

Exhausting Update: Patents are NOT Different from Copyrights! A Sea Change Ahead for Licensing?

This is a promised update to the Client Advisory of [February 2016](#) on the issue of patent exhaustion in the case of *Lexmark v. Impression*, as then decided by the United States Circuit Court of Appeals for the Federal Circuit when we speculated:

“Whether or not either barrel of this decision will shoot its way to the Supreme Court is hard to say; however, it goes without saying that this complicated commercial topic of dealing with exhaustion of intellectual property rights is a critical one for many patentees, licensees, and resellers. Its changeable nature and complexity argue for early and continuing analysis of contracts and licensing agreements by your trusted, and never exhausted, intellectual property law advisor.”

The value of that type of inexhaustible advice has now doubled, because the recent, unanimous, double-barreled reversals of the Federal Circuit by the Supreme Court are of major commercial implication to the above mentioned patentees, licensees, and resellers, casting into troubled waters the question of whether a sale of a patented product is still a good idea, at least in the case in which that product can be licensed, rather than sold.

In its reversal of the Federal Circuit, the Supreme Court in *Impression Products v. Lexmark International* upheld its prior rules on when patent rights have been “exhausted” and by doing so weakened the arsenals of patent holders. The appeals court had held: (i) that the sale in the United States of an article covered by a US patent that is subject to certain reuse and resale restrictions does not exhaust the rights of the patent holder; and (ii) that the sale outside of the United States of an article covered by a US patent does not exhaust the rights of the patent holder as against the purchaser of that article on the purchaser’s importation of that article into the United States, notwithstanding the 2013 Supreme Court copyright decision in *Kirtsaeng*¹.

Both holdings of the appellate court were reversed in a whale of a decision by the Supreme Court this term.

Again, the facts:

Lexmark sold patented ink cartridges domestically under a “Return Program Cartridge” program at a contractual discounted price subject to a single-use, no-resale restriction. In the trial court, Lexmark accused Impression of reselling the discounted Return Program Cartridges domestically and of importing into the USA cartridges that Impression had purchased directly from Lexmark abroad. The trial court: (a) found no patent infringement on Impression’s domestic sales of Return Program Cartridges, but (b) found

infringement on the importation into the United States of either type of cartridge by Impression since foreign markets are not equivalent to domestic markets, and refused to apply the Supreme Court’s logic in the *Kirtsaeng* copyright case to patent law.

The Federal Circuit reversed the first holding, but upheld the second, in a decision highly favorable to patent holders, saying:

“We hold that, when a patentee sells a patented article under otherwise-proper restrictions on resale and reuse communicated to the buyer at the time of sale, the patentee does not confer authority on the buyer to engage in the prohibited resale or reuse. The patentee does not exhaust its § 271 rights to charge the buyer who engages in those acts-or downstream buyers having knowledge of the restrictions-with infringement. We also hold that a foreign sale of a U.S.-patented article, when made by or with the approval of the U.S. patentee, does not exhaust the patentee’s U.S. patent rights in the article sold, even when no reservation of rights accompanies the sale.”

The Supreme Court did not agree with that school of thought; it’s now the law that:

A. The sale, anywhere in the world, of an article covered by a US patent exhausts the patentholder’s right to sue the purchaser of that article for patent infringement.

1. Chief Justice Roberts, writing for a unanimous Court on the domestic issue, found: “Congress enacted and has repeatedly revised the Patent Laws against the back drop of hostility toward restraints on alienation,” and went on to cite a 1917 decision for the proposition that those restraints have been “hateful to the law from Lord Coke’s² day to ours.”

2. And the place of the sale simply does not matter because, Justice Roberts, in applying *Kirtsaeng* to patent law, noted the “historic kinship between patent law and copyright law’...and the bond between the two leaves no room for a rift on the question of international exhaustion.”

But...

B. The license, anywhere in the world, of an article covered by a US patent does NOT exhaust the patent holder’s right to sue the licensee of that article for patent infringement. Justice Roberts wrote: “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. But a license is not about passing title to a product, it is about changing the contours of the patentee's monopoly: The patentee agrees not to exclude a licensee from making or selling the patented invention, expanding the club of authorized producers and sellers....Because the patentee is exchanging rights, not goods, it is free to relinquish only a portion of its bundle of patent protections."

Will we see a sea change in the commercial waters now as patent holders attempt to camouflage their transactions as licenses, thereby morphing into licensors, rather than sellers? Since patent rights can no longer "stick remora-like to [a sold] item as it flows through the market,"³ the bigger fish may be doing a lot more licensing.

One thing to keep in mind: Just because the right to sue for patent infringement may be lost, a seller might still have the bargaining power to impose contractual restrictions on its purchasers, and those contractual restrictions may well float along with the product and be enforceable...it's not a known certainty, but it's also not all that exhausting.

If you have questions about copyrights or other related intellectual property issues, please contact [Gregory J. Winsky](#) or a member of Archer & Greiner's [Intellectual Property Group](#) in Haddonfield, N.J., at (856) 795-2121, in Philadelphia, Pa., at (215) 963-3300, in Princeton, N.J., at (609) 580-3700, in Hackensack, N.J., at (201) 342-6000, or in Wilmington, Del., at (302) 777-4350.

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[1] In *Kirtsaeng*, a foreign student attending Cornell, on learning that Wiley's copyrighted textbooks were much more expensive to buy in the United States than at home, began importing textbooks from home to be sold domestically at huge profits. While Wiley's copyright infringement action against the wily importing book reseller was successful at both the district and appeals courts levels, the Supreme Court reversed, extending the rule of first sale exhaustion of copyright rights, theretofore applied only to domestic sales, to foreign sales as well.

[2] Sir Edward Coke (b.1552-d.1634) having been, during his long and illustrious legal career, Chief Justice of The Common Pleas in England, may be best known for an aphorism engraved to encircle the entrance to the law library of a great American law school (and, as a result, engraved forever in the hearts of many a bleary eyed student trudging thereunder): "The Knowne Certainie of the Law is the Saffie of All."

[3] See the last page of the opinion of the Court. See also <https://en.wikipedia.org/wiki/Remora>