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Supreme Court Frees Patented Articles from Post-Sale Restrictions

From the Experts

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Should a patentee be able to control the future use or resale of a patented article that has entered the stream of commerce following a sale by the patentee? The Supreme Court answered that question in the negative on May 30, in *Impression Products v. Lexmark International*. Reversing 25 years of Federal Circuit precedent, the court held that “once a patentee decides to sell—whether on its own or through a licensee—that sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose.” The court further held that it makes no difference for purposes of patent exhaustion whether the authorized sale of the article is first made in the United States or abroad.

U.S. patent law allows a patent holder to exclude others from making, using, offering for sale, selling or importing patented inventions without authority from the patent owner. Under the doctrine of patent exhaustion, however, a patentee’s right to exclude is exhausted when it sells (or authorizes the sale of) a patented product. Before *Lexmark*, the Federal Circuit precedent provided that a patentee may impose post-sale restrictions in conjunction with a sale which are enforceable



U.S. Supreme Court building.

under patent law, see *Mallinckrodt v. Medipart*. The Supreme Court’s *Lexmark* decision reversed this long-held precedent, holding that all patent rights are exhausted upon an “authorized” sale, even where the article is sold subject to an express contractual restriction. Emphasizing the common law’s “refusal to permit restraints on the alienation of chattels,” the court opined that “patent 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.”

The facts of *Lexmark* are illustrative. *Lexmark* (the patentee) sought to prevent its printer cartridges from being refilled with ink and resold by third parties. To do that, *Lexmark* imposed a post-sale restriction requiring the purchaser to return empty cartridges to *Lexmark*. Under the court’s holding, *Lexmark* is free to attempt to enforce contractual provisions it may have against purchasers who breach the post-sale restriction, but it may not bring a patent infringement suit against a purchaser who fails to return an empty cartridge or against a subsequent reseller of refurbished cartridges.

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Critically, the court held that a sale by the patentee triggers patent exhaustion, but a license does not, because “a license is not about passing title to a product” but rather changes the “contours of the patentee’s monopoly.” Presumably, the former implicates policy considerations regarding restraints of trade, but the later does not. A patentee may grant a license which imposes restrictions on the licensee’s sales to purchasers, but once the licensee has made a sale “authorized” under the license agreement, both the licensee’s and the patentee’s patent rights in that article are exhausted.

This decision affects domestic and foreign sales and licenses in varying ways.

Patentee licenses Alpha Co. to Sell in California

Suppose patentee and Alpha Co. enter into an agreement granting Alpha Co. a license to make and sell widgets in California. Sales by Alpha Co. to Beta Co. in California are authorized sales that exhaust the patentee’s patent rights in the widgets. If Beta Co. resells the widgets outside California, the patentee does not have a patent infringement claim against either Alpha Co. or Beta Co. If the patentee’s license agreement with Alpha Co. restricts Alpha Co. from selling widgets to any third party which Alpha Co. reasonably believes might resell widgets outside California, then the patentee may have a breach of contract claim against Alpha Co., but this cause of action is based solely in contract, not patent law. But if Alpha Co. sells the widgets to Beta Co. in Nevada, there has been no authorized sale, and the patentee may sue both Alpha Co. and Beta Co. for patent infringement (in addition to applicable breach of contract claims).

Patentee licenses Alpha Co. to Sell in China

Suppose instead that Patentee has granted a license to Alpha Co. to make and sell widgets in China. Once Alpha Co. has made an authorized sale in China, any subsequent sales that make their way to the United States are “authorized,” and Patentee will not be able to sue resellers for patent infringement in the United States (even if the patentee never intended for the Chinese-made widgets to enter the stream of commerce in the United States).

Suppose the agreement between the patentee and Alpha Co. in the above example only authorizes sales for non-commercial use by individuals. If Alpha Co. sells widgets to Beta Co. for commercial use, then the patentee can sue both Alpha Co. and Beta Co. for infringement as the sale was not “authorized” under the license agreement. The patentee will likely also have a breach of contract claim against Alpha Co. If, however, Alpha Co. sells widgets to Beta Co. for noncommercial use, and Beta Co. sells widgets to Charlie Co. for commercial use, Alpha Co. will not have a claim against Charlie Co. or Beta Co. for patent infringement because the sale from Alpha Co. to Beta Co. was authorized. And the patentee will not be able to sue either Beta Co. or Charlie Co. for breach of contract because Patentee is only in contractual privity with Alpha Co. This result stands in contrast to pre-Lexmark precedent, which would have allowed the patentee to continue to enforce the post-sale restrictions against multiple purchasers. Today, the only recourse left for Alpha Co. is a breach of contract claim against Beta Co.

Like the above example, Lexmark will likely have the greatest impact on those licensing agreements through

which patentees attempt to control downstream commerce by imposing restrictions on subsequent purchasers, and patentees who have out-licensed their patent rights should review current license agreements to evaluate whether the license agreements contain post-sale restrictions which may not be enforceable post-Lexmark.

But all is not lost, and patentees still have options post-Lexmark. For example, patentees may decide to lease patented items (rather than sell) for limited use by a lessee. Because a lease does not involve an “authorized sale,” it does not implicate the patent exhaustion doctrine. Patentees may also want to provide a more specific and detailed definition of what constitutes an authorized sale by a licensee. In a post-Lexmark world, the key is whether an “authorized sale” has occurred, and patentees that delay or prevent the “authorized sale” will have more control over patented articles that pass through the stream of commerce.

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