Patents grant their holders the exclusive rights to make, use, sell, or import an invention into the United States for 20 years. But in addition to this time limit, patents are subject to a potentially much larger circumscription, the patent exhaustion doctrine, which terminates a patent holder’s rights in an item after selling it. The practical significance of this doctrine dwindled over the last few decades as patent holders imposed post-sale restrictions by reserving particular rights when selling their products, and the U.S. Court of Appeals for the Federal Circuit found such reservations could be enforced through infringement actions.

But this entire regime must be rethought after the Supreme Court’s landmark decision Impression Products, Inc. v. Lexmark International, Inc., which overturned decades of Federal Circuit precedent and rewrote the limits of the patent exhaustion doctrine. In rejecting the Federal Circuit’s view of this doctrine as a “presumption” to be rebutted, the Supreme Court hearkened back to basic precepts of property rights and the ability of buyers to use products as they see fit, including where products were originally sold overseas. This article explores the (almost) unanimous decision in Impression Products and its potential consequences.

Post-Sale Restrictions before Impression Products
The Supreme Court’s application of the patent exhaustion doctrine dates back to before the Civil War. In Bloomer v. McQuewan, the Supreme Court established that this limitation...
automatically applies “when the machine passes into the hands of a purchaser” because it passes outside the limits of the monopoly “and is no longer under the protection of the act of Congress.” As this doctrine continued to develop, the Supreme Court clarified that a patent holder cannot “by virtue of his patent, control the use or disposition” of a product after ownership passes because sale “terminates all patent rights to that item.”

More recently, however, the Federal Circuit suggested that the patent exhaustion doctrine could be limited by agreement. The key case in this area, Mallinckrodt, Inc. v. Medipart, Inc., involved a medical device that was subject to a “single use only” restriction. In violation of this condition, hospital purchasers sent the device to another company for reconditioning, enabling hospitals to use the device again, and Mallinckrodt sued for infringement. The Federal Circuit rejected the defendants’ claims of patent exhaustion because the restriction here withheld the rights not transferred and “[u]nless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law . . .), private parties retain the freedom to contract concerning conditions of sale.” Thus, after Mallinckrodt, courts often referred to the patent exhaustion doctrine as applying to only “unrestricted” sales.

In another line of precedent, the Federal Circuit also found the exhaustion doctrine territorially limited. In Jazz Photo Corp. v. International Trade Commission, the defendants refurbished disposable cameras originally sold overseas by the patentee (Fuji Photo) and then imported the repaired cameras into the United States. The Federal Circuit agreed that this conduct infringed Fuji Photo’s U.S. patent rights and rejected the plaintiff’s claims of patent exhaustion. In so holding, the Federal Circuit emphasized that “United States patent rights are not exhausted by [foreign sales].” The Federal Circuit reiterated this ruling in a later related infringement action, further explaining that the exhaustion of U.S. rights was not triggered by “[t]he patentee’s authorization of an international first sale.”

The Supreme Court rejected both lines of precedent in Impression Products.

How a Case about Printer Cartridges Changed the Patent Exhaustion Doctrine

The dispute in Impression Products centered on printer cartridges and businesses that refilled the toner in used cartridges (remanufacturers). To avoid competing with remanufacturers, Lexmark sought control over its used cartridges through a two-tiered pricing structure. It charged “full price” for unrestricted cartridges, but it offered a significant discount for “Return Program” cartridges, which purchasers were required to return and that contained a microchip that prevented reuse.

Despite those efforts, Impression Products obtained Return Program cartridges, counteracted the microchip, and sold the refilled cartridges. Impression Products also obtained used cartridges overseas, which it remanufactured and then sold in the United States.

Lexmark sued Impression Products for patent infringement for both sets of cartridges (Return Program and overseas). More specifically, Lexmark claimed Impression Products infringed its exclusive right to sell its patented products (Return Program cartridges) and its right to import its products into the United States (overseas cartridges), both for direct infringement (under 35 USC § 271(a)) and for contributory infringement (under 35 USC § 271(c)). In response, Impression Products claimed Lexmark exhausted its patent rights in the cartridges when it sold them. Lower courts struggled with these issues and reached inconsistent results.

The Supreme Court overturned both parts of the Federal Circuit decision in sweeping terms that, as discussed below, reshaped the contours of the patent exhaustion doctrine.

Rule Against Restraints on Alienation Underlies Patent Exhaustion

In reversing the majority’s opinion, the Supreme Court challenged the very foundation of the Federal Circuit’s precedent and understanding of the patent exhaustion doctrine. Rather than agreeing that any type of implicit “presumption” arose from the Patent Act, the Court found that the patent exhaustion doctrine was based in fundamental property law concepts—the law’s...
abhorrence of restraints on alienation. Starting from Lord Coke’s 17th century description of the basic precept and tracing through its own precedents, the Court explained that the limited monopoly provided by a patent ceases after a product is sold into the channels of commerce, and the product becomes the private property of the purchaser.

