

What the Supreme Court's Latest Patent Decision Means for Automotive Suppliers

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Although U.S. patent law has long-established limits on enforcement after a patented product has been sold, the technological innovations may put a bulls-eye on the automotive industry for [patent litigation](#). However, when suppliers patent components sold to other downstream suppliers or to OEMs, the list of potential patent infringers may have just gotten a lot shorter thanks to the [Supreme Court's decision](#) decided 8-0 this week in *Impression Products, Inc. v. Lexmark International, Inc.*, No. 15-1189 (U.S. May 30, 2017). In this case, the Court took affirmative steps to limit the control a company may exercise under patent law over subsequent sales of its patented product.

Can a Tier 2 Supplier Assert its Patents Against an OEM?

In *Impression Products*, the Court considered whether single-use/no-resale restrictions in Lexmark's contracts with customers can be enforced through an infringement lawsuit. Specifically, Lexmark was selling printer cartridges as part of a recycling program, which set forth terms of the patent license. If the purchaser agreed to use the cartridge for a single use and not to transfer the cartridge to anybody other than Lexmark, the purchaser could pay a discounted price for the cartridge.

Notably, in his opinion, Chief Justice John Roberts wrote that Lexmark's single-use/no-resale agreements were with the initial customers, and not with downstream purchasers (e.g., remanufacturers). And, even though the single-use/no-resale restrictions in Lexmark's contracts with customers were clear and enforceable under contract law, these restrictions did not "entitle Lexmark to retain patent rights" in the cartridges once they were willingly sold by Lexmark. Accordingly, the Supreme Court concluded that Lexmark could not bring a patent infringement suit against *Impression Products* to enforce the single-use/no-resale provision in the agreements between Lexmark and its customers.

This case raises some questions regarding patent coverage for upstream suppliers in an automotive supply chain. Provided that a Tier 1 supplier is treated by the courts as a customer in the same way that people purchasing cartridges are customers in *Impression Products*, when a Tier 2 supplier supplies a patented component part to a Tier 1 supplier, the Tier 2 supplier exhausts its patent and cannot go downstream to the OEM to enforce a patent covering a component already sold to a Tier 1 supplier. Accordingly the supplier cannot use patent law to restrict how the component can be used by the OEM.

The Court in *Impression Products* further answered the question: whether patent exhaustion occurs when a patent owner sells its products outside of the United States. The Court explained that exhaustion is a limit on patent grant, which is triggered by the patent owner's decision to sell a product. The Patent Act does not guarantee any particular price for the sale of the product, but rather that the patent owner receives a reward for every product that passes outside the scope of its patent monopoly. Accordingly, the Court held that "[a]n authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act."

Given the global nature of modern automotive supply chains, the Court has preempted suppliers from shifting production and sales overseas as a trap door to expand patent scope beyond conventional exhaustion doctrine. This decision clearly demonstrates that a patent owner cannot use an infringement lawsuit to enforce single-



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use/no-resale restrictions against a person (and likely an entity) who is not a party to the agreement and that a sale of a product, regardless of its location, results in exhaustion of patent rights in the United States.

What About Sellers of Used Auto Parts?

While implications for Tier 2 and Tier 3 suppliers may still raise some questions, one thing that is certain is that the used auto parts industry remains largely intact. At the end of a car's useful life, whether from age or an accident, the car is often sold to a recycling yard, where it is broken down into component parts for resale. For example, these cars may be stripped of their engines and transmissions, closures, trim, and other components, which can then be sold as replacement parts for other cars.

In some instances, recycling yards even remanufacture (i.e., refurbish) the salvaged component parts to ensure that the parts are at a desired condition for resale. For example, the recycling yards may disassemble the components and fix or replace parts that are worn. This process closely mirrors the cartridge recycling process now allowed by the Supreme Court. In any event, *Impression Products* teaches us that the OEM and any upstream suppliers of the component had fully realized and exhausted their patent rights by the time the car was sold to the first consumer. As a result, recycling yards, which are downstream from the first person to purchase a car, are protected from patent infringement due to patent exhaustion after that first sale.

What About Contract Law?

The Supreme Court took the important step in the decision to focus its opinion on the question regarding patent law, without implicating longstanding contract law. Notably, OEMs and suppliers may still be free to contractually limit subsequent uses of component parts of a car, to the extent allowed under contract law, but such terms cannot be used to expand the scope of the patent to a downstream purchaser of the component. The Court stated that once a product was sold, it passed outside of the patent monopoly, and whatever rights Lexmark retained are a matter of contract law, not the patent law.

What Else Can Be Done with Patent Law?

When considering an automotive supply chain, *Impression Products* raises the significance of pursuing claims having varying scope. For example, when the patented component is merely a singular piece of a larger assembly, claims directed to both the individual component by itself and the component installed in the assembly may provide another avenue for overcoming patent exhaustion because the product initially sold does not cover the assembly and therefore should not exhaust the patent on the first sale.

Please note Foley Summer Associate, Lucia Mantean was a contributing author of this post. The Dashboard Insights team thanks her for her contributions.

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