June 1, 2017

SUPREME COURT LIMITS POST-SALE PATENT RIGHTS

Impression Prods., Inc. v. Lexmark Int'l, Inc.

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On May 30, 2017, the Supreme Court struck another in a series of blows to patent owners this term and significantly broadened the doctrine of patent "exhaustion," which bars a patentee from asserting patent rights over an article after an authorized sale of the article. The decision reversed longstanding Federal Circuit precedent permitting patent infringement actions if (1) a sale was subject to clearly communicated, lawful restrictions on post-sale use or resale; or (2) a sale was made overseas. The Supreme Court voided these safe harbors, finding them to be sales that exhausted patent rights, reasoning "patent exhaustion is uniform and automatic." Slip Op. at 13. The Supreme Court's decision not only has immediate ramifications for patent licensing and enforcement actions, but also is likely to have a cascading effect on worldwide supply chains, pricing and product availability in some countries.

Impression Products involved a patent dispute over reusable printer toner cartridges sold by Lexmark International, Inc. Lexmark offered purchasers two options at the time of sale: to buy the cartridge at full price with no restrictions, or to buy the cartridge at a lower price, use it once, and transfer it back to Lexmark under a "Lexmark Return Program." Lexmark sued Impression Products, a "remanufacturer" that purchased empty cartridges both in the United States and abroad, refilled, and resold the cartridges, for patent infringement. Impression Products argued that the patent rights were exhausted by Lexmark's foreign sales as well as by the highly restrictive domestic sales under the Return Program.

For decades, the Federal Circuit has treated patent exhaustion as a default rule that selling an item "presumptively grant[s] 'authority' for the purchaser to use it and resell it," *Lexmark v. Impression Prods.*, Inc., 816 F.3d 721, 742 (Fed. Cir. 2016), but if a patentee withholds some authority by expressly limiting the purchaser's rights, the patentee may enforce that

restriction through patent infringement lawsuits. Slip Op. at 3. The Supreme Court, deferring to common law prohibitions on restraint of alienation and citing related copyright doctrine, reframed exhaustion as a hard and fast limit on the scope of the patentee's rights and not a presumption about the authority granted by a sale. *Id*. at 10. The Court stated: "[a] purchaser has the right to use, sell, or import an item because those are the rights that come along with ownership, not because it purchased authority to engage in those practices from the patentee." *Id*. at 3.

In other words, "[p]atent exhaustion reflects the principle that, when an item passes into commerce, it should not be shaded by a legal cloud on title as it moves through the marketplace." *Id*. at 11.

The Court also did away with the longstanding prohibition on "global exhaustion." The Federal Circuit consistently had held that a foreign sale does not exhaust patent rights because of fairness concerns: the Patent Act only gives patentees exclusionary rights within the U.S., and, as Lexmark argued, "[i]n short, there is no patent exhaustion from sales abroad because there are no patent rights abroad to exhaust." *Id*. at 15.

In practice, the concern over global exhaustion has been less over fairness than over profit. As the Court explained, "[a] foreign sale is different: The Patent Act does not give patentees exclusionary powers abroad. Without those powers, a patentee selling in a foreign market may not be able to sell its product for the same price that it could in the United States, and therefore is not sure to receive 'the reward guaranteed by U.S. patent law.'" *Id*. The Court dismissed this argument out of hand, stating that "the Patent Act does not guarantee a particular price, much less the price from selling to American consumers. Instead, the right to exclude just ensures the patentee receives one reward—of whatever amount the patentee deems to be 'satisfactory compensation' . . . for every item that passes outside the scope of the patent monopoly." *Id*.

The upshot: This decision immediately alters the landscape of patent rights and licensing strategy. New defenses may be available to patent defendants, and patent plaintiffs may have to contend with decreased damage prospects in previously viable cases. Furthermore, because the Court held that post-sale restrictions may still be enforced under contract law, expect an uptick in patent claims in contract clothing, as well as more careful scrutiny of licensing provisions in nearly all agreements involving a sale of patented products.

In the longer term, this decision may affect more than just the patent landscape, and could alter global supply chains and product availability. Products that have variable or regional pricing, for example electronics or pharmaceuticals, could be purchased abroad, imported into the United States, and sold for a profit now with no liability under the Patent Act. The patentee will have an incentive both to standardize pricing and to raise prices in smaller markets to make the most of its single "bite at the apple." In the pharmaceutical industry, for example, this trend could have serious implications not only for the patentees' bottom line, but also for health and safety of both U.S. consumers and patients in developing countries who rely on staggered pricing. The unintended consequences of this decision will likely be felt for years to come.

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