

**THE SUPREME COURT SAYS CONDITIONAL & FOREIGN SALES
CANNOT AVOID IP EXHAUSTION – WHAT SHOULD IP OWNERS DO?:
AN ANALYSIS OF THE SUPREME COURT’S IP-EXHAUSTION
JURISPRUDENCE**

*Jiang Bian**

I.	<i>IMPRESSION PRODUCTS</i> DECISION & ISSUES DECIDED.....	673
II.	SUPREME COURT PRECEDENTS BEFORE <i>IMPRESSION PRODUCTS</i>	674
	A. <i>Earlier Decisions</i>	674
	B. <i>A More Elaborated Doctrine</i>	676
	C. <i>Inherency-Doctrine Era</i>	680
	D. <i>IP Owners’ Rights Were Not Without Limitation</i>	681
	E. <i>Inherency Doctrine Overruled</i>	682
	F. <i>Licenses vs. Sales</i>	685
	G. <i>Expansion of the Exhaustion Doctrine</i>	688
	H. <i>Federal Circuit Entered the Fray</i>	690
	I. <i>Supreme Court Weighed-In Again</i>	692
III.	<i>IMPRESSION PRODUCTS</i> DECISION: ANALYSIS & COMMENTARY	696
	A. <i>Summary of Facts</i>	696
	B. <i>The Supreme Court’s Holding</i>	697
	C. <i>Commentary</i>	698
	1. <i>Statutory Interpretation & Legislative Intent</i>	698
	2. <i>Public Policy</i>	701
IV.	<i>IMPRESSION PRODUCTS</i> DECISION: IMPLICATIONS	704
	A. <i>Scope</i>	704
	B. <i>Impact</i>	706
	C. <i>Permissible License Conditions vs. Prohibited Post-Sale Restrictions</i>	707
V.	THE CURRENT STATE OF LAW & TAKEAWAYS.....	711
	A. <i>Dos & Don’ts</i>	711
	B. <i>What About Improvement?</i>	713
	C. <i>Must Be Bought From Authority Without Conditional Precedents</i> ..	714

* © 2017 Jiang Bian. Jiang Bian is an associate at Shartsis Friese LLP. J.D. and LL.M. (Intellectual Property) from The George Washington University Law School. He is admitted to practice in California, New York, and the District of Columbia.

D.	<i>While Contracts Cannot Negate Exhaustion, They Are Still Important</i>	715
E.	<i>What Patent Owners & Licensors Should Do Post-Impression Products</i>	716
	1. Establish a Valid & Effective Licensing Program.....	716
	2. Impose Appropriate Restrictions on Licensees	718
	3. Require Appropriate Restrictions on Downstream Users	719
VI.	CONCLUSION	721

I. IMPRESSION PRODUCTS DECISION & ISSUES DECIDED

On May 30, 2017, the United States Supreme Court handed down its long-awaited decision of *Impression Products, Inc. v. Lexmark International, Inc.*,¹ which carries profound implications for intellectual property (IP) owners, manufacturers, sellers, retailers, resellers, and consumers across the globe.

In keeping with its precedents supporting exhaustion of IP rights after the initial sale of products embodying the IP, the Supreme Court effectively overruled the Court of Appeals for the Federal Circuit's patent-exhaustion jurisprudence (or what many commentators refer to as the *patent non-exhaustion doctrine*).² This doctrine was enumerated by the Federal Circuit in two prior rulings — *Mallinckrodt, Inc. v. Medipart, Inc.* in 1992,³ and *Jazz Photo Corp. v. International Trade Commission* in 2001⁴ — as well as its decision for which the Supreme Court granted writ in *Impression Products*.⁵ In these three cases the Federal Circuit generally answered “Yes” to the following questions:

- 1) Whether accompanying product sales with clearly communicated restrictions could avoid patent exhaustion within such declared limits;⁶ and
- 2) Whether foreign sales authorized by a patent owner could not be relied upon to exhaust the owner's domestic patent rights when patented products are shipped back to the United States.⁷

¹ 137 S.Ct. 1523 (2017).

² See generally *id.* at 1538 (reversing the Federal Circuit's ruling and finding that the patent-exhaustion doctrine applies to sales both domestically and internationally).

³ 976 F.2d 700 (Fed. Cir. 1992).

⁴ 264 F.3d 1094 (Fed. Cir. 2001).

⁵ See *Lexmark Int'l, Inc. v. Impression Products, Inc.*, 816 F.3d 721, 738–39 (Fed. Cir. 2016), *rev'd sub nom. Impression Prods., Inc.*, 137 S. Ct. at 1538.

⁶ See *Lexmark Int'l*, 816 F.3d at 742 (holding that patent exhaustion applied to “unrestricted sales”); *Jazz Photo Corp.*, 264 F.3d at 1105 (“The *unrestricted* sale of a patented article . . . ‘exhausts’ the patentee’s right[s] . . .”) (emphasis added); *Mallinckrodt*, 976 F.2d at 709 (holding that a restriction is valid “if the restriction on reuse was within the scope of the patent grant or otherwise justified”).

The Supreme Court, however, squarely answered “No” to both questions, holding that a patent holder exhausted its U.S. patent rights in the patented products the moment it sold them, irrespective of where the sale took place (i.e., in the United States or abroad).⁸ While this decision’s impact on different industries may vary (to be seen in the years to come), *Impression Products* will likely prompt many companies to reconsider the way they conduct their IP-related business. By examining this decision against prior Supreme Court decisions involving the IP-exhaustion doctrine, this Article intends to find the contours of the Supreme Court’s holding in *Impression Products* and explore its practical implications in: structuring IP transactions; enforcing IP rights and licenses; and drafting distribution, sales, or similar agreements involving IP rights to achieve intended business goals.

II. SUPREME COURT PRECEDENTS BEFORE *IMPRESSION PRODUCTS*

Prior to this landmark ruling in *Impression Products*, the Supreme Court went through decades of decisions and developments, changing the doctrine surrounding IP exhaustion with each era. This history of evolving precedent is important to understand as the foundation underlying the *Impression Products* decision, before being able to adequately explore its impact and future implications.

A. Earlier Decisions

The Supreme Court’s IP-exhaustion jurisprudence dates back almost 160 years to *Wilson v. Rousseau*, *Bloomer v. McQuewan*, and *Chaffee v. Boston Belting Co.*, where the Supreme Court consistently held that by a valid sale, a patented article is no longer protected by patent rights and becomes the property of the purchaser.⁹ The purchaser may continue to use it and may repair or improve

⁷ See *Lexmark Int’l*, 816 F.3d at 760 (“A U.S. patentee, simply by making or authorizing a foreign sale of an article, does not waive its U.S. rights . . .”); *Jazz Photo Corp.*, 264 F.3d at 1105 (holding that the patentee’s rights were only exhausted for products which were “first [sold] in the United States”).

