

Supreme Court Bolsters Patent Exhaustion Doctrine, Patent Laws Cannot Be Used Against Resellers

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Lexmark™

The Supreme Court ruled yesterday that Lexmark's decision to sell its patented printer ink cartridge exhausted all of its patent

rights in that cartridge, regardless of any contractual restrictions Lexmark attempted to impose on the purchaser's use and resale of that cartridge and regardless of whether the sale was domestic or international. Lexmark makes and sells toner cartridges for printers and offers buyers two options: One is to buy a cartridge at full price with no strings attached, allowing the buyer to refill the cartridge when depleted. The other is to buy a discounted cartridge through Lexmark's Return Program under which the buyer agrees not to refill the cartridge nor to give/sell the empty cartridge to anyone other than Lexmark.

Lexmark sued Impression Product, Inc., for refurbishing and reselling used Lexmark Return Program ink cartridges.

The Supreme Court held that Lexmark pushed the patent law too far. The Court held that Lexmark's original sale of the printer cartridge extinguished its patent rights for that cartridge under the "exhaustion" principle. This principle (sometimes called the first-sale doctrine) states that once a patented product is sold, purchasers may do what they please with the product. The Supreme Court confirmed that the principle applies to sales made in the US as well as abroad. So, someone who purchases a good from a patentee or its licensee, can no longer be liable to the patentee for patent infringement.

In *dicta*, the Court noted that a patentee could via contract limit a licensee. For example, a patentee could contractually limit a licensee to only sell to non-commercial end users and require the licensee to obtain an agreement from the end users promising not to use the product in business. In such a case, patent exhaustion does not apply to the licensee because the patentee is not selling it a good, but only a portion of a right (i.e., the right to exclude the licensee from making and selling otherwise infringing goods). However,

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patent exhaustion does apply to the end user because the patentee via the licensee sold the end user a good. Therefore, if the end user violates a contract limitation on commercial use, the patentee's only remedy is for breach of contract.

Other industries attempt to restrict post-sales activities: patented drugs that are sold abroad but may not be imported to the US, bio-engineered seeds which farmers must buy new each year, and companies that limit the "right to repair" their products after they are sold. Companies like Lexmark—which try to maintain control of a product after sale—will have to adjust their business models. Depending upon the industry, using contract law instead of patent law may not be as attractive to patent holders. For example, in some industries it may be impractical to require end users to sign a contract limiting their use of a product and/or impractical to sue all such end users. In the Lexmark case, even assuming Lexmark required its end users to sign a license restricting reuse, it would have no way of knowing which end users had violated the agreement by selling an empty cartridge to a refurbisher and would have no remedy against the refurbisher (who has no contract with Lexmark) in contract or under patent law. It would also be logistically difficult to keep track of all of the end user licenses. Moreover, the remedy for using a product outside the scope of that license after the sale would now fall under standard contract law remedies. Time will tell how companies react to this narrowing of patent protection for patent holders.