

**Impression Products Inc. v. Lexmark International Inc.**  
(Supreme Court of the United States, 30 May 2017)

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## **Summary**

In *Impression Products, Inc. v. Lexmark International, Inc.* the United States Supreme Court pronounced for the first time a rule of international exhaustion of patent rights for the United States. The Supreme Court ruled that once the patent holder has authorized a sale all of its patent rights in that item are exhausted, regardless of any post-sale contractual restrictions or the location of the sale. The Supreme Court overturned a decision by the United States Court of Appeals for the Federal Circuit by holding that the exhaustion doctrine prevented a patent infringement lawsuit but not the enforcement of post-sale restrictions under regular contract law.

## **The facts**

The case arose over the resale of laser printer cartridges sold by Lexmark both in the United States and abroad. Lexmark holds several US patents on components of those cartridges and the manner in which they are used. Lexmark sells two kinds of cartridges: a reusable toner cartridge at full price, with no restriction; and a single-use cartridge at a discount through its "Return Program." In exchange for the lower price, customers who buy through the Return Program must sign a "post-sale restriction" contract agreeing to use a cartridge only once and that only Lexmark could collect, refill, and resell them.<sup>1</sup>

This creates an opportunity for third-party companies, known as remanufacturers, to collect empty Lexmark cartridges, including Return Program cartridges, disable the chip, refill them, and resell them at a lower price. Remanufacturers do the same with Lexmark cartridges acquired from purchasers overseas and import into the United States.<sup>2</sup> Among other companies, Lexmark sued Impression Products for patent infringement with respect to two groups of cartridges. The first group consists of the Return Program cartridges and the second group of the cartridges sold abroad and imported into the United States by Impression Products.

The District Court dismissed Lexmark's infringement suit as to the Return Program sales but permitted the suit for a patent infringement remedy for foreign sales. The Federal Circuit decided in Lexmark's favour with respect to both groups of cartridges, ruling that a customer's use of a product can be restricted on post-sale use or resale by the patent owner. The Federal Circuit affirmed as to the foreign sales and ruled that authorized sales overseas did not exhaust US patent rights. The Supreme Court rejected the Federal Circuit's reasoning.

## **The legal issues**

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<sup>1</sup> *Impression Products v. Lexmark*, Ct. 581 (2017), Syllabus, p. 1.

<sup>2</sup> *Impression Products v. Lexmark*, Ct. 581 (2017), Opinion of the Court, p. 2.

The Supreme Court was presented with two questions regarding the scope of the patent exhaustion doctrine:

1. whether Lexmark, the patentee, can impose an express restriction on use or reuse of a patented product in the United States that is enforceable under the patent laws; and
2. whether Lexmark exhausts its patent rights by selling its product outside the United States, where American patent laws do not apply.<sup>3</sup>

With regard to resale of cartridges purchased in the United States the Supreme Court held that patent rights strictly end at the time of the first sale. For over 160 years the doctrine of patent exhaustion has been consistent in the United States and has limited this right to exclude the patent owner's rights after the patented product is purchased by a consumer.

The Court reasoned that "the purpose of the patent law is fulfilled ... when the patentee has received his reward for the use of his invention."<sup>4</sup> In other words Lexmark is free to set the price for its product and receive its reward, but enjoys no protection under patent laws to restrict the use and enjoyment of the thing sold.<sup>5</sup>

The exhaustion doctrine is not, as maintained by the Federal Circuit, a presumption about the authority that comes along with a sale: but rather a "limit on the scope of the patentee's rights"<sup>6</sup> and thus not subject to any conditions. The Court expressly stated that the patent exhaustion is uniform and automatic. Consequently, once Lexmark decided to sell its Return Program cartridges, whether on its own or through a licensee, that sale exhausted its patent rights, regardless of any post-sale restrictions imposed by contract directly by the patentee or by a licensee.<sup>7</sup> Thus, Lexmark was instantly cut off from any remedy under patent law and that remedy if any must be found in contract law. Hence, even if Lexmark cannot sue for patent infringement, it could potentially sue for breach of contract. In this context, this option would be undesirable as it would be limited to the patentee's contractual partners, i.e. its customers. However, in this case, remanufacturers like Impressions Products are not in privity with Lexmark and thus contract law does not provide a remedy.