⁸ See *Impression Prods.*, 137 S. Ct. at 1538 (“[R]estrictions and location are irrelevant; what matters is the patentee’s decision to make a sale.”).

⁹ *Chaffee v. Bos. Belting Co.*, 63 U.S. (22 How.) 217, 223 (1859) (holding that a patented product becomes “the private individual property of the purchaser” upon sale and is no longer protected by the patent laws); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) (characterizing the sale of a patented product as a sale of a portion of the patent monopoly to

upon it, provided that the article rightfully passes to the purchaser from the patentee, or from a person authorized to convey it.¹⁰ The Supreme Court noted that this right does not derive from the Patent Act of 1836 (the “Patent Act”),¹¹ nor from the patentee’s grant, but instead is based on the common law’s refusal to permit restraints on the alienation of personal properties.¹² These restraints existed before Congress enacted the 1836 Patent Act, and one can trace their lineage to the 17th century, when the great English jurist Lord Edward Coke proclaimed this principle.¹³

In *Mitchell v. Hawley*, the patentee granted an exclusive right to make and use, and to license others to make and use, patented machines during the original term of the patent, with the express condition that the grantee should not dispose of, sell, or license anyone to use such machines beyond the initial patent term.¹⁴ The grantee sold the machines and granted the purchasers a license authorizing them to use the machines, but only if “bearing date as specified in the original letters-patent.”¹⁵ When the patent term was later extended, the patent was exclusively assigned to a third party for the extended term, and the assignee sued to enjoin the use of the machines by the purchasers.¹⁶ The Supreme Court upheld the injunction.¹⁷ While the Court supported that

which the patentee retains no rights); *Wilson v. Rousseau*, 45 U.S. (4 How.) 646, 687 (1846) (holding that a patentee retains no right to the patent when he or she assigns it to a purchaser).

¹⁰ *Chaffee*, 63 U.S. (22 How.) at 223 (“When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly.”); *Bloomer*, 55 U.S. (14 How.) at 549–50 (holding that a purchaser has rights to use the patented product for the original term of the patent); *Wilson*, 45 U.S. (4. How.) at 671 (holding that an assignee obtains all rights under the patent, or portion thereof, assigned to him or her).

¹¹ Patent Act of 1836, Pub. L. No. 24–357, 5 Stat. 117 (1836).

¹² See generally *Chaffee*, 63 U.S. (22 How.) at 223–24 (finding that a purchaser’s rights do not come from the patent laws but from state laws protecting personal property).

¹³ See *Impression Prods.*, 137 S. Ct. at 1526.

¹⁴ 83 U.S. (16 Wall.) 544, 545 (1872).

¹⁵ *Id.* at 549.

¹⁶ *Id.*

¹⁷ *Id.* at 550–51.

where the sale is absolute without conditions, the product sold becomes the property of the purchaser and is no longer within the patent monopoly,¹⁸ the Court did not seem to recognize an absolute sale in this case — at least not one with the patentee’s authority (as the patentee’s initial grant to the seller did not include the right to allow others to use the patented machines beyond the original term of the patent) — and observed that the purchasers’ license demonstrated that the seller was not authorized to grant a license beyond the patent’s initial term.¹⁹ The Supreme Court commented that a sale of patented products, just like selling any other personal properties, may be made with conditions.²⁰ The Supreme Court, however, seemed to refer to conditions to complete a sale rather than post-sale restrictions.²¹ The Supreme Court also clarified that while a purchaser of a patented product may continue to use the product, he does not acquire the patentee’s monopoly, including the right to make another product.²²

B. *A More Elaborated Doctrine*

The Supreme Court elaborated the IP-exhaustion doctrine in *Adams v. Burke*.²³ There, the Court refused to find patent infringement for a purchaser who bought a patented coffin lid from an assignee of the patent within an area having a ten-mile radius, and then used the lid outside the ten-mile radius.²⁴ The

¹⁸ See *Mitchell*, 83 U.S. (16 Wall.) at 548 (explaining that for absolute sales without conditions, the purchaser may use the product without restriction for the life of the product).

¹⁹ See *id.* at 548–49 (noting that the license agreement expressly stipulated that the licensee shall not grant any license beyond the expiration of the original term).

²⁰ See *id.* at 548 (explaining that sales of patented products, as in other cases, may be made with or without conditions).

²¹ See *id.* (referring to conditions on the initial sale of the patented product).

²² See *id.* (explaining that when a product passes to a purchaser, it “ceases to be within the limits of the monopoly” and therefore the purchaser receives no portion of the patentee’s monopoly).

²³ 84 U.S. (17 Wall.) 453, 456–57 (1873) (addressing the issue of geographically-limited licenses).

²⁴ *Id.* at 454 (explaining that the licensee had the exclusive right to make and sell the coffin lids in Boston and a 10-mile radius therefrom and that a purchaser bought the coffin lid in Boston but subsequently used it 17 miles

Supreme Court held that when a patentee has assigned his right to make and sell a product within a limited area, a purchaser who bought the product within the prescribed limits acquires the right to use the product anywhere, as the sale carries no implied limitation restricting the right of use within a locality.²⁵

In *Wilson v. Simpson*, the Supreme Court distinguished the right of a purchaser of a patented planer to *replace* the machine's worn-out knives until the machine is spent from the patentee's sole right to *make* the machine.²⁶ After observing that the knives had to be replaced every 60–90 days (whereas the machine itself would last for several years), the Supreme Court held that the replacement was permissible repair by virtue of the purchaser's right to use the machine.²⁷

In *Cotton-Tie Co. v. Simmons*, the owner of patents on cotton-bale ties, each consisting of a buckle and a band, sold the ties with the notice "Licensed to use once only" stamped on the buckle.²⁸ The defendant bought the bands and buckles severed at the cotton mill as scrap iron, and after rolling and straightening the bands, riveting together their ends, and cutting them into proper lengths, sold them together with the buckles as ties.²⁹ The Supreme Court held that the purchaser could not use the buckles from the cotton-bale ties to essentially make new ties.³⁰ The Supreme Court distinguished *Wilson* on the basis that the defendant in this case reconstructed the ties after they had performed

outside of Boston — i.e., the purchaser used it outside of the authorized area).

²⁵ *Id.* at 456–57 (“[O]nce lawfully made and sold, there is no restriction on [a patented product’s] *use* to be implied for the benefit of the patentee or his assignees or licensees.”).

