

Supreme Court rejects federal circuit's restrictive view of the patent exhaustion doctrine*

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On May 30, 2017, the United States Supreme Court again overturned Federal Circuit precedent, this time in a case addressing the doctrine of patent exhaustion. In [Impression Products, Inc. v. Lexmark International, Inc.](#), No. 15-1189, slip op. (U.S. May 30, 2017), the Supreme Court held that “a patentee’s decision to sell a product exhausts all of its patent rights in that item, regardless of any restrictions the patentee purports to impose or the location of the sale.” *Id.* at 2.

The case involved patented toner cartridges for laser printers that, when depleted, can be refilled and used again. The patentee structured its sales to encourage purchasers to return spent cartridges instead of selling them to “remanufacturers,” who then refill the cartridges and resell them at a price lower than the new ones the patentee puts on the shelves. More specifically, the patentee provided customers with two options—they could buy a patented toner cartridge at full price, with no strings attached, or they could buy a patented cartridge at roughly 20% off by signing a contract agreeing to use the cartridge only once and to refrain from transferring the cartridge to anyone but the patentee. Notwithstanding the limitations on reuse and resale of the reduced-price cartridges, remanufacturers were still finding customers willing to sell them.

In 2010, the patentee sued these remanufacturers, including the defendant, for patent infringement with respect to two groups of cartridges—the reduced-price cartridges that the patentee sold in the United States, and all cartridges the patentee sold abroad and that the remanufacturers imported into the United States. The defendant, however, maintained that the patentee’s sales, both in the United States and abroad, exhausted its patent rights in the cartridges. The Federal Circuit disagreed, ruling *en banc* that: (1) a patentee may sell an item and retain the right to enforce, through patent infringement lawsuits, clearly communicated, lawful restrictions as to post-sale use or resale; and (2) a patentee’s decision to sell a product abroad does not terminate its ability to bring an infringement suit against a buyer that imports the article and sells it in the United States. *Lexmark Int’l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 735, 754 (Fed. Cir. 2016).

Reversing the Federal Circuit’s *en banc* decision, the Supreme Court concluded that the Federal Circuit’s analysis with respect to the first group of products “got off on the wrong foot” when it reasoned that the exhaustion doctrine is derived from the infringement statute, which prohibits anyone from using or selling a patented article “without authority.” *Impression Prods., Inc.*, slip op. at 9-10. The Supreme Court found no merit in the Federal Circuit’s view that the exhaustion doctrine reflects a presumption that a patentee’s sale of a patented article grants authority to the purchaser to use and resell that article, which can be overcome with clearly communicated, lawful restrictions on post-sale use or resale. “The misstep in [the Federal Circuit’s] logic,” the

Supreme Court commented, “is that the exhaustion doctrine is not a presumption about the authority that comes along with a sale; it is instead a limit on the scope of the *patentee’s rights*.” *Id.* at 10 (emphasis in original). “Once a patentee decides to sell . . . that sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose. . . .” *Id.* at 13.

The Supreme Court also concluded that the Federal Circuit’s ruling with respect to the second group of products was flawed. Relying on its recent decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 538 (2013), where the Supreme Court held that the Copyright Act’s analogous “first sale doctrine” applied to copies of a copyrighted work lawfully made and sold abroad, the Supreme Court in *Impression* found application of the patent exhaustion doctrine to foreign sales to be “straightforward.” *Impression Prods., Inc.*, slip op. at 13-14. Like the first sale doctrine, “patent exhaustion,” the Supreme Court observed, “has its roots in the antipathy toward restraints on alienation.” *Id.* at 14. And according to the Supreme Court, “nothing in the text or history of the Patent Act shows that Congress intended to confine that borderless common law principle to domestic sales.” *Id.* “[R]estrictions and location are irrelevant,” the Supreme Court concluded. *Id.* at 18. “[W]hat matters is the patentee’s decision to make a sale.” *Id.*

The decision has potential far-reaching implications for companies selling patented, reusable goods and potentially, the customers who purchase them. With patent infringement actions no longer being an option for enforcing post-sale restrictions on the use or resale of patented goods or for preventing importation and resale of patented products initially sold abroad, patentees will have to look to contract law for relief. But that probably means suing customers, which may be a very sensitive business proposition. Many companies therefore may find it more palatable to simply begin pricing the effect of remanufacture into the sale of the patented goods, and investing in technological innovations to prevent remanufacture by third parties. Remanufacturers, on the other hand, can perhaps rest a little easier with the certainty brought about by the Supreme Court’s most recent foray into patent law.

Other Notable Decisions – Week of June 2, 2017

[*In re Nuvasive, Inc.*](#), No. 2015-1841 (Fed. Cir. May 31, 2017) (non-precedential): In *Nuvasive*, the Federal Circuit found that the Patent Trial and Appeal Board adopted an unreasonably broad claim construction in an *inter partes* review proceeding and remanded the case for further consideration. The Federal Circuit concluded that the Board was unreasonable in relying on certain expert testimony as establishing how a person of ordinary skill in the art would read the claim term at issue in the context presented by the patent-in-suit. According to the Federal Circuit, without that testimony, “the Board had no meaningful basis for its interpretation,” which departed from the construction the petitioner accepted for purposes of its patentability challenge, ran counter to the specification of the patent-in-suit, and seemingly drained the term of meaning in the context of the claim language.

[*Intellectual Ventures II LLC v. Motorola Mobility LLC*](#), No. 2016-1361 (Fed. Cir. May 31, 2017) (non-precedential): In *Intellectual Ventures*, the Federal Circuit found that the Patent Trial and Appeal Board in an *inter partes* review proceeding “did not make proper application of the rule of reason to determine whether there was sufficient corroboration of inventor testimony to demonstrate prior conception.” “Although conception must include every feature or limitation of the claimed invention,” the Federal Circuit commented, “the corroboration requirement has never been so demanding such that evidence must constitute definitive proof of the inventor’s account or



disclose each claim limitation as written.” According to the Federal Circuit, “[t]he focus must be whether the totality of the evidence makes the inventor’s testimony credible.” Because the Board failed “to consider all pertinent evidence,” the Federal Circuit remanded the case.

[Preston v. Nagel](#), No. 2016-1524 (Fed. Cir. June 1, 2017) (precedential): In *Preston*, the Federal Circuit dismissed an appeal from a district court decision to remand based on lack of subject-matter jurisdiction. The case involved a complaint filed in state court alleging only state-law claims, and counterclaims under the Declaratory Judgment Act seeking declarations of non-infringement of several patents. The defendant removed, and the plaintiff moved to remand. The district court concluded the counterclaims did not present a justiciable case or controversy under Article III and granted the plaintiff’s motion. On appeal, the Federal Circuit concluded that 28 U.S.C. § 1447(d), which provides that “[a]n order remanding a case to the State court from which it was removed is not reviewable on appeal or otherwise” (subject to certain inapplicable statutory exceptions), barred review of the district court’s remand decision. In doing so, the Federal Circuit rejected an argument that the America Invents Act overrides § 1447(d)’s bar, and reasoned that the defendant had “an alternative way to present his patent claims on the merits in federal court: a separate federal declaratory judgment action.”

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