With regard to sales abroad and the question of international exhaustion of intellectual property rights, the Supreme Court analogized the patent exhaustion doctrine to the first sale doctrine under copyright law. Under the "first sale doctrine", when a copyright owner sells a lawfully made copy of its work, it loses the power to restrict the purchaser's freedom to sell or otherwise dispose that copy.

The Court cited its *Kirtsaeng* decision regarding the first sale doctrine and found similar grounding in that case as here, which decision also cited "the common law's refusal to permit restraints on the alienation of chattels"<sup>8</sup>. This common law principle has no geographical limit and is applied regardless where the post-sale activity took place. The Court found the application of these principles in the patent context "just as straightforward" as in copyright and saw no reason to differentiating between patent and copyright on exhaustion. As a result, it would be impractical and nonsensical to admit a geographic distinction for one and not for the other as both, the patent

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<sup>3</sup> Opinion of the Court, p. 2.

<sup>4</sup> Ibid, p. 6.

<sup>5</sup> Ibid, p. 6.

<sup>6</sup> Syllabus, p. 3.

<sup>7</sup> Opinion of the Court, p. 13.

<sup>8</sup> Syllabus, p. 3.

exhaustion and the copyright first sale doctrines share a “strong similarity ... and identity of purpose.”<sup>9</sup> Not to mention that some consumer products are protected by both patents and copyrights.

Finally, the United States government submitted an *amicus* brief advocating for a “middle ground” position permitting United States patent rights to be expressly preserved in case of foreign sales. The Court rejected the expression-reservation rule as being “largely based on policy rather than principle.”<sup>10</sup> The Court held that exhaustion does not arise because of the parties’ expectation about how sales transfer patent rights. Instead, in a sale, exhaustion is triggered by the patentee’s decision to give up title to an item in exchange for payment.<sup>11</sup>

As a result, the Supreme Court concluded that a patentee’s decision to sell an item exhausts all of its patent rights in that item, regardless of any post-sale restrictions the patentee imposes or whether the sale occurs domestically or internationally.<sup>12</sup>

### Points of significance

- In this decision, the Supreme Court distinguishes patent rights from contract rights. A United States patent holder cannot use its patent right to enforce contractual restrictions on the use of the invention but instead, address post-sale disputes through contract law and not patent law.
- The United States is the only large jurisdiction to have adopted international exhaustion of patent rights. Since the Supreme Court has recognized global exhaustion for United States copyrights there is no room for different approaches to copyright law and patent law.
- A United States patent will be exhausted by any authorized sale, domestic or internationally, regardless of any post-sale restrictions the patentee purports to impose and even in countries where the invention is off-patent. The defining moment is the patentee’s decision to sell an item, which exhausts all of its patent rights in that item.
- Companies like Lexmark can simply find a way around patent exhaustion and structure their transactions as licenses, and not sales. The Supreme Court made clear that a patentee can impose restrictions on licensees because a license will not transfer properly to the licensee.<sup>13</sup>
- This decision paves the way for parallel imports into the United States as companies can no longer claim that the imports violate their patent rights.

### Key words

International exhaustion for patents, exhaustion doctrine, copy right’s first sale doctrine, contractual restrictions, parallel imports

#### Available at

[https://www.supremecourt.gov/opinions/16pdf/15-1189\\_ebfj.pdf](https://www.supremecourt.gov/opinions/16pdf/15-1189_ebfj.pdf)

#### More information in English at below sources:

- <https://www.ip-watch.org/2017/06/08/us-ends-post-sale-patent-rights/>

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<sup>9</sup> Opinion of the Court, p. 14; *Kirtsaeng v. John Wiley & Sons, Inc.*, Ct. 581 (2016) [https://www.supremecourt.gov/opinions/15pdf/15-375\\_4f57.pdf](https://www.supremecourt.gov/opinions/15pdf/15-375_4f57.pdf).

<sup>10</sup> *Ibid*, p. 17.

<sup>11</sup> Opinion of the Court, p. 15; 17ff.

<sup>12</sup> *Ibid*, p. 2; 18.

<sup>13</sup> *Ibid*, p. 11.

- <https://www.ip-watch.org/2017/05/31/us-supreme-court-adopts-international-exhaustion-patents-paving-way-parallel-imports-exert-downward-pressure-domestic-pharmaceutical-prices/>
- <https://www.ip-watch.org/2017/06/08/us-supreme-court-adopts-international-exhaustion-patents-part-ii-addressing-new-competitive-landscape/>