

## Lynda Calderone Writes on Product Licensing Patent Protection for Corporate Counsel Magazine

*Corporate Counsel Magazine*

---

August 31, 2017

**Lynda L. Calderone**

This article originally ran in *Corporate Counsel Magazine* on August 31, 2017.

A patent is a limited monopoly awarded to an innovator for a period of time to exclude others from certain activities. As such, it represents a limited exception to antitrust laws and pro-competitive public policy. The dividing line between what the patent statute and courts convey to a patent owner as an award for innovation and what the law reserves to the public domain is in a constant state of flux. One way the reach of patent rights is limited is by the doctrine of "patent exhaustion," which, simply put, is the point at which a patentee's rights can no longer be used against third parties because the patentee has exceeded the true scope of the patent's exclusionary right, i.e., the rights become "exhausted." A basic example includes a patentee making an unrestricted sale of a patented product to a third party, thereby transferring ownership, at which point the patentee cannot stop the third party from doing what it wants with the purchased product.

For years, patent owners operated with a couple basic assumptions related to patent law and the doctrine of exhaustion when creating licensing structures and sales agreements. One is that a patent holder has the ability to sell and license its patent rights to third parties and incorporate in its sales contracts or licenses lawful conditions or restrictions on downstream actions without necessarily exceeding the scope of the patent rights. The other assumption is that an initial sale outside the United States by a patentee would not exhaust the patentee's right to block goods from importation into the United States. These assumptions are relevant to evaluating the impact of changes recently made to patent exhaustion law.

On May 30, the two assumptions noted above were expressly overturned. The U.S. Supreme Court in *Impression Products v. Lexmark International*, No. 15-1189 (2017) re-cast those principles while reinforcing others creating a modified patent and licensing law landscape. The court held that a foreign buyer was free to re-sell Lexmark's printer cartridges, and import them into the United States without violating U.S. patent rights, because the foreign sale exhausted Lexmark's U.S. rights. Further the court held that Lexmark U.S. sales exhausted patent rights, even in view of sales restrictions on its discounted refillable toner cartridges to consumers. While the holding is important to keep in mind, it is also important to note what the Supreme Court did not hold in its decision. It did not say that when a license agreement only gives limited rights, a patentee could not enforce a patent against an end user purchasing outside the license scope, or that standard sales contract law would not remain an alternative avenue for enforcement against purchasers. The court reasoned that a sale transferring title exhausts patent rights despite downstream restrictions, but a patent license, which can be used to parse out limited, specific or all patent rights to one or more third parties is not a "sale" exhausting rights. Therefore, licensing should be viewed as a key tool for controlling direct and downstream activity.

*Continued*

---

With *Lexmark* in mind, many patentees are re-assessing contracts to achieve effective and profitable results while complying with the law changes. In doing so, it is hard to revise or create a new licensing structure without having all the information needed and relevant in terms of the scope of patent rights and the technology's landscape for distribution. This change in law signals a need for a more strategic team approach including licensing specialists, patent attorneys having intimate and strategic knowledge of the relevant patent(s)' coverage, and business people with a plan for distribution, joint development and coordination with third parties in the marketplace. Each aspect of this team bears a unique responsibility but should be coordinated when complying with *Lexmark* and to maximize patented product value.

The licensing team will need clear direction from the business on its plans to ensure downstream integration and any partnering with others, and information on claim scope to take advantage of exclusive aspects of the product's patent(s). Patents and business connections can also help locate strategic licensing partners. With this information, the team can carefully craft any related supply and development agreements so as to integrate with necessary license rights and ensure that importation rights are not inadvertently exhausted, but reserved to the patentee.

While these concerns existed pre-*Lexmark*, the ability to restrict downstream actions is no longer straightforward. Such strategy decisions should be discussed by the team early in the planning process. The patent attorney can then ensure that she has or will cover any key downstream aspects of the product and can legitimately maintain pendency of patent rights on various aspects of an invention for a sufficient time to provide flexibility in claiming, giving the licensing specialist coverage for targeted areas of exclusivity required by the business.

For example, consider a new chemical component that could be sold for use as a reactant to make modified chemicals for sale in an end use in an industrial chemical field, or it could be incorporated in a formulation for use as a household cleaner sold through distributors to a grocery chain for consumer purchase. If the patent attorney only patented a straight chemical structure claim, the license scope is narrow and the strategy to fight exhaustion becomes more complex in that only one inventive aspect needs to be licensed to reach and sustain multiple downstream activities. Sometimes one has no choice, however, if the attorney can draft varying claims to the new chemical, the method of making it, its methods of use, the modified industrial chemical, and the household cleaner formulation, the options for the licensing specialist and business are expanded. Further, where patents lie in the field can be used to find potential licensees that collaborate with the patentee. The inventions may be separately licensed by field of use and also possibly to different distributors and/or toll manufacturers through licensing various patents or specific claims or aspects of a patent, each license having a separate "exhaustion" point.

Thus, the more options in patenting, the more options in regulating downstream use through licensing. As each sale by a licensee exhausts a given authorized license right, one must try to avoid through that sale exhausting other potential patent rights. Using varied patent rights effectively expands the ability to control the sale and distribution of the technology. Such licensing further does not exclude enforcement rights in related sales contracts as back-up protection, use of joint development agreements, material transfer agreements and other commercial contracts as well.

*Continued*

---

In reserving the right to import patented products for a U.S. licensee, the patent holder can also consider an earlier strategy for global patenting. Licensing non-U.S. entities could be one way to help to reserve the importation right. Under *Lexmark*, while the sale directly to a foreign party exhausts the patent right, licensing a foreign sales entity under a non-U.S. patent right or under the U.S. patent to sell by not import, does not convey the importation right making importation unauthorized. The sales entity receives a product from a non-U.S. licensee with only a limited right, enabling the patentee to notify the importer (which may be a grey market goods provider) of a violation of the reserved U.S. importation right provided that the imported product still is within the patent claims.

With the foregoing in mind, patentees should exercise a careful team planning approach to maximize patent rights, safeguard importation rights and better coordinate various agreements regulating a product as we all adjust to a post-*Lexmark* world.

Lynda Calderone is a shareholder at Flaster Greenberg where she practices intellectual property law, concentrating on U.S. and foreign patent prosecution, portfolio management, IP litigation, due diligence, IP licensing and related agreements, opinions and analyses. She can be reached at 856-382-2206 or [lynda.calderone@flastergreenberg.com](mailto:lynda.calderone@flastergreenberg.com).

#### **ATTORNEYS MENTIONED**

Lynda Calderone