

# Recent Decisions In The United States

A recurring feature  
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## SINGLE USE LICENSING LANGUAGE ON PRINTER CARTRIDGE BOX IS A VALID POST-SALE RESTRICTION AND PREVENTS REUSE OF THE CARTRIDGE.

Generally, when a consumer purchases a patented product, the seller's patent rights to further royalties and control of the patented product are exhausted, and the product may be reused in its intended manner without restriction from or further payment to the patent owner. However, patent owners may avoid exhausting their rights if they place appropriate conditions on the sale of the product.

In *Arizona Cartridge Remanufacturers Association, Inc. v. Lexmark International, Inc.*, 68 U.S.P.Q.2d 1786 (N.D. Cal. 2003), the United States District Court for the Northern District of California found licensing language on the box of a printer cartridge limiting the purchaser to using the cartridge once was a valid post-sale restriction condition. The court concluded that the restriction was enforceable and, thus, not illegal.

In this case, the Arizona Cartridge Remanufacturers Association, Inc. ("ACRA") filed false advertising and unfair business practices claims against Lexmark International, Inc. ("Lexmark"), alleging that the restrictive language used in conjunction with the sale of Lexmark's patented printer cartridges and its business practices are illegal. Lexmark, a manufacturer of laser printers, sells patented printer cartridges that are designed only to operate with Lexmark printers. Lexmark takes a number of measures to ensure that only its patented printer cartridges are used with its printers. One such measure is its "Prebate program" in which Lexmark offers its printer cartridges at a lower price with certain restrictions that appear on the cartridge's packaging:

*"Please read before opening. Opening this package or using the patented cartridge inside confirms your acceptance of the following license/agreement. This patented cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available."*

Thus, under the Prebate program, customers who agree to use the cartridges only once and return their empty cartridges only to Lexmark receive an up-front rebate of around \$30.

ACRA asserted that the Prebate program mischaracterizes the transaction between Lexmark and its customers as a license, improperly misleading customers to believe that they do not own the cartridges outright and cannot dispose of them as they wish. ACRA argued that Lexmark's sale of its cartridges exhausts its patent rights in them, and, therefore, Lexmark's post-sale condition is a misleading statement because it imposes an obligation upon its customers that it has no right to impose and that its customers have no obligation to honor. Lexmark argued that the Prebate program is a legitimate post-sale restriction. Both ACRA and Lexmark moved for summary judgment, and the court found that the language of the Prebate program to be a valid post-sale restriction.

In granting summary judgment, the district court first explained the doctrine of patent exhaustion. The court noted that generally a patent owner exhausts its patent rights when it sells the patented product. The court explained that when a consumer generally purchases a patented product, the consumer has an implied license under any patents of the seller that dominate the product or any uses of the product to which the parties might reasonably contemplate the product will be put. The court noted, however, that the seller's patent rights are exhausted resulting in an implied license only in certain circumstances such as where the product is sold unconditionally. The court explained that thus the key to determining whether a patent holder has exhausted its rights turns on whether or not it sold its patented good outright or placed conditions on the sale.

In finding the Prebate program a legitimate post-sale condition, the court examined the circumstances of the sale. The court explained that if a purchaser is on notice of a condition and buys the product, the purchaser accepts that condition. The court further noted that in a conditional sale, it is reasonable to infer that the parties negotiated a price that reflects only the use rights conferred by the patentee. Specifically, the court found that the Prebate program language imposes a valid single use condition

on the sale of the cartridges because the Prebate program language conspicuously appears on the cartridge packaging. In addition, the court noted that a customer has an opportunity to reject the condition by purchasing a cartridge at the regular price. Finally, the court stated that a cartridge offered under the Prebate program is offered at a special price that reflects an exchange for a single use condition. Based on these circumstances, the court concluded that Lexmark had not exhausted its patent rights and that the Prebate program is a conditional sale with an enforceable single-use restriction.

### **RIGHTS GRANTED BY LICENSEE ARE FOUND TO BE A COVENANT NOT TO SUE AUTHORIZED BY LICENSOR RATHER THAN AN UNAUTHORIZED ROYALTY-FREE LICENSE.**

Licenses and covenants not to sue are significantly similar rights, both having the ability to serve as defenses to a charge of patent infringement. However, disputes can arise over whether a provision is a license or a covenant because different outcomes can result in some circumstances. The court in *In re Elonex Patent Litigation*, 67 U.S.P.Q.2d 1687 (D. Del. 2001) (reinstated 2002), looked at the context of the disputed provision in making its analysis and found that the provision was an enforceable covenant not to sue as opposed to a potentially unenforceable royalty-free license. Elonex sued several companies for infringing U.S. patents on power management in computer monitors. The defendants, who are customers of Microsoft, asserted they had a defense against patent infringement claims because Elonex had covenanted not to sue Microsoft and its customers in an agreement between Elonex and Microsoft under the following provision:

*As partial consideration for the rights granted to [Elonex] under the License Agreement(s), [Elonex] agrees not to (A) sue, or (B) bring, prosecute, assist or participate in any judicial,*

*administrative, or other proceedings of any kind against MS, its Suppliers, their subsidiaries, or their licensees (including without limitation OEM customers and end users) for infringement of [Elonex] Patents (as defined below) which occurs ... on account of the manufacture, use, sale or distribution of: 1) Any release of the Products(s) [Windows 95] licensed to [Elonex] under the License Agreement...*

Elonex claimed that such a reading of the provision would result in a royalty-free license that it had no power to grant because of its contractual arrangement with Elonex Holdings, the owner of the patents. In that arrangement, Elonex was granted a license from Elonex Holdings for the patents at issue but was precluded from granting royalty-free sublicenses for those patents. Elonex argued that a covenant not to sue equates to a royalty-free license, and that it had no power to grant such a license. Both Elonex and the defendants moved for partial summary judgment, each requesting an interpretation of the effect of the quoted license provision.

In granting summary judgment, the district court first noted that the license provision, due to a choice of law clause, is governed by Washington contract law. In Washington, contracts are interpreted using the context rule. According to the court, the context rule contemplates an examination of not only the actual language of the agreement, but the contract as a whole, the subject matter and objective of the contract, all the circumstances surrounding the making of the contract, the subsequent acts and conduct of the parties to the contract, and the reasonableness of the interpretations advocated by the parties.

Under these precepts of contract interpretation, the court found that the provision was an enforceable covenant not to sue with the prophylactic purpose of preventing Elonex from embroiling Microsoft in a patent dispute if the infringement occurs because of the use of Microsoft Windows 95.