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***ARIZONA CARTRIDGE REMANUFACTURERS ASSOCIATION INC.
V. LEXMARK INTERNATIONAL INC.***

421 F.3d 981 (9th Cir. 2005)

The Ninth Circuit ruled that a notice contained in a “box-wrap license” could create an enforceable contract enabling a patent holder to enforce post-sale restrictions on its products.

Arizona Cartridge Remanufacturers Association (“ACRA”), wholesalers of remanufactured printer cartridges, sued Lexmark International, Inc. (“Lexmark”), makers and sellers of laser printers and printer cartridges, alleging violations of California’s unfair business practices statutes. Lexmark’s “Prebate” program gives customers a twenty percent discount on printer cartridges in exchange for the customer’s promise not to give empty cartridges to any remanufacturer other than Lexmark. ACRA claimed that Lexmark lacked a valid contract with consumers to limit the post-sale use of the cartridge and misled consumers into believing that restriction to be enforceable. ACRA further alleged that Lexmark’s use of a lock-out chip preventing third-party remanufacturing constituted an unfair business practice.

The Ninth Circuit upheld the District Court’s grant of summary judgment in favor of Lexmark, finding that Lexmark had a valid contract with its customers regarding post-sale restriction on cartridge use. The court held the contract enforceable because consumers had notice of the requirements prior to cartridge purchase, had opportunity to reject the contract and buy a higher-priced cartridge free from such restriction, and received consideration in the form of a discounted cartridge price. Furthermore, the court found that Lexmark did not mislead consumers into believing that the post-sale restriction was enforceable; Lexmark, as the patent holder, could legally enforce restrictions limiting the use of its products after sale, because post-sale conditions are generally allowed if the good being sold is reasonably within the patent grant. Finally, the court ruled that Lexmark’s use of a lock-out chip preventing other manufacturers from refilling Lexmark printer cartridges did not amount to unfair competition, as ACRA did not show that Lexmark was acting beyond the scope of its patent in imposing the restriction it uses the lock-out chip to enforce.