

Impression Products Inc.
V.
Lexmark International, Inc.

By Robert Isackson
Partner, Leason Ellis LLP
Isackson@LeasonEllis.com

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Impression Products: Patentee's Sale Exhausts Patent Rights

- “We conclude 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.” (Slip op at 2)
- “A patentee is free to set the price and negotiate contracts with purchasers, but may not, ‘*by virtue of his patent*, control the use or disposition’ of the product after ownership passes to the purchaser.” (citing *United States v. Unis Lens Co.*) (Slip op at 6)
- “The well-established exhaustion rule marks the point where patent rights yield to the common law principle against restraints on alienation.” (Slip op at 6)



Impression Products: Licensee's Permitted Sale Exhausts Patent Rights

- “So long as a licensee complies with the license when selling an item, the patentee has, in effect, authorized the sale. That licensee’s sale is treated for purposes of patent exhaustion, as if the patentee made the sale itself.” (Slip op at 12)
- “[I]f a patentee has not given authority for a licensee to make a sale, that sale cannot exhaust the patentee’s rights.” (Slip op at 12-13)
- “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, either directly or through a licensee.” (Slip op at 13)



Impression Products: Patent Exhaustion Does Not Exhaust Contract Rights

- “The single-use/no-resale restrictions in Lexmark’s contracts may have been clear and enforceable under contract law, but they do not entitle Lexmark to retain *patent rights* in an item it has elected to sell.” (Slip op at 5) (emphasis added)
- “Once sold, the Return Program cartridge passed outside of the patent monopoly, and whatever rights Lexmark retained are a matter of the contracts with its purchasers, not the patent law.” (Slip op at 9)



Consequences – Can't Use Patent Enforcement to Control Products Sold:

- Pricing of goods for sale
 - Location of sale is irrelevant
 - Only one sales shot for profit
 - Pricing differential subject to:
 - Competitive pressure
 - Anti-competition policy limits
 - Social welfare pressure
 - Anti-Dumping/International Trade concerns
- Use
- Resale
- Valuation of Patent Rights Owned by Patentee
 - M&A
 - Tax



Going Forward: Control Downstream Use by Not Selling Products

Don't sell; lease/license

- Limited right to use product, but not resell
- No passage of title
- No illegal tying of unpatented goods
 - E.g. patented cartridge and unpatented ink
- Limit right to transfer except to an authorized Licensee
 - Allow use rights by sublicensing
- Make patentee a third-party beneficiary to downstream
- License and covenant – split patent portfolio (THIS IS TRICKY)
- Click wrap/shrink-wrap type licenses - Print it on the product?
 - *Arizona Cartridge Remanufacturers Assn. v. Lexmark International Inc.*, 421 F.3d 981 (9th Cir 2005) (holding enforceable a license agreement between the manufacturer and original purchaser printed on the outside of a printer cartridge package)*
 - Notice to consumers
 - Choice to not buy
 - Reduced price provides consideration
- Public Notice of Licensing Program



Arizona Cartridge Remanufacturers Ass'n, Inc. v. Lexmark: License Language

RETURN EMPTY CARTRIDGE TO LEXMARK FOR REMANUFACTURING AND RECYCLING

Please read before opening. Opening of this package or using the patented cartridge inside confirms your acceptance of the following license agreement. The patented cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.



Control Downstream Use by Contract Rights

- Restrict, Re-use or Re-Sale (Notice, consideration, option to decline)
- Who can you sue:
 - Purchasers (bite the hands that feed you)
 - In privity (distributors)
 - Multiple suits (state or federal jurisdiction and venue)
- Third parties (secondary market makers)
 - Indirect claims – no privity
 - Tortious interference/inducing breach
 - Unfair competition
- What you can recover?
 - Damages
 - (Reasonable Royalty?)
 - Punitive damages
 - Specific performance
 - Attorney fees



Tortious Interference (New York Law)

- **Tortious Interference with Contractual Relations**
 - Existence of a valid contract between plaintiff and 3rd party
 - Defendant's knowledge of that contract
 - Defendant's intentional procuring of its breach
- **Tortious Interference with Prospective Business Relations**
 - Plaintiff has business relations with 3rd Party
 - Defendant interferes with those business relations
 - Defendant acts with sole purpose of harming Plaintiff or to advance its own competing interests using dishonest, unfair, or improper means
 - Defendant's actions cause injury to the relationship
- **Relief**
 - Damages
 - Punitive Damages
 - Injunctions



Control By Other Potential Claims

- Trade Secret – Contract
 - Hybrid royalties
 - Injunctive relief
- Grey Goods
- Trademark – First Sale Doctrine
- Copyright – Exhaustion



Limitations on Non-Patent Downstream Control

- Common Law Restraints on Alienation
- Unconscionable Contracts
- Unfair Competition/Business Practices
- Antitrust



Thank you

Contact:

Robert Isackson, Esq.

t. 914-821-1686

Isackson@LeasonEllis.com