²⁶ 50 U.S. (9 How.) 109, 126 (1850) (holding that an “inventor cannot complain” that a purchaser is replacing parts or otherwise updating the patent machine when the replacements and updates “do[] not alter the identity of the machine” but are necessary to use the machine as intended).

²⁷ *Id.* at 125–26.

²⁸ 106 U.S. 89, 91 (1882).

²⁹ *Id.*

³⁰ *Id.* at 93–94. (noting that whatever right the purchasers acquired in the product, they “acquired no[] right to combine it with a substantially new band, to make a cotton-bale tie” after the patented ties had been “voluntarily destroyed”).

their function of confining cotton bales and were voluntarily severed by consumers.³¹

In *Boesch v. Graeff*, a U.S. patentee of lamp burners sued a dealer that imported the burners and sold them in the United States after purchasing such burners in Germany from a seller who seemed to own the German patent right to the burners.³² The Supreme Court held that because the seller was not the owner of the U.S. patent, nor someone who was authorized by the patent owner to sell, the purchaser was not allowed to import and sell the burners in the U.S.³³

In *Hobbie v. Jennison*, the Supreme Court held that a patent assignment for a limited area conferred upon the assignee the right to make and sell the patented articles, even though the seller knew “that a use outside of the territory [wa]s intended.” Once the patented articles were “lawfully made and sold, there was no restriction on their *use* to be implied, for the benefit of the patentee or his assignees or licensees.”³⁴ The Supreme Court commented that while a patentee could impose conditions on his licensees or assignees to prevent them from interfering with each other, there was no such restriction on the assignee in this case.³⁵

In *Keeler v. Standard Folding Bed Co.*, the Supreme Court held that unless restrained by contract, a purchaser of patented beds in one state from the assignee for that state had a right to sell them anywhere in the United States — including in another state where the patent had been assigned to a different assignee.³⁶ The Supreme Court did not seem to propose that the patentee may reserve a portion of his patent rights by contract, but seemed to suggest that if the patentee had a valid contract restricting the purchaser’s right to use or resell

³¹ *Cotton-Tie Co.*, 106 U.S. at 94 (discussing the difference between permissible repairs and impermissible reconstruction of patented products).

³² 133 U.S. 697, 699 (1890).

³³ *Id.* at 702–03 (holding that authorized purchases under German patent law cannot justify importation of the goods into the United States in violation of the U.S. patent).

³⁴ 149 U.S. 355, 362–64 (1893) (citing *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 454 (1873)).

³⁵ *Id.* at 363–64.

³⁶ 157 U.S. 659, 666 (1895) (“[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place.”).

the articles sold, he may be able to enforce such restriction as a matter of contract law.³⁷

In applying the IP-exhaustion doctrine, the Supreme Court distinguished between licensing IP rights and selling products. In *Bement v. National Harrow Co.*, the Supreme Court upheld a scheme as a valid use of patent rights where patent owners of a piece of farm equipment,³⁸ licensed others to make and sell the equipment, on the condition that they would not sell the licensed products at a lower price or on more favorable payment-and-delivery terms to purchasers than what was set forth in the license.³⁹ The Supreme Court, therefore, seemed to treat license restrictions as enforceable under patent law.

The exhaustion doctrine applies to copyrights as well. In *Bobbs-Merrill Co. v. Straus*, a novel was sold with a notice dictating its retail price, and the copyright holder sued a non-compliant underselling retailer.⁴⁰ The Supreme Court held that while the Copyright Act of 1976 (the “Copyright Act”)⁴¹ protected the holder’s right to “multiply and sell” the work on the holder’s terms, it did not create a right to limit resale.⁴²

It is worth noting that the Supreme Court in both *Adams* and *Bobbs-Merrill* did not hold that a contract imposed by an IP owner on the first sale could not create an enforceable obligation.⁴³ The parties in neither *Adams* nor

³⁷ See *id.* at 666 (noting that the court was not opining on the question, stating that “such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws”).

³⁸ The equipment is a spring-tooth harrow, sometimes called a drag harrow, which is a type of harrow, and specifically a type of tine harrow. It uses many flexible iron teeth mounted in rows to loosen the soil before planting.

³⁹ 186 U.S. 70, 94 (1902) (“It is a proper provision for the protection of the individual who is the licensee, and is nothing more in effect than an assignment or sale of the exclusive right to manufacture and vend the article.”).

⁴⁰ 210 U.S. 339, 341–42 (1908).

⁴¹ Pub. L. No. 94–553, § 106, 90 Stat. 2541, 2546 (1976) (codified at 17 U.S.C. § 106 (1982)).

⁴² *Bobbs-Merrill*, 210 U.S. at 350.

⁴³ See *id.* (holding that copyright protection gives no right to limit resale “by future purchasers, with whom there is no privity of contract”) (emphasis added); see also *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873) (discussing

Bobbs-Merrill entered into an agreement, and therefore, there was no privity of contract between them.⁴⁴

C. *Inherency-Doctrine Era*

The seemingly clear principle of first-sale exhaustion was clouded over by a subsequent Supreme Court decision, *Henry v. A.B. Dick Co.*, which by a 4–3 vote⁴⁵ upheld a tie-in restriction accompanying a sale of a patented mimeograph machine⁴⁶ that required the machine be used only with supplies made by the patentee.⁴⁷ The Court upheld this sale based on the inherent right of a patent owner to exercise the “lesser” right to sell the patent with restrictions because the owner could lawfully refuse to sell or use the invention at all.⁴⁸ Following this logic, unpermitted use should be reserved to the owner, and if such restrictions are violated, the patent is infringed. In the view of the majority, the right to sever ownership and use is deducible from the nature of a patent monopoly, and the exhaustion doctrine should apply only to unconditional sales.⁴⁹

that the use of a patent article was not restricted because the contract only limited the manufacture and sale of the article).

⁴⁴ See *Bobbs-Merrill*, 210 U.S. at 350 (discussing that when a retailer purchases from a wholesale dealer, the copyright holder cannot limit future purchases because there is no privity of contract); *Adams*, 84 U.S. (17 Wall.) at 457 (holding that the purchaser did not buy the patented device from the patentee but from a licensee and therefore he is free of any restrictions of the contract between the patentee and the licensee).

⁴⁵ 224 U.S. 1, 1 n.1 (1912) (explaining that the case was argued just after Justice Harlan’s death and while Justice Day was absent; Justice Lurton delivered the majority opinion, joined by Justices McKenna, Holmes, and Van Devanter while Chief Justice Edward White, joined by Justices Hughes and Lamar delivered the dissent).

