

DO PATENT RIGHTS INEVITABLY EXHAUST IN DISTRIBUTION COMMERCE?

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INTRODUCTION

Patent holders enjoy the right to exclude competitors from making, using, offering for sale, or selling patented inventions in the U.S., as well as importing the patented inventions into the U.S. However, can patentees maintain patents rights on patented products upon commercial product distribution, or are patent rights exhausted at that point? Addressing this question, in *Impression Products, Inc v. Lexmark International, Inc.*, the U.S. Supreme Court held that a patentee's exclusionary rights are exhausted upon authorized sale of a patented product in commercial product distribution regardless of efforts to contractually impose sale restrictions.

Lexmark, a laser printer manufacturer, sells toner cartridges at two price points: at the full price and at a discounted price to customers who agree to opt into Lexmark's "Return Program," returning all toner cartridges to Lexmark and refraining from reusing the toner cartridges once emptied. Impression Products is a remanufacturer whose business model is to acquire Return Program cartridges, both domestically and internationally, and resell them without the authorization of Lexmark.

Resting upon Impression's unauthorized sale and importation of Return Program toner cartridges, Lexmark brought domestic and international patent infringement claims against Impression Products. In response, Impression Products moved to dismiss Lexmark's domestic and international infringement claims, arguing that Lexmark's patent rights had exhausted upon authorized sale. The District Court granted Impression Products dismissal for the domestic patent infringement claim, while denying dismissal for the international patent infringement claim. Both parties appealed to the Federal Circuit Court of Appeals, which denied both motions to dismiss. Impression Products appealed the Federal Circuit's decision and the Supreme Court granted certiorari.

I. DOMESTIC EXHAUSTION.

With respect to cartridges that Lexmark sold in the U.S., the Supreme Court found that Lexmark had exhausted its patent rights upon the sale of the Return Program toner cartridges, rendering Lexmark's domestic infringement claim groundless. Drawing from case precedent, the Court reasoned that exhaustion doctrine applies to patents; namely, the Court pointed to the common-law principle against restraints on alienation—post transactional limitations on a buyer's property rights set by the seller. Further, the Court drew parallels between patent and copyright protections, referencing copyright first-sale principle case law as precedent for exhaustion doctrine in patent law. Similar to the copyright first sale principle, the Court reasoned that express limitations upon sale are not sufficient to preempt patent exhaustion.

Additionally, the Court addressed an argument advanced by the Federal Circuit: can one conflate restrictions placed on patent licensees with those placed on buyers? The Court distinguished the nature of licenses from that of sales; licenses are involved the exchange of rights, modifying the shape and scope of the patentee's monopoly, whereas sales are the exchange of goods, transferring complete ownership of a product. Accordingly, though it is common practice for patentees to engage in conditional license transactions, such conditions cannot be applied to sales. The Court detailed that Lexmark's customers purchased the toner cartridges themselves, not the patent rights pertaining to the toner cartridges, and thus post-sale restrictions could not be enforced by a patent infringement claim.

