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# Patent Exhaustion Defense Unavailable to Reseller after Impression Products

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In an application of 2017 U.S. Supreme Court precedent in *Impressions Products, Inc. v. Lexmark Intern., Inc.*, the Northern District California in *International Fruit Genetics LLC v. Orcharddepot.com*, No. 4:17-cv-02905-JSW, recently denied a motion to dismiss a claim of patent infringement by holding that the patent exhaustion doctrine did not apply to a sale of a patented product that was outside the scope of the license granted by the patent owner. This decision helps inform how licenses may be interpreted post-*Impression Products*.

Plaintiff International Fruit Genetics, LLC ("IFG") filed a complaint alleging, among other things, infringement of three patents covering their proprietary grapevine varieties. By way of background, IFG routinely enters into license agreements with a limited number of nurseries to propagate and distribute their grape plants. These agreements allow nurseries to grow, market, farm, and/or sell table grapes from IFG's grapevine varieties, but these agreements *expressly* forbid licensees from distributing the vines or cuttings to third parties, even going so far as to explicitly state in the agreements that IFG owns its proprietary plant material at all times. A subset of the Defendants in the case, who are operators of a third-party reseller website, have allegedly been offering for sale and selling cuttings from IFG's proprietary grapevine varieties through the online orchard supply store Orcharddepot.com. These Defendants do not maintain an inventory of products listed on Orcharddepot.com, instead receiving a client's purchase order related to a product and only then purchasing the product from an original seller and shipping the product to the client.

In response to this allegation, these Defendants filed a motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6), contending that IFG is barred from bringing its patent infringement claims because IFG exhausted its intellectual property rights when IFG licensed its grapevine cuttings to hundreds of growers. In response, IFG argued that it had not exhausted its patent rights in its proprietary grape varieties because the company imposed restrictions on its licenses and did not sell its products in the open market.

The court was not persuaded to dismiss the case, citing the Supreme Court's holding in *Impressions Products, Inc. v. Lexmark Intern., Inc.* and stating that "[a]lthough a patent holder exhausts its patent rights if a licensee complies with the license, a patent holder does not exhaust its patent rights if a licensee makes a sale outside the scope of the license." The court also pointed to the 1938 U.S. Supreme Court case *General Talking Pictures v. Western Electric Co.*, which was discussed in the *Impression Products* decision, to explain the patent infringement liability a purchaser may be subject to by participating in an infringing purchase. The court noted that, taking the allegations in the complaint as true, these Defendants' actions violated IFG's licenses and, since these Defendants purchase the patented products, they may be held liable for patent infringement.

This case, arising in the post-*Impressions Products* landscape, highlights the importance of drafting license provisions that place explicit restrictions on licensee activities should a licensor wish to limit the distribution of

patented products while preserving patent rights.  It also underscores why resellers should consider examining whether or not they are engaging in patent infringement by participating in an unauthorized sale of products subject to patent protection.



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