⁴⁶ A mimeograph machine (often abbreviated to mimeo) is a low-cost duplicating machine that works by forcing ink through a stencil onto paper.

⁴⁷ See *id.* at 40.

⁴⁸ See *id.* at 40 (stating that the right to condition use of a patented thing is inherent in the right to exclude because to condition use is a “lesser thing” than excluding all use).

⁴⁹ See *id.* at 24–25 (“[I]f the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. . . . This right to sever ownership and use is deducible from the nature of the patent monopoly and is recognized in the case.”). The inherency doctrine is

D. IP Owners' Rights Were Not Without Limitation

The *Henry* decision has been called “the high-water mark of judicial deference toward patentees.”⁵⁰ In *Standard Sanitary Manufacturing Co. v. United States*, where the patent owner imposed fixed prices on licensed ironware manufacturers and wholesalers, the Supreme Court held that patent rights do not immunize the owner from the antitrust laws prohibiting unreasonable restraint of trade.⁵¹

One year later in *Bauer & Cie. v. O'Donnell*, the Supreme Court, once again closely divided (5–4), reversed its course and held that a purchaser of a patented water-soluble drug product (bearing a price-fixing notice) did not infringe the patent by reselling the product cheaper than what the notice required.⁵² The *Bauer* decision did not explicitly overrule *Henry*, but instead noted that while the Patent Act grants an exclusive right to use and the Copyright Act does not, there is no difference of importance in the respective statutory rights to sell copyrighted works or patented products.⁵³ By distinguishing *Henry* as a decision based on the exclusive right to *use*, the Supreme Court reasoned that just as the sale of a book in *Bobbs-Merrill* exhausted the copyright holder's right to set resale prices, the sale of a patented drug exhausted the seller's patent rights to do the same.⁵⁴ Refuting the patentee's argument that the notice dealt with the use of the invention because the notice stated that the drug was licensed for sale and use at a certain price, and that a purchase was an acceptance of those conditions, the Supreme Court found that it was “a mere play upon words” to call the transaction a license-to-use instead of a

believed to have originated in an 1896 decision of the United States Court of Appeals for the Sixth Circuit. See *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 295–96 (6th Cir. 1896) (holding that the patentee can condition the sale of a patented item with the purchase of a non-patented item).

⁵⁰ A.B.A. SEC. OF ANTITRUST L., INTELL. PROP. & ANTITRUST HANDBOOK 71 (2007).

⁵¹ 226 U.S. 20, 49 (1912).

⁵² 229 U.S. 1, 17–18 (1913) (holding that patent law gives no right “to keep up prices and prevent competition by notices restricting the price at which the articles may be resold”).

⁵³ See *id.* at 12–14 (characterizing the rights conferred under patent law and copyright law as “substantially identical” with the respect to the rights to make and sell the products).

⁵⁴ *Id.* at 14–15 (citing *Henry v. A.B. Dick Co.* 224 U.S. 1, 26 (1912)).

sale; the patentee had no right to the profits of the subsequent sales, and the drug was sold just like in the open market.⁵⁵

This Author believes the tension among these early decisions is evidence that the courts struggled to reconcile the long-standing common-law principle against restraints on alienation with the legislations that define IP rights within U.S. borders — which did not exist when Lord Coke proclaimed such common-law principle — and to balance between two competing schools-of-thought regarding IP-clad goods. On the one hand, such goods should freely travel through commerce just like any other properties without anti-competitive restraints. On the other hand, their creators should enjoy the benefits provided by the IP statutes in order to encourage them to continue creating inventions that will ultimately be made available to the public.

E. *Inherency Doctrine Overruled*

This tension continued until *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, where the Supreme Court refused to enforce an agreement requiring that a patented film projector be used only with films licensed by the patentee by way of patent infringement against a purchaser (when the machine was sold with a plate affixed to it stating such requirement).⁵⁶ This decision effectively overruled *Henry*, which had upheld use restrictions imposed on sales of patented goods as enforceable under patent law.⁵⁷ Facing strong opposition from the three dissenting justices (who were part of the majority that endorsed the inherency doctrine in *Henry*), the majority in *Motion Picture Patents* reasoned that “the exclusive right granted in every patent must be limited to the invention described in the claims of the patent.”⁵⁸ And, because the inherency doctrine could extend the power of the patent monopoly from the claimed invention — the projecting mechanism described in the patent — to the unpatented supplies

⁵⁵ *Bauer & Cie.*, 229 U.S. at 16 (“The packages were sold as with full and complete title as any article could have when sold in the open market . . .”).

⁵⁶ 243 U.S. 502, 518 (1917) (holding that to enforce the restriction would “create a monopoly in the manufacture and use of moving picture films, wholly outside of the patent in suit” which claimed just the projector).

⁵⁷ *Id.* (overruling *Henry* expressly); see *Henry v. A.B. Dick Co.*, 224 U.S. 1, 49 (1912).

⁵⁸ See *Motion Picture Patents*, 243 U.S. at 516. See generally *id.* at 520 (Holmes, J., dissenting) (“[T]here is no predominant public interest to prevent a patented tea pot or film feeder from being kept from the public, because, as I have said, the patentee may keep them tied up at will while his patent lasts.”).

used with the mechanism (i.e., films), which were not part of the claimed invention, it ought to be struck down.⁵⁹ The *Motion Picture Patents* decision also continued trying to distinguish between the patent law rights that the patentee may assert against anyone through an infringement proceeding, and whatever rights he may create via private contracting but only vis-à-vis his contractual counterparts.⁶⁰

In *Straus v. Victor Talking Machine Co.*, the Supreme Court similarly refused to enforce a post-sale price-fixing restraint imposed on patented phonograph machines via an affixed license notice, when the defendants' department store, which was not in contract privity with the patentee, disregarded the notice and proceeded to cut prices.⁶¹ To enforce the notion that *Adams* remained good law, the Supreme Court held that this case fell within the exhaustion doctrine laid out in *Adams*, explaining that the license notice was an attempt to sell the patented machines for a full price, and yet to place restraints on its further alienation was against the common-law principle.⁶²

One could potentially argue that the Supreme Court in *Motion Picture Patents* only intended to address the tie-in restrictions regarding articles to be used together with the patented object, but such issue was previously dealt with by Congress through passing § 3 of the Clayton Act in 1914.⁶³ Section 3 prohibited tie-ins of patented or unpatented products when the effect was to "substantially lessen" market competition, but gave no restrictions with respect to how or where the patented product itself may be used.⁶⁴ The counterargument

⁵⁹ See *id.* at 512, 516 ("[I]t is not competent for the owner of a patent . . . to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation, but which are no part of the patented invention . . .").

