Supreme Court Clarifies Patent Exhaustion – What Does it Mean for Remanufacturers?

Below we briefly summarize the Supreme Court’s ruling in *Impression Products, Inc. v. Lexmark, Inc.*¹ (the “*Impression Products*” decision) and provide a few practical examples of how this new ruling may affect the remanufacturing industry.

**Summary of Ruling**

The *Impression Products* decision addresses the question of whether a patent owner may prevent certain reuse, including remanufacturing, of patented products. The decision clarifies that such products may be remanufactured and sold generally, without regard to any patents that may apply to the sold product, under the doctrine of “patent exhaustion.” This doctrine holds essentially that, once a product is sold, all patent rights in the product are exhausted, and the patent owner may therefore no longer enforce those rights, including with regard to remanufacturing.

**Key takeaways for the remanufacturing industry include:**

**Good news for remanufacturers**
- Remanufacturers should face less of a threat of patent infringement in the ordinary course of business.
- The *Impression Products* decision furthers the case law support of the “right to remanufacture in order to repair” decisions of *Aro*² and *Dana*³.
- The law regarding when a patent is exhausted has been simplified – a first authorized sale of a patented item anywhere in the world will exhaust the patent rights in the U.S. for that item, and the patent owner cannot later sue for patent infringement with regard to many remanufacturing activities for that item.

**Still unresolved issues for remanufacturers**
- The *Impression Products* decision does not resolve, clarify, or alter the risk of copyright infringement or other issues under the Digital Millennium Copyright Act (“DMCA”) or under other aspects of copyright law associated with, for example, copying, altering, or adding software code during the remanufacturing process, since the *Impression Products* decision is limited to patent issues. In this regard, it should be noted that copyright and patent protection may both apply to certain aspects of remanufacturing a part, such as with respect to software on a chip or other device. Copyright law generally prevents the improper reproduction, copying, distribution, or creation of derivative works (e.g., unauthorized copying or modifying software), while patent law may apply to software, for example, by covering the method of operation of the software, or by covering a chip or

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² *Aro Mfg Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961) (permitting repair of automotive parts to preserve the property’s fitness for use in the event of wear or breakage, by virtue of not contributorily or otherwise infringing all elements of a patent claim).
³ *Dana Corp. v. American Precision Co.*, 827 F.2d 755, 759 (Fed. Cir. 1987) (permitting production line remanufacturing where such action does not contributorily or otherwise infringe all elements of a patent claim).
other device having software on it, with regard to the chip’s resulting functional operation.

- Patent owners may still try to place contractual limitations on the sale of patented items, which may then theoretically be enforced against remanufacturers under contract law, but such limitations will likely be very difficult to emplace and enforce as a practical matter.

**Further Details on Impression Products**

The doctrine of patent exhaustion exists because a purchaser of a patented product should be free to use and resell the product as they see fit, without additional constraints by the patent owner. It is now clear from the *Impression Products* decision that the first authorized sale of the patented product prevents the patent owner from using patent law to interfere with the purchaser’s use or resale of the product, including for remanufacturing. Note that the decision holds that patent owners may theoretically try to enforce restrictions using contract law, but companies that remanufacture products would typically not be a party to such a contract, and thus as a practical matter, those contract terms would not likely be easily enforced against remanufacturers.

In short, *Impression Products* means that a patent owner is no longer able to assert patent infringement with regard to many common remanufacturing activities. As long as the product being remanufactured was originally sold into commerce through an authorized sale, any remanufacture activity is clear for any potentially patented components. This decision is certainly welcome news for the remanufacturing industry, particularly where complex products containing multiple patented component parts may be involved.

*Illustrative Examples of the Ruling’s Impact*

**Example 1: Vehicle Alternator**

In this example, an Original Equipment manufacturer (an “OE” supplier) has a patent on an internal component (a “Component Part”) that is included in the OE supplier’s alternator. The alternator was included in a vehicle sold to a customer through an authorized dealer in the U.S. During the life of the Component Part, the alternator enters the remanufacturing process. What are the impacts of the *Impression Products* decision as the alternator enters the remanufacturing process?

**Q:** Can a remanufacturer buy a new Component Part from a seller authorized by the OE supplier to sell the Component Part and use it in remanufacturing?

**A:** Yes. The first authorized sale of the Component Part would exhaust the patent rights in that item; in addition, the remanufacturer would have a license to any patents in the new Component Part via the authorized sale of the new Component Part.

**Q:** Can the remanufacturer use a different Component Part from a second alternator that was previously sold in a different vehicle in the United States?

