

ALERT

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A Restricted Sale Outside The United States Could Exhaust Your U.S. Patent Rights

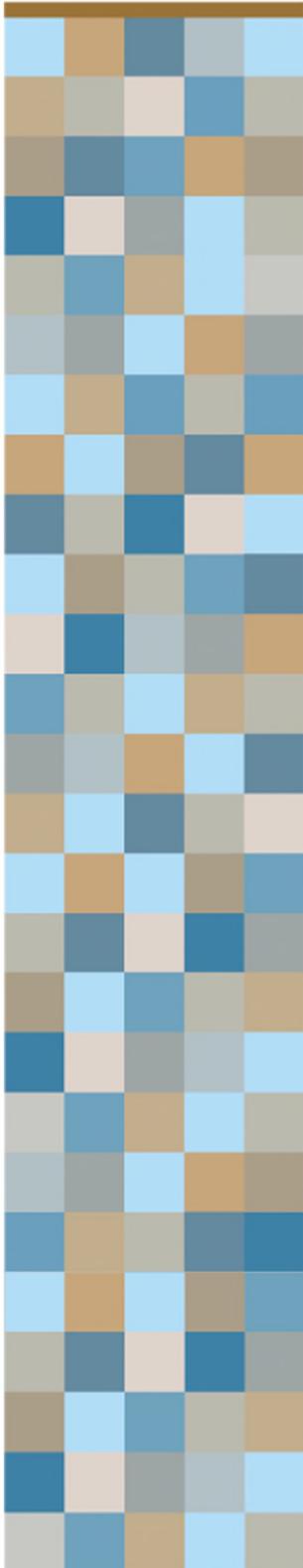
On May 30, 2017, the Supreme Court clarified the doctrine of patent exhaustion in *Impression Prods. v. Lexmark Int'l*. In sum, any authorized sale by a patentee, whether with restrictions or even made outside the United States, may exhaust United States patent rights.

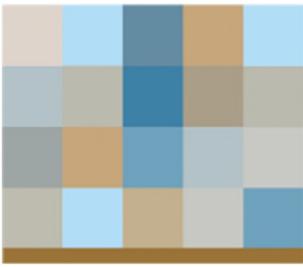
Patent exhaustion is a well-developed doctrine. Patent rights give the owner of the patent the right to exclude others from making, using or selling a product that would read on the claims of the patent. If a patent owner sells a product that reads on its patent, the patent owner is deemed to have "exhausted" its patent rights for that product. The product is now free to move in the stream of commerce unencumbered by patent rights.

Impression Products presented two complex variations on the typical exhaustion doctrine. In *Impression Products*, the patentee (Lexmark) sold toner cartridges. Lexmark sold some cartridges at a discounted rate with the contractual requirement that those cartridges be used only once and then returned to Lexmark. The first twist, therefore, on the typical exhaustion doctrine was whether a restricted sale exhausts a patent right. Lexmark also made some first sales outside the United States. The second twist questioned whether a sale outside the United States can invoke the exhaustion doctrine inside the United States.

With respect to the sale with restrictions, the Supreme Court indicated that such restrictions were contract issues with the patentee's initial customers and not with downstream purchasers. Thus, while a contract right might exist between Lexmark and its initial customers, patent rights were exhausted by that initial sale. The applicable policy was that patent rights should yield to the principle against restraints on alienation. According to the Court, "when an item passes into commerce, it should not be shaded by a legal cloud on title as it moves through the marketplace."

As for sales first made outside the United States, the Court analogized patent exhaustion to the first sale doctrine in copyright law. As neither the copyright statute nor the patent statute appears to have any restrictions on territory, patent exhaustion should indeed be invoked by a sale outside the United States. This doctrine holds even if a patentee receives less compensation for a product sold outside the United States (compared with a sale of the same product in the United States) as the patent statute does not guarantee a particular price for a product.





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Impression Products will likely have far reaching effects on sales of patented products. Restrictions on such sales need to be evaluated because a sale with a restriction could extinguish patent rights in that product. Further, an international approach needs to be considered when selling a product outside the United States as a sale of the product in a country with a less expensive market may exhaust patent rights in that product in a more expensive market. For example a \$0.30 sale of a cartridge in China could exhaust patent rights for that cartridge in the United States even though the market in the United States may dictate a \$10.00 value. Further, prices for products sold outside the United States may need to account for a changing worldwide patent portfolio.



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