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Exhausted: The Supreme Court Takes The Federal Circuit To Task (Again)

Article By:

David Elkins

Bryan A. Schwartz

On May 30, 2017, the U.S. Supreme Court continued its recent string of decisions reversing Federal Circuit holdings on fundamental issues of patent law. Taking on patent exhaustion in *Impression Products, Inc. v. Lexmark Int'l, Inc.*, No. 15-1189, the Court unanimously held that 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. The decision precludes patent owners from using patent law to impose post-sale restrictions on covered products. As important, the decision unambiguously provides that exhaustion applies on a global basis: a product's first sale overseas exhausts the patent owner's U.S. patent rights in the product in the same manner as if the sale had taken place in the U.S.

Reaching back to centuries-old English law, the Court noted exhaustion's "impeccable historic pedigree." *Id.* at 6. The "well-established" exhaustion doctrine is a check on the "limited monopoly" that a patent grant provides and "marks the point where patent rights yield to the common law principle against restraints on alienation [of chattels]." *Id.* Criticizing the Federal Circuit's en banc decision below for "dismissively" viewing this principle as limited to 17th Century England, the Court noted that "Congress enacted and has repeatedly revised the Patent Act against the backdrop of hostility toward restraints on alienation. That enmity is reflected in the exhaustion doctrine." *Id.* at 7.

Despite the obvious differences in commerce between the times of England's Lord Coke and today, the Court recognized that "advances in technology, along with increasingly complex supply chains," only "magnify" the potential burdens placed on commerce by patentees' unchecked restrictions on the sale of covered products. *Id.* at 8. "Allowing patent rights to stick remora-like to [an] item as it flows through the market would violate the principle against restraints on alienation." *Id.* at 18.

The Court relied on the same principle in holding that exhaustion applies to sales overseas:

> Exhaustion is a separate limit on the patent grant, and does not depend on the patentee receiving some undefined premium for selling the right to access the American market. A purchaser buys an item, not patent rights. And exhaustion is triggered by the patentee's decision to give that item up and receive whatever it decides is appropriate "for the article and

the invention which it embodies." *Id.* at 15 (citation omitted).

Lexmark confirms that patent exhaustion is "uniform and automatic. 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." *Id.* at 13. To the extent that a patent owner wishes to impose limitations on sales of patented items, it must rely on contract law, not patent law.

Beyond pronouncing patent exhaustion as "uniform and automatic," *Lexmark* is notable for its explicit and implicit criticism of the Federal Circuit's decision below. The Supreme Court implicitly took the Federal Circuit to task for failing to recognize the high court's "well-settled line of precedent" that "allows for only one answer": namely, that Lexmark's patent rights were exhausted. *Id.* at 9. Switching to explicit criticism, the Court explained that "[t]he Federal Circuit reached a different result largely because it got off on the wrong foot." *Id.* The Federal Circuit made a "misstep in … logic" by viewing exhaustion as a "presumption about the authority that comes along with a sale" and not as "'a limit on the scope of the patentee's rights.'" *Id.* at 10 (citation omitted).

Lexmark follows by only eight days the Court's decision in TC Heartland, overruling thirty years of Federal Circuit precedent regarding patent venue. The two decisions continue the Court's vastly increased tendency to weigh in on key Federal Circuit holdings, including on obviousness, patentable subject matter, indefiniteness, inducement, inequitable conduct, and willful infringement. Expect that trend to continue.

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