By Tearing Open That Cardboard Box, Are You Also Signing on the Dotted Line?

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Pay attention next time you rip open a cardboard box - you may be entering into a contract without realizing it.

A recent decision in the Ninth Circuit Court of Appeals reinforced the right of companies, in this case Lexmark International, the printer maker, to legally limit what customers can do with a patented product, given that the company spells out conditions and restrictions on a package label known as a box-top license.

Clickable license agreements are common practice in software, where the buyer agrees not to tamper with the code or copy the program. But slapping postsale regulations on patented goods could deny buyers the ability to make modifications or seek repairs on other products as well. Box-top licenses could also theoretically hinder third parties from offering replacement parts or supplies for fear...
of a patent-infringement lawsuit (meaning, for example, that a lighter might have to be refueled only with the manufacturer's brand of butane).

In the lawsuit, the Arizona Cartridge Remanufacturers Association, a trade group of companies that sell refilled printer cartridges, claimed that Lexmark was engaging in unfair and deceptive business practices by promising price discounts on its laser cartridges if the customer promised to return the empty cartridge to Lexmark.

Lexmark's packaging for laser cartridges sold under this system (called the Lexmark Cartridge Rebate, or the Prebate program) includes a label on the outside of the box stating: "Opening this package or using the patented cartridge inside confirms your acceptance of the following license agreement." Cartridges that are not part of the Prebate program and not subject to the restriction are available to customers as well, but without the discount. At the time of the case, Lexmark estimated that cartridge returns had increased 300 percent since the Prebate program began.

Lawyers for the remanufacturers' association argued that Lexmark deceptively suggested that the notice on the outside of the package created an enforceable agreement with consumers to return the used cartridges, and that the promise of a price discount was false because Lexmark could not control prices charged by retailers. Lexmark also uses an electronic chip on the cartridges to communicate with the printer, which refuses to operate with cartridges that lack the chip; the association cited that as an unfair business practice.

The court ruled in Lexmark's favor on Aug. 30, citing the previous case of Mallinckrodt Inc. v. Medipart Inc., a 1992 Circuit Court decision in a medical equipment case that allowed patent owners to limit the use of their products after sale. The court also concluded that Lexmark's pricing claims were accurate and that ACRA failed to establish that Lexmark's cartridge chip amounted to unfair competition.

Some frugal printer owners wondered if the decision would make it illegal to refill their inkjet cartridges at home, a concern that a Lexmark spokesman dismissed.
"Lexmark's cartridge return program deals exclusively with
laser printer toner cartridges. It does not involve any inkjet
products," said Tim Fitzpatrick, the vice president of
corporate communications for Lexmark, who said that the
program almost entirely involved business customers. "The
court's decision was very specifically about this program," he said.

Fred von Lohmann, a senior attorney with the Electronic
Frontier Foundation and author of a 2004 amicus brief
supporting ACRA, said he was more concerned about
future implications of the decision.

"This certainly sent a very strong message to patent holders
generally, and Lexmark in particular, that you can use these
labels in order to restrict what your customers can do with
the product after they buy it," he said. "That's new. The rule for most of
a century has been, 'You buy it, you own it.' "

Lexmark was recently involved in another lawsuit against a
North Carolina-based company, Static Control
Components. In the case, Lexmark sued under provisions in
the Digital Millennium Copyright Act to keep Static
Control from reverse-engineering Lexmark's cartridge chips
so that remanufactured cartridges from other vendors would
work in Lexmark printers. Static Control ultimately won the
copyright fight after the United States Supreme Court
depressed Lexmark's petition in June.

Ronald S. Katz, a lawyer for Manatt, Phelps & Phillips,
which represented ACRA in the suit, said that while the
continuation of Lexmark's return program would not put
companies that reclaim and refill laser printer cartridges out
of business, "it basically makes it harder for them to
compete." The trade association, he added, is not pursuing
the case further.

Although legal analysts who followed both lawsuits expressed concerns that Lexmark was trying to create a cartridge monopoly for its printers, the ruling in the Static Control case does allow that company to keep making chips that communicate with Lexmark's printers.

"This is about customer choice," said Mr. Fitzpatrick of Lexmark. "The court has ruled in favor of customer choice." A footnote in the court's written opinion stated that the decision would not preclude a consumer from raising challenges to the box-top contract.

In his supporting brief, Mr. von Lohmann argued that the decision in the medical equipment case, which was cited in the Lexmark case, was wrongly decided. "The courts started saying, 'Well, you bought it, you own it - unless they put a condition on it that you agreed to when you bought it,'" said Mr. von Lohmann.

He cited the 1873 case of Adams v. Burke, in which a coffin-lid manufacturer attempted to restrict where its patented product could be used. "The courts correctly said that's ridiculous," Mr. von Lohmann said. "When you buy a coffin, you can plant the guy wherever you want. It's none of the patent owners' business once you bought that coffin and where you put it in the ground."

But would the coffin case have come out differently if the manufacturer had put a label on the outside? "That's the concern," he said.

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