⁶⁰ See *id.* at 509, 514 (making the distinction between patent law right to assert a patent against the world through infringement proceedings and general law rights to enforce a private contract between two parties).

⁶¹ 243 U.S. 490, 496, 501 (1917).

⁶² See *id.* at 500–01 (citing *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873)).

⁶³ See Clayton Act, ch. 323, § 3, 38 Stat. 731 (1914) (codified at 15 U.S.C. § 14).

⁶⁴ *Id.* (prohibiting agreements that "may substantially lessen competition or tend to create a monopoly in any line of commerce").

would be that since the latter situation had already been addressed in *Adams*,⁶⁵ *Motion Picture Patents* restored the effect of the exhaustion doctrine to what it had been before *Henry*, as evidenced by the Supreme Court's subsequent *Straus* decision.⁶⁶

Later, in *Boston Store of Chicago v. American Graphophone Co.*, a licensed manufacturer sold phonographs to retailers under contracts requiring a specific resale price and brought a patent infringement suit against a retailer who sold for less.⁶⁷ The Supreme Court concluded that by selling a patented machine within its licensed authority for a gross consideration, the manufacturer placed the machine beyond the confines of patent law, and could not "reserve by contract a part of [the] monopoly right to sell."⁶⁸ The Supreme Court also held that once sold, the manufacturer could not, by qualifying restrictions as to use, keep such machine under the patent monopoly.⁶⁹

The nature of rights that a patentee acquires under a patent was explained by the Supreme Court in *Crown Die & Tool Co. v. Nye Tool & Machine Works*.⁷⁰ There, the Supreme Court rejected an assignment of the exclusionary right to exclude others from making, using, or selling an invention, and held that such an assignment must be accompanied by the right to make, use, and sell the same.⁷¹ The Supreme Court explained that while the Patent Act of 1897⁷² only confers on a patentee the right to exclude others from making, using, or selling a

⁶⁵ See *Adams*, 84 U.S. (17 Wall.) at 459–60 (Bradley, J., dissenting) (observing that limited assignment of patents within districts has enabled manufacturers to purchase monopoly power in those districts).

⁶⁶ See *Straus*, 243 U.S. at 500–01 (holding that plaintiff's attempt to place further restraints on alienation after selling their product for full price was "hateful to the law" and against the public interest).

⁶⁷ 246 U.S. 8, 17–20 (1918) (discussing the price-fixing agreement and the facts of the case).

⁶⁸ *Id.* at 27.

⁶⁹ See *id.* at 25 (stating that price-fixing agreement "was not within the monopoly conferred by the patent law" and could not be enforced under the guise of patent infringement).

⁷⁰ 261 U.S. 24, 36 (1923) (listing the rights accrued to plaintiff as patent holder).

⁷¹ See *id.*

⁷² An Act Revising and Amending the Statutes Relating to Patents, ch. 391, § 4886, 29 Stat. 692 (1897).

patented item, the patentee's right to make, use, or sell his own invention is a common-law right deriving from the fact that the patentee has invented something useful.⁷³ Therefore, exclusive enjoyment is an "incident" of such common-law right, and can only be enjoyed by someone with such a right.⁷⁴

F. *Licenses vs. Sales*

The Supreme Court did not expand its hostility against post-sale restraints to restrictions imposed by a patentee on his licensees. In *United States v. General Electric Co.*, the patentee licensed a manufacturer to make and sell light bulbs on the condition that they must be sold at prices that the patentee fixed at its discretion.⁷⁵ The Supreme Court sought to make a bright-line distinction between *post-sale restraints* on patented goods, which the exhaustion doctrine did not allow, and *reasonable limitations* that a patentee might impose on a licensee, which *were* permissible under patent law.⁷⁶ The Supreme Court held as long-settled under the exhaustion doctrine that where a patentee sells a patented article, he can exercise no future control by virtue of patent law "over what the purchaser may wish to do with the article after his purchase," as it has passed beyond the scope of the patentee's patent rights.⁷⁷ It also seemed clear to the Supreme Court that if the patentee only grants a license to make, the licensee only gets an implied license to use the patented article and not one to sell it.⁷⁸ The Supreme Court then went on to hold that if the patentee licenses another to make and sell, he may limit the method of the licensee's sales and price, so long as his "conditions of sale are normally and reasonably adapted to secure . . . reward for [his patent] monopoly".⁷⁹ The Supreme Court also held that *Motion Picture*

⁷³ *Id.* ("The Government is not granting the common law right to make, use and vend, but it is granting the incident of exclusive ownership of that common law right . . .").

⁷⁴ *Id.*

⁷⁵ 272 U.S. 476, 479 (1926).

⁷⁶ *See id.* at 488 (finding that the patent owner does not violate common law when "dispos[ing] of his article directly to the consumer and fixing the price by which his agents transfer the title").

⁷⁷ *Id.* at 489.

⁷⁸ *See id.* at 490 (concluding that the act of selling leads to infringing on the right of the patentee when the licensee only has the right to make and use the patented article).

⁷⁹ *Id.*

Patents did not overrule *Bement*, and that its pro-exhaustion decisions — including *Adams*, *Bobbs-Merrill*, *Bauer & Cie.*, *Straus*, and *Boston Store* — should not apply to a license, as such cases all dealt with conditional sales.⁸⁰

In *De Forest Radio Telephone Co. v. United States*, a licensee with the right to grant sub-licenses of patented electronic-amplifying vacuum tubes used in radio communication agreed not to interfere with the U.S. Government's manufacture of the vacuum tubes, and actually assisted in making them.⁸¹ The Supreme Court held that an implied license may be inferred from words and actions that indicate consent, so no formal grant of a license was necessary.⁸² The Supreme Court believed that under the circumstances, the licensee had already granted an implied license to the U.S. Government to make and use the patented tubes.⁸³

In *Carbice Corp. v. American Patents Development Corp.*, an exclusive licensee of a combination patent for containers, dry ice, and freezable materials included a license notice as part of its invoices that purchasers must purchase both the dry ice and the containers from it to practice the patent.⁸⁴ The exclusive licensee then sued for contributory patent infringement when an unlicensed manufacturer sold dry ice, knowing that it was to be used by purchasers with the containers and freezable materials described in the patent.⁸⁵ The Supreme Court held that while a patentee "can grant licenses upon terms consistent with the limited scope of the patent monopoly," it may not tie in the purchase of

⁸⁰ *General Elec. Co.*, 272 U.S. at 490–94 ("These cases really are only instances of the application of the principle . . . that a patentee may not attach to the article . . . a condition running with the article in the hands of purchasers, limiting the price at which one who becomes its owner for full consideration shall part with it.") (internal citations omitted).