**A:** Yes, because the Component Part from the second alternator was also sold through an authorized U.S. sale, the patent rights are “exhausted” for the second Component Part, and it can be used without worry of patent infringement.
Q: Can the remanufacturer use a different Component Part from a third alternator that was previously sold to a customer outside of the United States?
A: Maybe. In short, the sale outside the U.S. of the Component Part must be authorized by the U.S. patent owner for patent exhaustion to apply in the U.S. For example, if the Component Part for the third alternator was made and sold by the same OE supplier, then the U.S. patent rights have been exhausted, and the remanufacturer can use the Component Part from the foreign sale without worry of patent infringement. However, if a different company made or sold the part from the foreign sale and the sale was not authorized by the U.S. patent owner, the remanufacturer could still face the risk of patent infringement for the Component Part from the third alternator.

Q: Can a remanufacturer make a new Component Part to be incorporated into the alternator?
A: In most cases, no. If the remanufacturer makes a new Component Part, the remanufacturer runs the risk of patent infringement for “making” a new part that is subject to the patent. No “patent exhaustion” has taken place for the newly manufactured part. However, if the remanufacturer was authorized by the U.S. patent owner to make the new Component Part, for example, then the remanufacturer would not face patent infringement.

Q: Can a remanufacturer remanufacture the Component Part by, for example, disassembling, cleaning, and resurfacing mechanical portions of the Component Part to make it functionally usable?
A: Yes, other than in the unlikely event that another patent has issued on this type of activity, such as methods of resurfacing the Component Part, this remanufacturing activity would be permissible.

Example 2: Antilock Brake System Electronic Control Unit (ECU)

In this example, a vehicle manufacturer’s antilock brake ECU contains a chip with software, where the chip performs certain brake related control functions (the “Chip”). The Chip with the software on it and/or the software on the Chip is patented. The ECU was included in a vehicle sold to a customer through an authorized dealer in the U.S. During the life of the ECU, the ECU enters the remanufacturing process. What are the impacts of the ruling on this example?

Q: Can a remanufacturer buy a new Chip with functional software from a seller authorized by the vehicle manufacturer to sell the Chip?
A: Yes. The first authorized sale of the ECU would exhaust the patent rights in the ECU, including the original chip included in the ECU. Additionally, the remanufacturer would have a license to any patents in the new Chip via the authorized sale of the new Chip (including for any patent on the functional software that is part of the Chip).

Q: Can the remanufacturer use a second Chip with functional software from a second ECU that was previously sold on another vehicle by an authorized dealer in the United States?
A: Yes, because the second Chip was also sold through an authorized U.S. sale of the second ECU, the patent rights are “exhausted” for the second Chip, and it can be used without concern of patent infringement.

Q: Can the remanufacturer use a different Chip with functional software from a third ECU that was previously sold to a customer outside of the United States?

A: Maybe. If the Chip from the third ECU was made and sold by the same U.S. vehicle manufacturer (or the sale of the Chip was otherwise an authorized sale), then the U.S. patent rights have been exhausted, and the remanufacturer can use the Chip sold outside the U.S. without worry of patent infringement. However, if a different company made or sold the foreign part or if the sale was not authorized by the U.S. patent owner, the remanufacturer could still face the risk of patent infringement for the Chip from the third ECU (although this determination may be difficult to prove as a practical matter).

Q: Can a remanufacturer buy a new blank chip and copy code from a different Chip on a fourth ECU to the new blank chip to be incorporated into the remanufactured ECU, where the fourth ECU was obtained from a vehicle sold by an authorized U.S. dealer?

A: Probably not. If the patent covers the Chip with the software on it, the remanufacturer would thereby probably be “making” a new Chip (a new Chip thereby being “made” by adding the software to it), and the remanufacturer therefore would run the risk of patent infringement for “making” a new part that is subject to the patent. No “patent exhaustion” has taken place for the newly manufactured part since the Chip with the added software was not obtained by authorized sale. Further, there may be a risk of copyright infringement from copying the code from one Chip to another, since the Impression Products decision did not address copyright infringement or other issues that may be applicable under the DMCA or other aspects of copyright law.

Q: Can a remanufacturer restore operation of a Chip having corrupted or obsolete code by, for example, copying the same properly functioning code of a Chip from a fifth ECU?

A: Probably, since the Chip and code are each already exhausted with regard to patent rights. However, there may be a risk of copyright infringement from copying the code from one Chip to another, since the Impression Products decision did not address copyright infringement or other issues that may be applicable under the DMCA or other aspects of copyright law.