II. INTERNATIONAL EXHAUSTION.

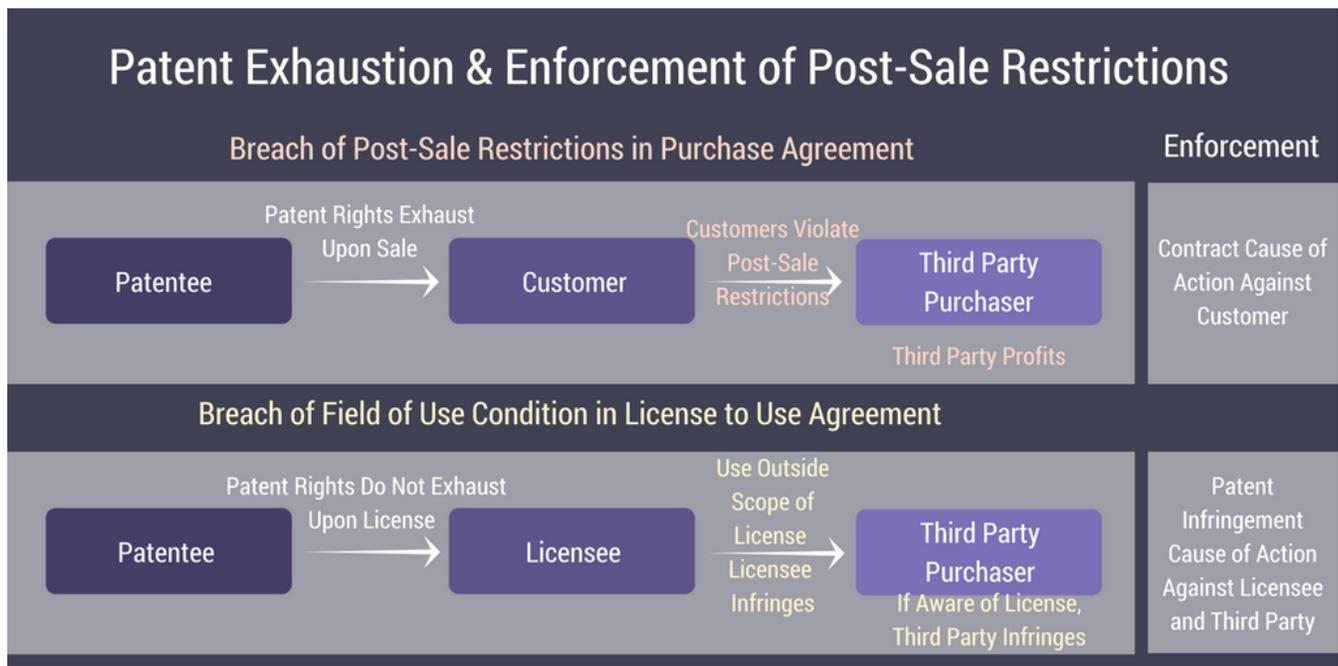
The Court additionally found that Lexmark had exhausted its patent rights on cartridges that Impression Products imported to the U.S. because patent exhaustion doctrine is applicable to both international and domestic sales. Considering that patent rights are not harmonized globally and vary from nation to nation, the Court addressed potential territorial limits on patents rights, and whether these limits impact patent exhaustion. The Court reasoned that though patentees may not receive as much compensation for products sold internationally, the Patent Act itself does not guarantee a certain amount of compensation, regardless of whether the product is in the domestic or international marketplace. The Patent Act enables patentees to receive *an* award, not a specified award, through the means of a temporary monopoly. Therefore, territorial considerations are irrelevant to patent exhaustion.

Though territorial considerations are not sufficient to preempt patent exhaustion, exhaustion does depend on a patentee's authorized sale. Drawing upon U.S. Supreme Court precedent, the Court referenced case law establishing that a patentee's rights are maintained when the patentee is not involved with the sales transaction at hand. In a similar regard, this decision by the Supreme Court upheld that only sales authorized by a patentee can exhaust patent rights on a product.

The Court further addressed the Government's position on patent exhaustion; the Government argued that international sale by a U.S. patentee exhausts patent rights unless the patentee expressly reserves its patent rights. The Court addressed this argument, detailing that the express reservation rules errs because patent exhaustion is a result of the patentee's election to transfer title of an item, rather than modify the scope of patent rights through license agreements. The Court upheld that both territorial and express reservation considerations are irrelevant to patent exhaustion doctrine; patent exhaustion depends upon the patentee's decision to make the sale.

III. IMPLICATIONS FOR PATENT OWNERS: LICENSEES OR CUSTOMERS

At first glance it may seem that the *Lexmark* decision makes it near impossible for patentees to pursue patent infringement actions to enforce post-sale restrictions of patented widgets, and contract law appears to be the only viable avenue for remedy in such cases. However, even with *Lexmark*, patent holders may still be able to enforce their rights post-sale through patent actions.



Though the Supreme Court found in *Lexmark* that the sale of a patented widget, domestically or internationally, exhausted all patent rights to that widget, the Court suggested that there are circumstances under which patent rights do not exhaust upon sale and post-sale restrictions can be enforced through patent law: namely those involving an agreement to license rather than agreement to purchase.

In *General Talking Pictures Corp. v. Western Elec. Co.*, the Court decided that post-sale restrictions *could* be enforced in the presence of a licensing agreement with a field-of-use restriction in which the licensee was granted rights to use the patented widget only within the confines of specific fields as defined by the patentee. In *Lexmark*, the Court stated that the *General Talking Pictures* decision concerned the sale of a patented widget by a licensee who sold the widget *outside* the permitted field-of-use. By venturing beyond the field-of-use, the licensee acted outside the scope of the license agreement, thereby leading the Court to treat the licensee's sale of the widget to a third party purchaser as though no license was ever granted. In the absence of a license to use beyond the permitted field-of-use, the patentee could rightfully sue the licensee for patent infringement, as well as the third party purchaser had the purchaser known about the field-of-use restrictions at the time of the sale.

Under appropriate licensed-based circumstances, patent rights do not exhaust in commercial distribution commerce. Until the Court further discusses the *General Talking Pictures* field-of-use exception and what are true licensed-based field-of-use restrictions, or Congress clarifies the scope of post-*Lexmark* patent exhaustion doctrine, business owners may be able to reserve their post-distribution patent rights through true license agreements with appropriate field-of-use conditions (not just covenants) in these well-tailored agreements.

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