⁸¹ 273 U.S. 236, 237–39 (1927) (describing the agreement and the sub-license).

⁸² *See id.* at 241 ("No formal granting of a license is necessary in order to give it effect. Any language used by the owner of the patent, or any conduct on his part . . . from which [another] may properly infer that the owner consents to his use of the patent in making or using it . . . constitutes a license and a defense to an action for tort.").

⁸³ *See id.* (finding that the agreement not to interfere with the Government's manufacturing and the subsequent action of assisting the Government in the manufacturing constituted an implied license to the Government).

⁸⁴ 283 U.S. 27, 28–30 (1931).

⁸⁵ *Id.* at 30.

unpatented materials necessary to practice the licensed invention.⁸⁶ It was interesting that by citing *Motion Picture Patents*, the Supreme Court did not explicitly rely on the exhaustion doctrine revived in *Straus* to invalidate the tie-in of unpatented elements of patented combinations; rather, it treated the practice as beyond what the Patent Act grants to the patentee.⁸⁷ Therefore, one could argue that *Carbice Corp.* should be viewed as a precedent on patent misuse in licensing instead of one on the exhaustion doctrine.

In *General Talking Pictures Corp. v. Western Electric Co.*, the Supreme Court reaffirmed and expanded on the distinction made in *General Electric* between post-sale restraints and license limitations.⁸⁸ The Supreme Court upheld the so-called *field-of-use limitations* in licenses granted by the patentee to make and sell vacuum tubes only in the field of small amplifiers (such as home radios).⁸⁹ It also held that the limitations were enforceable against the licensee that made and sold the patented vacuum tubes in the field of large amplifiers (such as for use in theaters), and against those acting in concert with it, including downstream purchasers that knew the products were sold outside the scope of the license.⁹⁰ *General Talking Pictures* seemed to limit the application of the exhaustion doctrine to authorized sales only,⁹¹ and as a result, a sale made by a licensee outside the licensed field might not be able to free the product from the IP-owner's monopoly.

As illustrated in *Standard Sanitary*, even when not treated as invalid post-sale restraints, license restrictions should nevertheless refrain from being

⁸⁶ *Id.* at 31 (citing *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926)).

⁸⁷ *See id.* (citing *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 515 (1917)).

⁸⁸ 304 U.S. 175, 181–82 (1938) (noting that the sales at issue were outside of the scope of the license).

⁸⁹ *See id.* at 179 (listing amplifiers used in private fields including radio broadcast reception, radio amateur reception, and radio experimental reception as included in the license).

⁹⁰ *See id.* at 181–82 (holding that the licensee and the purchaser were both liable because the licensee and purchaser both knew the sale and use were outside the scope of the license).

⁹¹ *See id.* at 180 (noting that the patent owner did not make the sales personally nor authorize them).

unreasonably anti-competitive.⁹² In *Interstate Circuit, Inc. v. United States*, where copyright owners of films agreed to a price-fixing arrangement with theater owners as part of their licensing contracts for exhibitions, the Supreme Court found that this arrangement was not protected because it went beyond licensing a particular film.⁹³ The Supreme Court ultimately held that while a copyright owner could impose restrictions upon his licensees, he could not use such right to suppress competition.⁹⁴

G. *Expansion of the Exhaustion Doctrine*

The Supreme Court continued to develop the exhaustion doctrine and extended it from product patents to method patents. In *Ethyl Gasoline Corp. v. United States*, where the patentee owned several patents on a fuel additive, the patentee sold the additive to refiners for use in the manufacture of motor fuel and licensed the refiners and downstream distributors to practice the method patents.⁹⁵ The patentee's licensing program fixed prices for the fuel and strictly limited the types of customers to which licensees could sell the fuel.⁹⁶ Not convinced by the argument that the patentee was entitled to impose license restrictions based on the licensed method patents, the Supreme Court struck down the licensing program and held that the method patents were exhausted by the sale of an item that embodied the methods.⁹⁷

The Supreme Court further expanded the application of the exhaustion doctrine to sales of components or precursors in *United States v. Univis Lens Co.*⁹⁸ There, the owner of various method and product patents on optical lenses sold

⁹² See *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 49 (1912) (describing Sherman Law as a limitation of rights and applicable to rights conferred by patents).

⁹³ 306 U.S. 208, 230 (1939).

⁹⁴ *Id.* at 228 (“[E]ach distributor, in the protection of his own copyright monopoly, was free to impose the present restrictions upon his licensees, . . . [however,] they were not free to use their copyrights as implements for restraining commerce . . .”).

⁹⁵ 309 U.S. 436, 446–47 (1940).

⁹⁶ *Id.* at 447 (noting that the patentee required licensees to handle and mix the fuel additives in a specific manner, to use specific machinery to do so, and to impose similar obligations on all purchasers).

⁹⁷ See *id.* at 455, 457–58.

⁹⁸ 316 U.S. 241 (1942).

lens blanks — which were unpatented but specially adapted for manufacturing patented lenses, and thus could only be used to make the lenses — to manufacturers, and licensed them to make and sell the patented lenses made using the blanks at fixed prices.⁹⁹ The Supreme Court held that an authorized sale of an article that embodies essential features of the patented invention relinquishes the patent holder's rights under patent law to control the purchaser's disposition or use of the article, and of the articles into which it is incorporated.¹⁰⁰ The Supreme Court seemed to believe that the exhaustion doctrine should apply equally whether the patented article is sold in completed form, or sold in unfinished form for the buyer to finish in conformity to the patent.¹⁰¹

In *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, with respect to a combination patent on a fabric convertible top and the associated metal support structure, the Supreme Court held that the replacement of the worn fabric top by the purchaser constituted permissible repair of the patented combination, and could not be controlled by the patentee.¹⁰² The Supreme Court explained that prohibited reconstruction of a “patented [item], comprised of unpatented elements, is limited” to the situation of making a new article after the originally purchased article, “viewed as a whole, has become spent.”¹⁰³ The Supreme Court emphasized that in order to find infringement there must be a “second creation of the patented [article],” and found that “[m]ere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property.”¹⁰⁴

In *Wilbur-Ellis Co. v. Kuther*, a purchaser of a patented second-hand fish-canning machine extensively refurbished the machine, including modifying and

⁹⁹ *Id.* at 243–44.

¹⁰⁰ *See id.* at 249 (finding that the lens blanks are within the scope of the patent because they are essential to the manufacture of the patented lenses and have no other utility).

¹⁰¹ *See id.* at 250–51 (holding that the sale of an essential feature to be transformed into or included in the patented product is, in effect, the sale of the final product and the patent owner “part[s] with his right to assert the patent monopoly” as to those articles).

