement claim as to the Return Program cartridges sold within the United States, but denied Impression's motion to dismiss Lexmark's claim as to the cartridges sold abroad.

On appeal, the Federal Circuit ruled for Lexmark *as to both groups of cartridges*. The Federal Circuit held that Lexmark's sale of the Return Program cartridges did not exhaust its patent rights with respect to those cartridges because the sales were subject to restrictions governing the post-sale use and resale of the cartridges. The Federal Circuit also held that Lexmark's sales of cartridges abroad, beyond the territorial reach of its U.S. patents, did not exhaust Lexmark's right to sue Impression for importing the cartridges into the United States.

The Supreme Court reversed, holding that Lexmark's sales of both groups of cartridges exhausted its patent rights in the cartridges. With respect to the Return Program cartridges, the Court held that the single-use/no-resale restrictions in the Return Program agreement "do not entitle Lexmark to retain patent rights in an item that it has elected to sell." The Court traced the history of its patent exhaustion jurisprudence and stated that it "has long held that, even when a patentee sells an item under an express restriction, the patentee does not retain patent rights in that product." The Court rejected the

Federal Circuit's reasoning that a patentee's sale of an item only "*presumptively* grant[s] 'authority' to the purchaser to use it and resell it," noting that "the 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*.'" The Court explained that the patent gives the patentee a limited right to prevent others from practicing the patented invention and that "[e]xhaustion extinguishes that exclusionary power." Accordingly, the Court held, "[o]nce a patentee [such as Lexmark] decides to sell ... that sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose."

Notably, the Court's holding does not leave patentees without any means to impose post-sale restrictions on the use or resale of their patented products. For example, the Court recognized that Lexmark's Return Program agreement "may have been clear and enforceable under contract law." Thus, a patentee may in fact have recourse to enforce post-sale restrictions. However, that recourse lies in an action for breach of contract, not an action for patent infringement.

With respect to the cartridges sold abroad by Lexmark, and imported by Impression, the Court held that Lexmark's foreign sales, like its sales within the United States, exhausted all of its rights under the Patent Act with respect to the products sold. The Court noted that the "first sale doctrine" in copyright law has been held to apply to sales made abroad and that both the first sale doctrine and the doctrine of patent exhaustion have their roots in the common law principle prohibiting restraints on the alienation of chattels. The Court reasoned that it "would make little theoretical or practical sense" to differentiate the first sale and patent exhaustion doctrines. Accordingly, the Court held that the location of a sale is irrelevant to the application of the patent exhaustion doctrine.

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