This distinction led to what the Court recognized as the underlying problem with the Federal Circuit’s decision: its focus on whether the patent holder had elected to transfer the full bundle of rights or expressly reserved some of them. Instead, the exhaustion doctrine is a limitation on the patent holder’s patent right itself. From this perspective, the question is not which rights the patent holder sought to transfer, but rather that the limited exclusive power added by the Patent Act extinguishes when the product is sold. As the Court explained, the Patent Act promotes progress by granting a patentee the right to set a price and to decide whether to sell an item. But once the item is sold, the purpose of the Patent Act is fulfilled, and the law provides no basis for restraining the use and enjoyment of the item sold. This uniform and automatic rule ensures an item passing into commerce is not “shaded by a legal cloud on title as it moves through the marketplace.” Accordingly “[o]nce 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 license.”

Thus, Lexmark’s patent rights vanished when they sold the Return Program cartridges.

**Exhaustion is not Constrained by U.S. Territorial Limits**

In the only part of the opinion that was not unanimous, a majority of the Court, with only Justice Ginsburg dissenting, held that the exhaustion doctrine also extinguished Lexmark’s rights as to the overseas sales. In arguing to the contrary, Lexmark claimed (and Justice Ginsberg agreed) that its foreign sales do not trigger patent exhaustion absent an express or implicit transfer or license of its U.S. patent rights. The United States, as an amicus, advocated for a slightly narrower rule that “a foreign sale authorized by the U.S. patentee exhausts U.S. patent rights unless those rights are expressly reserved.” The Supreme Court rejected both positions.

First, the Court equated the foreign sales of a patented article to foreign sales of copyrighted works, which triggered copyright law’s “first sale” doctrine. The first sale doctrine, much like the patent exhaustion doctrine, bars a copyright owner from restricting “the purchaser’s freedom to sell or otherwise dispose of . . . that copy” once the owner sells a lawfully made copy of its work. Though it had not clearly addressed the issue in the patent context, the Court had recently “held that this ‘first sale’ [rule] applies to copies of a copyrighted work lawfully made [and sold] abroad.” This conclusion rested on the Court’s recognition that the Copyright Act did not impose geographical limits on the first sale doctrine and that this rule “originated in the common law’s refusal to permit restraints on the alienation of chattels.”

The Court found the application of patent exhaustion to foreign sales “just as straightforward” because (1) patent exhaustion is also rooted in the common law “antipathy towards restraints on alienation,” and (2) “nothing in the text or history of the Patent Act shows that Congress intended to confine that borderless common law principle to domestic sales.” Additionally, the majority saw little sense in “differentiating the patent exhaustion and copyright first sale doctrines” in light of their “strong similarity . . . and identity of purpose.” Once again appealing to practical notions of property law, the Court emphasized that “[a] purchaser buys an item, not patent rights. And exhaustion is triggered by the patentee’s decision to give up that item and receive whatever fee it decides is appropriate ‘for the article and the invention which it embodies.’”

Second, the Court found the government’s “express-reservation rule” was improperly based on policy rather than principle and wrongly focused on supposed party expectations during a foreign sale. To the contrary, patent “exhaustion occurs because, in a sale, the patentee elects to give up title to an item in exchange for payment.” Again reducing the issue to first principles, the Court found that “[a]llowing patent rights to stick remora-like to that item as it flows through the market would violate the principle against restraint on alienation . . . [and therefore] restrictions and location are irrelevant; what matters is the patentee’s decision to make a sale.”

**Looking Forward—Will Impression Products Remove the Patent Act from Post-Sale Restrictions?**

Recognizing the potential for a landmark decision, dozens of amici filed briefs in Impression Products, many of which argued that expanding patent exhaustion would destabilize international licensing agreements and global supply chains. For example, the technology company Qualcomm argued that the market had relied for 25 years on the Federal Circuit’s precedents limiting patent exhaustion to develop patent licensing and contracting regimes, and these systems would be disrupted by expanding exhaustion. The Court batted these concerns aside because “a license does not implicate the same concerns about restraints on alienation as a sale.” Thus, where a license prohibited resale, the patent holder could sue both a licensee and a downstream purchaser “only because the purchaser participated in the licensee’s infringement” and an unauthorized, infringing sale “cannot exhaust the patentee’s rights.” But in reaching that result, the Court has left open several possibilities.

