



Archetype IP

Federal Circuit Friday

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When the US Supreme Court hands down a patent law decision, Federal Circuit Friday temporarily becomes “Supreme Court Friday.”

On May 30, the Supreme Court decided *Impression Products v. Lexmark Int’l*, a case involving so-called “exhaustion” of patent rights. In general, patent rights are considered “exhausted” when the patent owner, or someone authorized by the patent owner, sells a product that embodies or uses the patented technology. The issue in the *Impression Products* case was the extent to which exhaustion of US patent rights is limited or prevented by placing contractual restrictions on the purchaser or by selling the product outside the US.

Lexmark sold re-fillable printer ink cartridges both in the US and in other countries. The US sales included a contractual “single use/no-resale” restriction. Remanufacturers, including Impression Products, acquired empty Lexmark cartridges from Lexmark’s domestic and foreign customers, refilled them, and sold the re-filled cartridges in the US. Lexmark sued the remanufacturers for patent infringement in the US.

The Federal Circuit decided that Lexmark was entitled to sue for patent infringement because (i) the restrictions on Lexmark’s US sales precluded exhaustion of patent rights within the area of the restriction, and (ii) patents are territorial such that Lexmark’s sales outside the US did not exhaust any US patent rights.

The Supreme Court reversed, holding that (i) Lexmark’s sale of cartridges within the US exhausted all US patent rights despite the contractual restrictions; and (ii) Lexmark’s sales outside the US exhausted Lexmark’s US patent rights despite the territorial nature of patents. Citing the common-law principle against restraints on alienation of property, the Court explained that a sale takes the product outside the patent monopoly. The Court also noted that a US patent only guarantees “a” reward for sale of a patented product, not “a particular price, much less the price from selling to American consumers.”

From a practical standpoint, the *Impression Products* decision means:

- Increased emphasis on enforceable restrictions in sales contracts and regulatory hurdles to allow price discrimination geographically or between/among markets or customer categories within a market.
- More careful consideration of sales volumes and practices in lower-price countries where purchasers would be motivated to ship purchased products to a higher-price country for resale or their own use.
- Potential use of patent licenses rather than sales contracts to transfer goods – e.g., the Supreme Court noted that “A patentee can impose restrictions on licensees because a license does not implicate the same concerns about restraints on alienation as a sale.”