

ISSUE BRIEF: INTELLECTUAL PROPERTY EXHAUSTION

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INTRODUCTION

The Supreme Court clarified the scope and extent of intellectual property (IP) exhaustion in two opinions issued during the past few years. In 2013, *Kirtsaeng v. John Wiley & Sons, Inc.*¹ addressed whether the first sale doctrine in copyright law has geographical limitations. Earlier this year, *Impression Products, Inc. v. Lexmark International, Inc.*² addressed domestic and international patent exhaustion. This issue brief discusses IP exhaustion and the implications of the Lexmark and Kirtsaeng decisions for libraries.

FIRST SALE DOCTRINE

The Copyright Act provides copyright owners with various exclusive rights in their copyrighted works, including the right to reproduce, prepare derivative works, distribute, perform, or display the copyrighted works.³ Section 106(3) indicates that a copyright owner has the exclusive right “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending[.]”⁴

The Copyright Act also includes several limitations on these exclusive rights. The first sale doctrine, codified at 17 U.S.C. § 109, states, “Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”⁵ The first sale doctrine limits the ability of a copyright owner to exert control over a copy of a copyrighted work after it has been sold to a consumer. The first sale doctrine thus allows someone who has purchased a physical copy of a book to resell it or lend it to someone else.

PATENT EXHAUSTION DOCTRINE

The Patent Act grants a patentee “the right to exclude others from making, using, offering for sale, or selling the invention[.]”⁶ The patent exhaustion doctrine is based on interpretation of “authority” in 35 U.S.C. § 271(a). Section 271(a) states, “Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.”⁷ The patent exhaustion doctrine limits the ability of a patentee to

¹ 133 S. Ct. 1351.

² 137 S. Ct. 1523.

³ 17 U.S.C. § 106 (2012).

⁴ *Id.* § 106(3).

⁵ *Id.* § 109(a).

⁶ 35 U.S.C. § 154(a)(1).

⁷ *Id.* § 271(a).

control one of its products through patent law after that item been sold to a customer. The patent exhaustion doctrine thus allows the customer to freely use or resell the item.

KIRTSAENG V. JOHN WILEY & SONS, INC. (2013)

In *Kirtsaeng v. John Wiley & Sons, Inc.*, the Supreme Court held that “the first sale doctrine applies to copies of a copyrighted work lawfully made abroad.”⁸

John Wiley & Sons, Inc. filed a copyright infringement lawsuit against a student, alleging that the student infringed the publisher’s distribution right by importing textbooks from Thailand where the textbooks were sold at lower prices and reselling them in the United States. Wiley argued for a geographical interpretation of the first sale doctrine, while Kirtsaeng argued for a non-geographical interpretation of the first sale doctrine.

The Court favored a non-geographical interpretation of the first sale doctrine after considering “§109(a)’s language, its context, and the common law history of the ‘first sale’ doctrine.”⁹ The Court noted that “reliance upon the ‘first sale’ doctrine is deeply embedded in the practices of those, such as booksellers, libraries, museums, and retailers, who have long relied upon its protections” and concluded that a geographical interpretation of the first sale doctrine would result in many practical problems that “are too serious, too extensive, and too likely to come about for us to dismiss them as insignificant—particularly in light of the ever-growing importance of foreign trade to America.”¹⁰

The Court’s holding means that someone who purchases a book printed abroad is free to resell it within the United States without obtaining permission from the copyright owner.¹¹

IMPRESSION PRODUCTS, INC. V. LEXMARK INTERNATIONAL, INC. (2017)

In *Impression Products, Inc. v. Lexmark International, Inc.*, the Court held 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.”¹²

The Court addressed two issues: (1) “whether a patentee that sells an item under an express restriction on the purchaser’s right to reuse or resell the product may enforce that restriction through an infringement lawsuit”; and (2) “whether a patentee exhausts its patent rights by selling its product outside the United States, where American patent laws do not apply.”¹³

Lexmark, the patentee, filed a patent infringement lawsuit against remanufacturers that refilled and resold Lexmark’s cartridges. Customers can purchase Lexmark toner cartridges at full price with no restrictions on what they can do with the cartridges after they use them, or customers can purchase toner cartridges at a discounted price through a

⁸ 133 S. Ct. 1351, 1356 (2013).

