Impression Prods., Inc. v. Lexmark Int'l, Inc.

137 S. Ct. 1523 (2017)

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BACKGROUND

Respondent Lexmark International, Inc. ("Lexmark") makes and sells toner cartridges to purchasers in the United States and globally. Lexmark owns several patents that encompass cartridge parts and the way the parts are used.

Companies known as remanufacturers collect empty Lexmark cartridges from consumers in the United States and abroad. Remanufacturers then refill the cartridges with toner and resell them at lower prices than Lexmark's new cartridges.

Lexmark reacted to the competition from remanufacturers by offering consumers two options for purchasing toner cartridges. The first option is to buy a cartridge at full price. The second option is through Lexmark's "Return Program." In the program, a consumer may purchase a toner cartridge at a 20 percent discount and own the cartridge, but must also sign a contract agreeing the consumer will only use the cartridge once. Under the contract, the purchaser cannot allow another company to acquire the empty cartridge. Lexmark also includes a microchip in each Return Program cartridge that prevents the cartridge from being reused once it is empty. Many remanufacturers responded to Lexmark's Return Program by developing ways to overcome the microchips' effect and use the Return Program cartridges.

PROCEDURAL HISTORY

Lexmark filed a lawsuit in 2010 alleging remanufacturers, including petitioner Impression Products, Inc. ("Impression Products"), infringed Lexmark's patents covering two cartridge groups. The first group was comprised of the Return Program cartridges Lexmark sold in the United States. Lexmark argued the remanufacturers infringed Lexmark's patents when they reused and resold the cartridges after Lexmark specifically prohibited such conduct. The second group included all cartridges Lexmark sold overseas and which were later imported by remanufacturers into the

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United States without Lexmark's permission. Lexmark argued that its patent rights were violated when remanufacturers imported the cartridges.

Impression Products ultimately became the only remaining defendant in the case. The company contended that Lexmark exhausted its patent rights when it sold the cartridges both in the United States and abroad. After the cartridges were sold, Impression Products was allowed to reuse and resell the cartridges, as well as to import them from overseas.

Impression Products moved to dismiss regarding the two groups of cartridges. The District Court granted Impression Products' motion regarding the Return Program's domestic cartridges, but denied the motion concerning Lexmark's sale of cartridges abroad. Lexmark and Impression Products both appealed the decision.

Following an en banc review, the Federal Circuit ruled in Lexmark's favor regarding both cartridge groups. Determining that Lexmark's restrictions regarding the Return Program were lawful and that Impression Products knew about the restrictions, the Federal Circuit found that Lexmark did not exhaust its patent rights when it sold the cartridges. The circuit court determined that Lexmark could bring a patent infringement lawsuit against Impression Products for the reuse and resale of Return Program cartridges. The Federal Circuit further concluded that Lexmark could bring Impression Products to court for patent violations over cartridges sold abroad and imported into the United States.

ISSUE

The United States Supreme Court granted certiorari to consider whether Lexmark exhausted its patent rights domestically when it sold the cartridges through the Return Program, and internationally when it sold the cartridges abroad.

DECISION

The Supreme Court reversed the Federal Circuit's judgment, finding that Lexmark exhausted its patents both in the United States and abroad when it sold the toner cartridges to purchasers. The court ruled in favor of Impression Products and remanded the case for further proceedings.

REASONING

The Court first examined Lexmark's patent rights regarding the domestic Return Program and found that the company exhausted the patent rights it owned over the toner cartridges "the moment it sold them."[1] The restrictions Lexmark placed on consumers through contracts did not allow the company to preserve patent rights after the sale of its product. The court

1. Impression Prods., Inc. v. Lexmark Int'l, Inc., 137 S. Ct. 1523, 1531 (2017).

found that any rights Lexmark retained in contracts with consumers were subject to laws governing contracts, not patents.