¹⁰² 365 U.S. 336, 338–41 (1961).

¹⁰³ *Id.* at 346.

¹⁰⁴ *Id.*

resizing six separate parts of the machine.¹⁰⁵ The Supreme Court clarified that the purchaser's right of repair accompanies the patented article to succeeding owners, and held that the fairly extensive refurbishment, although more than customary repair of spent or broken components, was akin to repair as it extended the useful life of the original machine.¹⁰⁶ Refurbishing the machine, therefore, was permissible.¹⁰⁷

In *Quality King Distributors Inc., v. L'anza Research International Inc.*, the copyright owner of labels, which were affixed to its hair products manufactured in the United States and sold abroad, sued a downstream distributor that imported the products back to the United States and sold them at discounted prices to unauthorized retailers.¹⁰⁸ The Supreme Court held that the copyright holder could not prevent re-importation of what it had authorized for export from the United States.¹⁰⁹ The Supreme Court commented that the exhaustion doctrine does not apply to any non-owner, such as a licensee, or one whose possession of the copy was unlawful.¹¹⁰

H. *Federal Circuit Entered the Fray*

The pro-exhaustion trend, however, was reversed in 1992 by the Federal Circuit, the specialized appellate-court for patent cases.¹¹¹ In *Mallinckrodt*, the

¹⁰⁵ 377 U.S. 422, 423 (1964).

¹⁰⁶ *Id.* at 424–25.

¹⁰⁷ *See id.* at 425 (finding that the size of the components was not a claimed element of the invention so the adaptation was within the patent rights purchased).

¹⁰⁸ 523 U.S. 135, 139–40 (1998).

¹⁰⁹ *See id.* at 143 (holding that the copyright holder, L'anza, cannot claim "unauthorized resales by its domestic distributors as an infringement," pursuant to § 109(a) of the Copyright Act of 1976).

¹¹⁰ *See id.* at 146–47 (emphasizing that § 109(a) protection is limited to "owners" of the copies).

¹¹¹ *See generally Court Jurisdiction*, U.S. CT. APPEALS FED. CIR., <http://www.cafc.uscourts.gov/the-court/court-jurisdiction> [<https://perma.cc/ZCQ4-BD62>] (listing the subject areas over which the Federal Circuit, created by the Federal Courts Improvement Act of 1982, has nationwide jurisdiction: "international trade, government contracts, patents, trademarks, certain money claims against the United States government, federal personnel, veterans' benefits, and public safety officers' benefits claims").

patentee of a device for dispensing and trapping a radioactive mist used in taking diagnostic X-rays, sold the devices with a “single use only” notice and sued the business that recycled and refurbished them for reuse.¹¹² Citing *General Talking Pictures*, the Federal Circuit held that the validity of post-sale restrictions — including those in notices affixed to the products, but other than those fixing prices or imposing tie-ins — should be decided by looking at whether the restriction is reasonably within the patent grant, or whether it has an unjustified anti-competitive effect; a so-called *rule-of-reason analysis*.¹¹³

This Author believes the Supreme Court’s 19th-century case law (such as *Adams*) may be distinguished from *Mallinckrodt* on the ground that the patentee in *Mallinckrodt* did not impose specific post-sale restrictions.¹¹⁴ Additionally, the Court’s later decisions — such as *Motion Picture Patents, Straus, Carbice Corp., Ethyl Gasoline*, and *Univis Lens* — seemed to involve price-fixing and tie-ins, and thus *could* be reconciled with *Mallinckrodt*.¹¹⁵ Nevertheless, the Federal Circuit’s reliance on *General Talking Pictures* seems to be misplaced, as that decision arguably is about license restrictions, not post-sale restraints.¹¹⁶

In *Jazz Photo*, the patentee sued for patent infringement defendants who refurbished in overseas facilities and imported for sale in the United States the patentee’s disposable cameras previously sold to consumers both in and outside the United States.¹¹⁷ In deciding whether “the refurbishment of the used cameras

¹¹² See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 701–02 (Fed. Cir. 1992). The district court ruled that reuse restriction was unenforceable, which the Federal Circuit labeled as “an application of the doctrine of patent misuse,” generally used to prevent patentees from using the patent to obtain market benefit beyond the statutory patent right. See *id.* at 703–04.

¹¹³ See *id.* at 706–09 (holding that the reuse restriction is not, as a matter of law, unenforceable, and remanding to consider the restriction under the rule of reason analysis, which identifies the “appropriate criterion” as “whether *Mallinckrodt*’s restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect”).

¹¹⁴ See *supra* Section II.B.

¹¹⁵ See *supra* Sections II.E–G.

¹¹⁶ See *supra* notes 88–91 and accompanying text.

¹¹⁷ See *Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1098 (Fed. Cir. 2001). The action was brought under 19 U.S.C. § 1337 which prohibits “[t]he importation into the United States . . . of articles that . . . infringe a valid and enforceable

was prohibited ‘reconstruction,’ as opposed to permissible ‘repair,’” the Federal Circuit held that while a purchaser’s rights do not include the right to construct an essentially new article on the template of the patented article purchased, it does include “the right to preserve the useful life of the original article.”¹¹⁸ The Federal Circuit determined that the defendants’ actions to refurbish cameras legally acquired in the United States to extend their useful lives (including fitting new films or batteries, repairing, repackaging, and relabeling) amounted to *repair*, not *reconstruction*.¹¹⁹ Noting that the repair/reconstruction dichotomy is based on the exhaustion doctrine and citing *Boesch*, the Federal Circuit further held that “[t]o invoke the protection of the [exhaustion] doctrine, the authorized first sale must have occurred [in] the United States.”¹²⁰ The Federal Circuit also found that as some of the cameras were only sold overseas, their refurbishments were “not immunized” from patent infringement.¹²¹

I. *Supreme Court Weighed-In Again*

In *Quanta Computer, Inc. v. LG Electronics, Inc.*, the patentee authorized the licensee to make and sell patented microprocessors for combination with other patented products made by the patentee with a license agreement expressly stating that no license was granted for combining the licensed products with any other articles (i.e., combining the microprocessors with other parts of a computer) — except for those specified by the patentee and subject to a separate

United States patent . . . [or that] are made, produced, processed, . . . under, or by means of, a process covered by the claims of a valid and enforceable United States patent.” 19 U.S.C. § 1337(a)(1)(B) (2012).

¹¹⁸ See *Jazz Photo Corp.*, 264 F.3d at 1098, 1102 (noting that the absence of “the right to make a substantially new article” and “the right to preserve the useful life of the original article” act as two “poles” of a “continuum,” in which precedent has tended to fall in the middle).

