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NOT ALL CONSUMABLES CREATED *EQUAL*

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UNPRECEDENTED CHANGES AND GROWTH HIGHLIGHT
BANNER 2017 FOR DOING BETTER BUSINESS



Supreme Court Decision Puts Impression Products on the Map

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Around the time Eric Smith joined Impression Products, the family-owned business founded by his father, Walter, one of the Charleston, WV-based firm's biggest moves was becoming a Lexmark-authorized supplier of toner cartridges. In fact, Impression Products also offered OEM supplies from HP, Canon and Brother, among others.

But the younger Smith was flabbergasted by the high prices commanded for OEM cartridges. Emboldened by suggestions from customers, he started exploring the idea of remanufacturing spent cartridges and selling them at a more economical price point. The reman cartridges sat on the shelf next to the OEM product, giving the customer more options. These cartridges worked just as well as the originals, and customers reaped savings up to 50 percent. Impression Products didn't offer reman cartridges for every printer; if the company couldn't replicate the quality and stand by it 100 percent, then Smith would recommend the OEM product.

Impression Products hummed along smoothly for years, until Smith began receiving cease and desist letters from Lexmark in 2010. Lexmark targeted Impression Products among about 50 other remanufacturers, claiming its patent rights were being infringed. Lexmark sued Impression Products in Ohio federal court in 2013, arguing it retained patents rights for its cartridges after the initial sale, and that Impression Products infringed on its patents by refilling and reselling Lexmark toner cartridges. Impression Products countered in saying the patent rights had been exhausted after the first sale.

The question at hand was whether Lexmark could apply restrictions (such as the single-use edict under its Return Program) and retain patent rights for cartridges sold domestically and overseas. The OEM was buffered by a pair of precedents set by the U.S. Court of Appeals, including *Mallinckrodt v. Medipart*, a 1992 decision that permitted patent holders to retain protections

IMPRESSION PRODUCTS, INC

WHEN YOU'RE RIGHT, YOU FIGHT!

on patented goods sold with a similar single-use restriction. In that case, Mallinckrodt held a patent for its device for dispensing a mist used in taking lung x-rays, and Mediapart recycled, remanufactured and resold those devices to hospitals at 40 percent of the original cost. The District Court dismissed the patent infringement claim, but the Federal Circuit reversed it.

The Impression Product-Lexmark case snaked through the courts in comparatively short order. The District Court dismissed the patent infringement case for domestic sales, but ruled in Lexmark's favor for international sales, finding Impression Products had infringed upon Lexmark's patents. Both parties appealed, and the U.S. Court of Appeals found in favor of Lexmark on both counts in 2016—a reaffirmation of the precedent cases.

Finally, last May's ruling by the Supreme Court was not so much a rebuke of the appeals court as it was a broader interpretation of patent exhaustion and patent holder rights. Lexmark, the high court wrote, had exhausted its patent rights following the first sale, both domestically and internationally. Impression Products and other remans would be free to remanufacture and resell the toner cartridges, but the case went far beyond consumables. It reaffirmed that once a product had passed into commerce, it was no longer under an ownership cloud. The aftermarket product world rejoiced, as a blow against Impression Products



Eric Smith

would have set precedent for restrictions on any number of products. Imagine owning a Ford and being compelled to use only Ford-manufactured parts and supplies, or not being able to resell an iPhone or android.

Smith took time out from the holidays to recount his seven-year battle with Lexmark, which included losing verdicts in the lower courts, fighting the battle alone with only moral support from his contemporaries, and resisting the urge to accept a highly-tempting settlement offer from Lexmark. In the wake of his victory, Smith is hoping to parlay the outcome into substantial business growth with the very companies that benefitted the most from the high court's ruling.



Tell us about your career path leading up to Impression Products.

SMITH: My father, Walter Smith, started the business in 1978, selling typewriter ribbons. As typewriters gave way to personal printers, we started selling them. After graduating high school, I had to decide whether I wanted to go to college or work a year or two for him, then maybe go back to school. I jumped right into the family business in 1989 and Impression Products became my education. That was about time dot matrix printers were turning into laser printers. I took control of the company around 1995.

In 2013, you were taken to court by Lexmark, which claimed your remanufacturing of the company's cartridges violated its single-use, no resale policy. What was your initial reaction?

SMITH: In 2010, I started receiving cease and desist letters from Lexmark, which was baffling at the time. We had been doing it since the early 1990s and it was strange to start receiving letters that a patent infringement had occurred. I had no clue what they were talking about at the time. My initial thought—and I'd heard they were sending these letters out to my contemporaries in other states—was that Lexmark was hoping everyone would settle out of court and this would all go away. I decided to stick it out, not reply back and see what happened. As time went on, the letters increased, and eventually I was served court papers. So I had to make the decision to get out or fight. At that point, I realized no one else was willing to take on Lexmark, and it was either going to be me doing it alone or just give up. And I'd never given up on anything in my life. It was time to put the boxing gloves on and go to war.

What factored into your decision to push forward with the case?

SMITH: I was doing this for my employees, my friends from the community I'd hired who had been with me all of these years. Their jobs and livelihood were on the line. If Lexmark could get away with what they wanted to do, then in time HP, Brother, Canon—each one we were remanufacturing products for—would follow the leader and sue us, too. Then we wouldn't have any toner cartridges to offer our customers. We would be a company that could only offer OEM product at ridiculously high prices. The consumers, at the end of the day, would be the ones that would suffer. But my main concern was my employees.