⁹ *Id.* at 1358.

¹⁰ *Id.* at 1367.

¹¹ *Id.* at 1355.

¹² 137 S. Ct. 1523, 1529 (2017).

¹³ *Id.*

Return Program but are required to sign a contract imposing a single use/no resale restriction on the cartridges. Remanufacturers acquire and refill empty Lexmark cartridges with toner and resell them at cheaper prices than Lexmark sells cartridges. The patent infringement lawsuit involved Return Program cartridges sold within the United States as well as cartridges sold abroad and imported into the United States by remanufacturers.

With regard to the Return Program cartridges sold within the United States, Lexmark argued that remanufacturers infringed Lexmark's patents by refurbishing and reselling these cartridges because Lexmark had expressly prohibited reusing or reselling these cartridges. The Court held that Lexmark exhausted its patent rights in the Return Program cartridges when Lexmark sold them and consequently could not retain patent rights in the items it sold. The Court stated, "[P]atent 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 license."¹⁴

With regard to the cartridges sold abroad and imported into the United States, Lexmark argued that remanufacturers infringed Lexmark's patents because Lexmark had not authorized importing the cartridges. However, the Court held that "[a]n authorized sale outside of the United States, just as one within the United States, exhausts all rights under the Patent Act."¹⁵ In addressing whether the patent exhaustion doctrine applies to foreign sales of a patented product, the Court referred to *Kirtsaeng* and noted the "historic kinship between patent law and copyright law" that "leaves no room for a rift on the question of international exhaustion."¹⁶ The Court stated, "[D]ifferentiating the patent exhaustion and copyright first sale doctrines would make little theoretical or practical sense: The two share a 'strong similarity . . . and identity of purpose.'"¹⁷

The Court's holding means that patent exhaustion in an item depends on the patentee's decision to sell a product, not on any restrictions imposed by the patentee or on the location of the sale.

IMPLICATIONS FOR LIBRARIES

The first sale doctrine is what allows libraries to lend copies of books, CDs, and DVDs to patrons without fear of copyright infringement. *Kirtsaeng* acknowledged how libraries rely upon the first sale doctrine's protection and also cited points made in the amicus brief submitted by the American Library Association and other library associations: "[L]ibrary collections contain at least 200 million books published abroad . . . [a] geographical interpretation will likely require the libraries to obtain permission (or at least create significant uncertainty) before circulating or otherwise distributing the books."¹⁸ *Kirtsaeng* ensures that librarians do not need to track down copyright owners of books that are printed abroad and engage in expensive negotiations with the copyright owners before lending the books to patrons.

Libraries must recognize that copyright owners and patentees can use contract law to impose restrictions on

¹⁴ *Id.* at 1535.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1364 (2013).



consumers beyond what copyright law or patent law may allow. In *Lexmark*, the Court stated, “Lexmark cannot bring a patent infringement suit against Impression Products to enforce the single-use/no-resale provision accompanying its Return Program cartridges. Once sold, the Return Program cartridges passed outside of the patent monopoly, and whatever rights Lexmark retained are a matter of the contracts with its purchasers, not the patent law.”¹⁹ In the copyright law context, publishers use licensing agreements to impose use restrictions on digital content to limit the ability of users or libraries to share the content. Whereas a library is free to lend a hard copy journal or book it owns to a patron at another institution through an interlibrary loan arrangement because of the first sale doctrine, a licensing agreement may prevent the library from downloading a copy of a journal article or a chapter from an e-book from an electronic database and sharing that digital content with a patron at another institution. As library collections move away from print materials and toward digital materials, librarians must be aware of how publishers are turning to contract law to exert more control over copyrighted works in digital formats than they otherwise would be able to exert over copies of copyrighted works embodied in physical formats.

Written by the AALL Copyright Committee

¹⁹ 137 S. Ct. at 1533.