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In *Impression Products, Inc. v. Lexmark International, Inc.*, the Supreme Court recently held that a patent owner's initial sale of a product, in the U.S. or in a foreign country, exhausts all of the U.S. patent rights in the product even if the patent owner attempts to place post-sale restrictions on the use and resale of the product.<sup>1</sup> Thus, a purchaser of the product, and anyone acquiring from the purchaser, may use and resell the product without infringing any patents covering the product. Further, even if the initial sale of the product occurs outside of the U.S., the product may be imported into the U.S. and resold in the U.S. without infringing any U.S. patents covering the product.

## Details of Opinion

Lexmark sold toner cartridges for laser printers under a "Return Program" pursuant to which purchasers signed contracts agreeing to use the cartridges only once and to refrain from transferring the empty cartridges to anyone but Lexmark.<sup>2</sup> In exchange, the purchasers received a discount on the cartridges.<sup>3</sup> As an alternative, Lexmark also sold the toner cartridges at full price with no contractual post-sale restrictions on use and resale.<sup>4</sup>

Impression Products acquired Lexmark's empty cartridges from original purchasers both in the U.S. and in foreign countries, refilled them with toner, and resold them in the U.S. in direct competition with Lexmark's more expensive new cartridges.<sup>5</sup> Lexmark filed suit alleging that Impression Products infringed Lexmark's patents covering components of the toner cartridges and the manner in which they are used by:

- (1) Reselling the "Return Program" cartridges originally sold in the U.S. in violation of Lexmark's post-sale use and resale restrictions placed on those cartridges; and
- (2) Importing into the U.S. toner cartridges originally sold outside of the U.S.<sup>6</sup>

The Supreme Court held that Impression Products did not infringe Lexmark's toner cartridge patents because Lexmark's initial sales of the toner cartridges, either in the U.S. or in foreign countries, exhausted Lexmark's U.S. patent rights in the cartridges.<sup>7</sup> Thus, Impression Products did not infringe Lexmark's patents by acquiring, refilling and reselling Lexmark's toner cartridges. While Lexmark may have a breach of contract claim against the original purchasers that delivered toner cartridges to Impression Products in violation of Lexmark's "Return Program" restrictions, Lexmark's patent rights in the cartridges are exhausted.<sup>8</sup>

In deciding this case, the Supreme Court made clear two issues and reversed the decision of the U.S. Court of Appeals for the Federal Circuit on both issues. First, if a manufacturer sells a patented product under an agreement placing post-sale restrictions on use and resale of the product, the manufacturer does not have a claim for patent infringement if the post-sale restrictions are violated.<sup>9</sup> Second, if a manufacturer sells a product covered by a U.S. patent outside of the U.S., the manufacturer does not have a claim for patent infringement if the product is imported into the U.S., used in the U.S., or resold in the U.S.<sup>10</sup>

<sup>1</sup> No. 15-1189, slip op. at 1-2 (May 30, 2017).

<sup>2</sup> Id. at 2.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> Id. at 3.

<sup>6</sup> Id.

<sup>7</sup> Id. at 5, 13.

<sup>8</sup> Id. at 9.

<sup>9</sup> Id. at 5.

<sup>10</sup> Id. at 13.

The Supreme Court also made clear that authorized sales of a product by a licensee also exhaust all of the patent owner's patent rights covering the product.<sup>11</sup> However, an unauthorized sale by a licensee to a purchaser with knowledge that the sale is unauthorized does not exhaust the patent owner's rights in the product sold and may form the basis for a patent infringement claim against both the licensee and the purchaser.<sup>12</sup>

### Key Takeaways

Moving forward, manufacturers of patented products should reconsider their pricing and sales strategies to ensure they will receive adequate compensation for their products. A manufacturer may still limit a purchaser's use and resale of a product via contract; however, many manufacturers may not want to sue customers in violation of such restrictions for breach of contract, and the breach of contract claim would likely not be enforceable against a third party acquiring the product from the original purchaser, such as a remanufacturer. One other potential option for a manufacturer in a situation where a remanufacturer encourages the original purchaser of a patented product to violate contractual post-sale restrictions by, for example, selling the product to the remanufacturer, is to bring a tort claim against the remanufacturer for intentional interference with contractual relations.

Another option for manufacturers is to license a product to customers in lieu of an outright sale of the product. Restrictions contained within a license agreement are not affected by the patent exhaustion doctrine such that breach of a patent license restriction can still be enforced by bringing an action for patent infringement. Manufacturers may also opt to develop technology designed to prevent the remanufacture and reuse of a product. However, such technology is often circumvented, as was the case with Lexmark's toner cartridges.

Manufacturers will also no longer be able to rely on U.S. patent protection to stop the import and resale of products in the U.S. that are sold at a lower price in foreign countries than in the U.S. Thus, a manufacturer may opt to increase the price of products sold in foreign countries so that it receives adequate compensation in the event that the products are imported and resold in the U.S. in competition with the manufacturer's products originally offered for sale in the U.S.

For remanufacturers, the Supreme Court has significantly reduced the risk of patent infringement, particularly in cases where the remanufacturer acquires patented products first sold with authorization of the patent owner abroad, and the remanufacturer resells those products in the U.S. Remanufacturers should still identify all patents associated with a remanufactured product and ensure that all patented components used in the remanufacture process were first sold by, or with the authorization of, the patent owner. If a remanufacturer purchases a patented component that is sold without authorization of the patent owner and incorporates the component into a remanufactured assembly, the remanufacturer may still be liable for patent infringement. A remanufacturer should also evaluate whether it has entered into any contracts for the purchase of components used in the remanufacture process that would be breached by the resale of the component in a remanufactured assembly.

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<sup>11</sup> Id. at 11-13.

<sup>12</sup> Id.

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