May 31, 2017

A Case of Clear "Impression"

In *Impression Products, Inc. v. Lexmark International, Inc.*, No. 15-1189 (2017), the Supreme Court erased a line between foreign and domestic sales, while drawing a bright one between sales and licenses, thus firmly establishing patent exhaustion upon first *sale*. The Court concluded a patentee cannot reserve rights under patent law beyond an initial sale, even for foreign sales, which occur where U.S. patent laws do not apply. In reaching this conclusion, the Court distinguished patent licenses, which do not involve alienation of goods.

The Patented Goods

Lexmark sells patented printer cartridges under two scenarios: (1) outright sale without restrictions, and (2) a heavily discounted sale, subject to the purchaser's agreement to return the empty printer cartridge. Some of its discount customers breach their agreements and sell used cartridges to "remanufacturers" that replenish the ink. In addition, some Lexmark cartridges sold outside the United States are imported into the United States by such remanufacturers. Lexmark sued parties including Impression Products for remanufacturing ink cartridges acquired from both sources, alleging that such practices constituted patent infringement.

The Court's Analysis

Observing that for over 160 years the doctrine of patent exhaustion has imposed limits on a patentee's right to exclude, Chief Justice Roberts, writing for the Court, concluded the "well-established exhaustion rule marks the point where patent rights yield to the common law principle against restraints on alienation." Slip op. at 5-6. The Court rejected as a misstep the Federal Circuit's premise that the exhaustion doctrine represented no more than "a presumption about the authority that comes along with a sale," concluding instead that exhaustion represents a fundamental "limit on 'the scope of the patentee's rights.'" *Id*. at 10 (quoting *United States v. General Elec. Co.*, 272 U.S. 476, 489 [1926]). After a sale, "the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce." *Id*. at 10.

The Court spoke unanimously with respect to domestic sales (though Justice Gorsuch did not participate), but Justice Ginsberg dissented with respect to foreign sales. For the Court, Chief Justice Roberts concluded a sale is a sale, finding additional support for the Court's decision in its recent copyright exhaustion precedent, which too found no distinction between foreign and domestic sales. *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 538 (2013). While it is true that foreign sales are not subject to U.S. patent laws, the Court observed "a purchaser buys an item, not patent rights." *Impression Products*, slip op. at 15-16. Justice Ginsburg, who had dissented in *Kirstaeng*, did so again.

As support for limitations on the doctrine of patent exhaustion, Lexmark and others, including the court below, had relied on well-established principles permitting restrictions in licensing agreements. The Court easily disposed such arguments, observing that "a license is not about passing title to a product," slip op. at 11; thus, the patentee's right to restrict its *licensees* does not mean they can impose post-*sale* restrictions on *purchasers*.

Is There Room to Reserve Patent Rights?

The Court's decision is commendable for the clear lines that it has drawn. While the Court drew such clear lines because, in part, "extending the patent rights beyond the first sale would clog the channels of commerce with little benefit," slip op. at 7-8, the *Impression Products* case does not entirely sound the death knell for all attempts to exert post-sale control over patented goods. First, the Court did not overturn nor even criticize the well-worn practice, employed by Lexmark, of pursuing post-sale contractual restrictions. While Lexmark lacks a patent remedy against remanufacturers, it remains free to sue its customers (should it so choose) for contract breach. Second, the Court acknowledged "[a] patentee can impose restrictions on licensees because a license does not implicate the same concerns about restraints on alienation as a sale." Slip op. at 11. The door may thus remain ajar for clever patent owners to structure their customer transactions in novel ways that may not qualify as

"sales." In the event of a sale, however, anywhere in the world, the Supreme Court has now firmly established that all U.S. patent rights immediately terminate.

Authors

Elizabeth A. Alquist
Partner

Hartford, CT | (860) 275-0137

eaalquist@daypitney.com

Jonathan B. Tropp
Partner

New Haven, CT | (203) 977-7337

jbtropp@daypitney.com

Richard H. Brown
Partner

Parsippany, NJ | (973) 966-8119

New York, NY | (212) 297-5854

rbrown@daypitney.com