First, the Court’s quick distinction between sales and licensing agreements may provide an opening that the market may try to use to evade the profound impact wrought by Impression Products. Patent holders who want to impose restrictions on their products will now be more likely to structure transactions as licenses rather than sales. For example, Lexmark could provide its cartridges through limited “use” licenses that prohibit licensees from reselling the empty cartridges. This is functionally equivalent to the Return Program the Court struck down, but technically outside the scope of patent exhaustion, given the licensing caveat in Impression Products. In such cases, a patentee can still pursue an infringement action under the Patent Act.
Second, and in a similar vein, *Impression Products* will spur a new frontier of litigation as courts will be called on to interpret the breadth of the reasoning in *Impression Products*. Although the Court opined that the same concerns about restraints on alienation in sale did not apply to licenses, that same sentence seems to suggest that, if a licensing scheme did implicate such concerns, the opinion’s reasoning would extend outside the limited situation of sale. Courts may be asked to resolve whether a particular licensing agreement effectively amounts to a constructive sale. More fundamentally, courts will be required to address whether and to what extent licensing agreements square with the common law’s prohibition against restraints on alienation.

Third, patent holders may also be able to contract around the Court’s expansion of patent exhaustion to foreign sales. By its terms, *Impression Products* states that “authorized” sales by U.S. patent holders will trigger the exhaustion doctrine, regardless of where the sale takes place. Companies seeking to avoid this result may simply create separate entities to conduct foreign sales under whatever patent regimes exist in those jurisdictions, keeping ownership of the U.S. patent in an entity that never authorizes any foreign sales.

And to the extent such methods prove unsuccessful or incompatible with a given business, consumers may be left footing the bill. Turning back to Lexmark, its business model was based on inexpensive printers that used expensive cartridges, including those sold on a discount with single-use restrictions. After *Impression Products*, Lexmark could simply charge more for its printers or eliminate the discounted “Return Program” cartridges—either of which would result in higher prices for consumers. Increased prices are even more likely for international goods, as companies may be loath to sell at lower prices in developing countries for fear of having the U.S. market flooded with reimported goods.

### Conclusion

*Impression Products* has shaken the status quo, and it is ultimately unclear whether this will simply change how businesses transfer patented products (sales versus licensing) or cause broader disruptions in the price and global distribution of goods.

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**NOTES**

1. See 35 USC § 154(a).
3. See, e.g., Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 709 (Fed. Cir. 1993) (holding that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated, does not give up its right to sue any downstream buyers for infringement through exhaustion).
5. Id. at 1532–33.
7. Id. at 549.
10. See, e.g., Mallinckrodt, Inc., 976 F.3d at 709, 710.
11. Id. at 702.
12. Id.
13. Id. at 708.
15. Id. at 1098.
16. Id. at 1105.
17. Id.
18. Fuji Photo Film Co., Ltd. v. Jazz Photo Corp., 394 F.3d 1368, 1376 (Fed. Cir. 2005).
19. *Impression Prods., Inc.*, 137 S.Ct. at 1529.
20. Id.
21. Id. at 1529–30.
22. Id. at 1530.
23. Id.
24. Id.
26. *Impression Prods., Inc.*, 137 S.Ct. at 1530.
27. Id. at 1530–31.
28. Id.
29. See id.
30. Id. at 1532–34.
31. Id.
32. Id. at 1531–33.
33. Id. at 1533–34.
34. Id. at 1534.
35. See id.
36. Id. at 1531–32.
37. Id. at 1532.
38. Id. at 1534, 1535.
39. Id. at 1535.
40. Compare id. at 1535–38 with id. at 1538–39 (Ginsberg, J., concurring in part and dissenting in part) (arguing that patent law is territorial, and therefore, a sale abroad should not implicate the exhaustion of Lexmark’s U.S. patent rights).
41. Id. at 1535.
42. Id. at 1537 (internal quotation omitted).
43. Id. at 1535–37.
44. Id. at 1535 (quoting 17 USC § 109(a)).
45. Id. at 1536 (quoting *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 525 (2013)).
46. Id. at 1536 (quoting *Kirtsaeng*, 568 U.S. at 538).
47. See id. at 1536.
48. Id. at 1536 (quoting *Bauer & Cie v. O’Donnell*, 229 U.S. 1, 13 (1913)).
49. Id. at 1537 (quoting *Univis Lens Co.*, 316 U.S. at 251).
50. See id. at 1537–38.
51. Id. at 1538.
52. Id.
53. See Qualcomm, Inc. Amicus Brief at 3, 5–8.
54. *Impression Prods., Inc.*, 137 S.Ct. at 1535.
55. Id. (clarifying the circumstances underlying the holding in *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127 (1938)).
56. See id. at 1534 (“A patentee can impose restrictions on licensees because a license does not implicate the same concerns about restraints on alienation as a sale”).
57. See 44 Law, Economics and Business Professors, Amicus Brief at 11–15 (discussing how uniform application of the exhaustion doctrine will distort business planning and ultimately increase the price paid by consumers).