A case that started out about toner cartridges ended up a fight for every consumer in the world. In the beginning,

would the impact have been on your company?

SMITH: The whole time, I was thinking, "What have I gotten myself into?" I knew once I started, I'd have to follow through. It worked its way up to the Federal Circuit Court in Washington, DC. They had an en banc, and that's where 12 judges ruled. We got our butts kicked. There were two issues, the domestic and international parts of the case. In the beginning, they had ruled in our favor on the domestic part and against us on the international part. When it went to the en banc, they ruled against us on both counts, 10-2. I decided at that point that I needed a more experienced representation if we were going to take it to the Supreme Court. We went with Mayer Brown. Paul Hughes and Andy Pincus did a fantastic job. But we wouldn't have reached that point without the work of Ed O'Connor from Avyno Law, who did a fantastic job getting us there. It was really a team effort.

After losing in the U.S. Court of Appeals, what were your expectations moving forward?

SMITH: I was very disappointed, but at the same time I always believed common

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I didn't have any idea that was going to be the case. As this thing got deeper, I realized what I was fighting for went far beyond our industry. If you think about it, the bigger, multibillion dollar companies that sell aftermarket products should have been fighting for me. I'm talking about companies like Auto Zone, O'Reilly, and all the big auto part chain stores. Go to Dollar General, or Rite-Aid, CVS...you have the choice to buy those aftermarket products because of this case. And those companies have the right to sell [generic] products because of us.

Taking a case all the way to the Supreme Court can be a costly proposition. Had you capitulated to Lexmark's wishes, what

sense would prevail. I had a lot of people calling and encouraging me on this case. They were saying, if you take this to the Supreme Court, they will get it right. If you buy something, you own it, period. End of story. Once it's first sold, that product patent is exhausted. That entity has no more control over the product. A lot of prayer and hope went into it.

At what point did Lexmark approach you wanting to offer a settlement?

SMITH: After the en banc, Lexmark contacted me about a settlement. That also led me to believe I could win, because why else would they want to make a deal to prevent the case from

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going to the highest court? So maybe they were concerned themselves.

Under the deal, we would have been one of the only ones to remanufacture their product. It was a very attractive and tempting offer. I had a weak moment when I actually went to Mayer Brown and told them I was going to take the deal. They strongly urged me not to and told me to think about it. They told me that although I'd be helping the 25-30 people who worked for me, I'd be hurting millions of people. I finally came back to my principles and decided to stand for what I believed in all along. I turned down millions and a lot of people owe us a debt of gratitude. We fought on their behalf when we didn't have to. We could have easily taken the money and been just fine, sitting on the beach, drinking tequila and taking it easy.

How has business been in the aftermath of the case?

SMITH: There are a lot of people outside of West Virginia that recognized and appreciated what we had done and



Did the outcome shock you, considering how badly you'd lost in the U.S. Court of Appeals?

SMITH: The international part kind of shocked me. I felt the domestic side of the case was a slam dunk. A lot of other people did, too. The international part was a question mark, and to win that one by such a wide margin was most shocking to me. But I thought it was right.

wallets. I think every person in the world was impacted by this case.

Have you heard from anyone that this case has opened the floodgates for overseas product to come into the U.S.?

SMITH: I've yet to see it. I say bring it on, competition is good. We're making a product here that I know matches every OEM cartridge that we offer. We love to bring people out to tour our facilities to show them how we make our products. If a customer uses a particular type of toner, we like to have that toner on the shelf next to ours, so that they can test the two, side by side. Nine times out of 10, the customer will see that our product works better than the OEM's. We've invested millions of dollars in our equipment and our people, and we make a product that is second to none. Page to page, print to print, you're not going to find a better product than what Impression Products manufactures.

How would you sum up the entire experience?

SMITH: There were a lot of sleepless nights. It's tough to deal with that and run your business. Luckily for me, I was able to turn the legal part over to people who were experts. I just kept my head down and focused on what we've always done. The national exposure has been amazing; I've been in *Forbes*, been on MSNBC. It was quite an experience to be in the national spotlight. We've had a chance to show the world what we're about and what a little West Virginia company could do, given the opportunity.

What does the future hold for Impression Products?

SMITH: We gained a lot of national publicity that a company like mine probably would've never received otherwise. Now, Impression Products is not just known in West Virginia, but all over the world. We'll go down in the history books. My hope is to turn this case into an investment, winning more business to compensate us for all of those restless nights from the past seven years. My goal is to become a national power. Hopefully, this case will get us there. ♦

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gave us opportunities to be their printer vendor. We snagged some contracts because of the case. I don't want to stop there, I want to keep the momentum going. I want to be a national provider to the companies that most benefitted from our win. There are a lot of big chain suppliers that have 6,000 to 10,000 stores. As long as it makes good business sense and we can show them that our product is as good or better what they're using now, at a better price, then why not support the company that fought on their behalf and help us pay off these debts? We're built for it, we're ready for that new challenge and know exactly how to make it work. We're on the 50-yard line with a few of them already.

What would the landscape have looked like if Lexmark prevailed with the high court?

SMITH: I think we'd be in a big mess right now. Consumers would feel it. If you walked into Dollar General, you would no longer be buying [generic] products, you'd only be buying brand name supplies. The everyday consumer is the one that benefits by this case, because everyone now has a choice when they go to the store to purchase what they want, and that's because of Impression Products. This case wasn't in the national news for seven years, but had we lost, I think there would have been a lot of coverage on it right now. People would be noticing it in their