The Court's analysis focused on Section 154(a) of the Patent Act, under which patentees are given the "right to exclude others from making, using, offering for sale, or selling [their] invention[s]."[2] Congress revised the Patent Act to include a patent exhaustion doctrine that limits the patentee's right to exclude. The doctrine mandates that a patentee's product becomes the property of the consumer after the patentee chooses to sell it. The purchaser therefore inherits ownership over the item and the sale ends any of the patentee's monopoly and rights over the product.

The Court reasoned that the right to exclude others from using, selling, or importing is transferred during a sale from the patentee to the purchaser because those rights are an element of ownership. The purchaser is therefore not liable for patent infringement "because there is no exclusionary right left to enforce."[3]

The Court also distinguished between the restrictions a patentee can impose on licensees versus those it can impose on purchasers. Patentees can restrict licensees because the two groups exchange rights instead of goods. Therefore, a patentee can choose to give up only a portion of its patent rights. The Supreme Court clarified that the patentee's right to place limits on licensees did not extend to limiting what purchasers did with the product after they bought it.

The Court then turned its analysis to Impression Products' import of re-filled Lexmark cartridges into the United States. The Supreme Court concluded that a sale abroad also exhausts a patentee's rights pursuant to the Patent Act.

The Court used the similar underlying principles that exist in patent law and copyright law doctrines to determine whether the exhaustion doctrine applied abroad. Under copyright law's "first sale doctrine," after a copyright holder sells its product to a purchaser, the copyright holder loses the authority to limit a purchaser's ability to sell or dispose of the product.[4] The first sale doctrine does not specify any geographic distinctions, so the Court concluded the doctrine applied both domestically and abroad. Applying this reasoning to the exhaustion doctrine, the Court found that the Patent Act's history and text failed to show an intent by Congress to limit the patent exhaustion doctrine to only domestic sales.

The Court rejected Lexmark's argument that patent exhaustion did not apply to foreign sales under *Boesch v. Gräff*.[5] *Boesch* was the only case in which the Court previous considered patent exhaustion abroad. The justices noted that in *Boesch*, the court simply reaffirmed the principle that only a patentee can make the decision of whether to sell her product and exhaust

2. 35 U.S.C. § 154(a) (2015).
3. *Impression Products* at 1534.
4. 17 U.S.C. § 109(a) (2008).
5. 10 S. Ct. 378 (1890).

her patent rights. The *Boesch* decision was therefore discernable from the current case.

The Court also addressed the United States' amicus, which argued that a patentee's oversees sale of a product exhausted its patent rights unless the rights were "expressly reserved."[6] Noting that the government's argument was founded in policy instead of principle, the Court said sparse precedent existed to support the position that patentees can retain patent rights after a foreign sale. The Court further reasoned that patent rights should not be allowed to follow the product through the market. Finding that restrictions and geography were therefore irrelevant, the Court concluded that the most important element was the patentee's choice to sell its product.

CONCURRENCE

Justice Ginsburg concurred on the Court's decision regarding patent exhaustion in the United States. The concurrence agreed that U.S. patent rights are exhausted when a product is sold domestically.

DISSENT

Justice Ginsburg, however, also dissented from the majority decision and held that U.S. patent rights are not exhausted in an overseas sale. She argued that "[p]atent law is territorial,"[7] noting that a U.S. patent does not protect a product abroad. Instead, U.S. patentees are required to apply to every foreign jurisdiction where they want to obtain the sole right to sell a product. Additionally, the dissent disagreed with the majority's reasoning based on copyright law, arguing that the Patent Act and Copyright Act's first sale doctrine were not analogous. Since "copyright protections, unlike patent protections, are harmonized across countries"[8] under the Berne Convention, the copyright protections received in the United States are likely similar to those received in foreign countries. Justice Ginsburg favored affirming the Federal Circuit's judgment regarding foreign patent exhaustion.

6. *Impression Products* at 1537.
7. *Id.* at 1538.
8. *Id.* at 1539.