¹¹⁹ See *id.* at 1107 (“[T]he replacement of unpatented parts, having a shorter life than is available from the combination as a whole, is characteristic of repair, not reconstruction.”) (citing *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961)).

¹²⁰ See *id.* at 1105 (citing *Boesch v. Graff*, 133 U.S. 697, 701–03 (1890)) (explaining that licenses from the United States patentee are still required in the case of lawful foreign purchases before importing and selling into the United States).

¹²¹ See *id.* (“The United States patent rights are not exhausted by products of foreign provenance.”).

agreement notifying its customers.¹²² The Supreme Court relied on *Univis Lens* to hold that a sale of the microprocessors by such licensee exhausted the patent monopoly on the microprocessors sold, including patents covering the combination of them with other components where the essential features that differentiated the claimed combination invention from the prior art (thus making it patentable) were all contained in the microprocessors sold, rather than in the combination of products to which the microprocessors are components.¹²³

The Supreme Court distinguished *General Talking Pictures* on the ground that in *Quanta Computer* there was no *field-of-use limitation*.¹²⁴ The Supreme Court noted that even though the license agreement specifically denied a license for combining the licensed microprocessors with non-specified articles, nothing therein prohibited the licensee from selling the microprocessors to customers that intended to pursue such a combination;¹²⁵ failure to notify customers about the absence of such a license was not a basis for terminating the license agreement.¹²⁶ Pursuant to the Supreme Court, having bought the microprocessors from an authorized seller, the purchase did not need such a license.¹²⁷ While the exhaustion doctrine eliminated patent remedies, the Supreme Court made clear that it did not rule on whether the patentee could have enforced a contractual

¹²² 553 U.S. 617, 619–23 (2008) (quoting language from the License Agreement, “authoriz[ing] Intel to ‘make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of’ its own products practicing the LGE Patents”).

¹²³ *See id.* at 631–36 (“[W]e agree with Quanta that *Univis* governs this case.”).

¹²⁴ *See id.* at 636.

¹²⁵ *Id.* (“Nothing in the License Agreement restricts Intel’s right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts.”).

¹²⁶ *See id.* (noting that neither party contended that Intel breached the Agreement by failing to notify customers that it had not licensed them to practice the patents).

¹²⁷ *See id.* at 637 (“[T]he License Agreement authorized Intel to sell products that practiced LGE Patents. No conditions limited Intel’s authority to sell products substantially embodying the patents. . . . [T]he doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products.”).

restriction.¹²⁸ The Supreme Court, however, did not discuss the Federal Circuit's *Mallinckrodt* decision. Therefore, at that point in time, one could argue that *Mallinckrodt* remained good law, and because *Quanta Computer* could be distinguished on the basis that the authorized sale there was treated by the Supreme Court as an unconditional sale,¹²⁹ a patentee may still use a true conditional sale to impose post-sale restrictions on downstream purchasers.

This decision also did not seem to address the question that when the patentability of a combination patent is based on the unique combination of two or more previously patented articles (instead of hinged upon a new article, as was the case in *Quanta Computer*¹³⁰), all of which are owned by one patentee, Would a sale of one of such article, authorized by such patentee, exhaust the combination patent? If the later combination patent is owned by a patentee different from the patentee of the product patent, it seems hard to argue that such a sale made by another patentee should exhaust the rights of the owner of the combination patent. But even if the patents are owned by the same patentee, who arguably only put the individual article and not the entire combination into the stream of commerce, it seems equally hard to argue that such patentee has already enjoyed the fruit of his combination patent, which is supposed to expire later than the product patent.

In *Kirtsaeng v. John Wiley & Sons, Inc.*, where the defendant bought the copyright owner's textbooks made abroad (marked for foreign-sale only) and imported them into the United States, the Supreme Court cited *Quality King* and held that the exhaustion doctrine applies to copies of copyrighted work legally made and sold anywhere in the world, not just in the United States.¹³¹ As a result, the textbooks purchased abroad can be resold domestically without the

¹²⁸ *Quanta Comput., Inc.*, 553 U.S. at 637 n.7 (“[W]e express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.”).

¹²⁹ *See id.* at 637 (“No conditions limited Intel's authority to sell products substantially embodying the patents.”).

¹³⁰ *See id.* at 621 (treating each of the patented computer components as an individual product that is incorporated into a system in order to function).

¹³¹ 568 U.S. 519, 524–25 (2013) (“This case is like *Quality King* but for one important fact. The copies at issue here were manufactured abroad. . . . We hold that the [exhaustion] doctrine applies to copies of a copyrighted work lawfully made abroad.”).

copyright owner's permission.¹³² This holding, in this Author's opinion, seemed to cause tension with the Federal Circuit's *Jazz Photo* decision as it was unlikely that Congress, when passing the Patent Act and the Copyright Act, intended the exhaustion doctrine to play out differently in the patent- and copyright-contexts, at least not with respect to its geographic reach.¹³³

In *Bowman v. Monsanto Co.*, the patentee sold and allowed others to sell patented soybeans to farmers.¹³⁴ The farmers agreed to a limited-use license that allowed the farmer-buyers to plant the purchased beans in one season only, and prohibited them from saving any beans produced from the plants for replanting¹³⁵ or supplying them to anyone else for that same purpose, effectively forcing the farmer-buyers to buy beans from the patentee every season.¹³⁶ One farmer bought soybeans from a local grain elevator that purchased soybean plants containing beans from prior harvests, then planted them, harvested the resulting soybeans, saved some of the harvested beans for replanting, replanted, and ultimately harvested eight crops in that way.¹³⁷ The patentee sued the farmer for infringement.¹³⁸ Relying on *Cotton-Tie*, the Supreme Court held that the exhaustion doctrine could not permit the farmer to reproduce the patented beans, explaining that by planting the beans and thereby growing new crops, the farmer essentially made the patented products without the patentee's authorization.¹³⁹ The Supreme Court noted that the exhaustion doctrine, while

¹³² See *id.* at 525.

¹³³ See generally *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1536 (2017) (“[D]ifferentiating the patent exhaustion and copyright first sale doctrines would make little theoretical or practical sense: The two share a ‘strong similarity and identity of purpose.’”) (internal citation omitted).

¹³⁴ 569 U.S. 278, 281 (2013).

¹³⁵ See *id.* (“[A] single [saved] seed can grow a plant containing dozens of genetically identical beans, each of which, if replanted, can grow another such plant — and so on and so on.”).

¹³⁶ *Id.* (discussing the agreement and finding that it, in effect, prevents a farmer from producing his own seeds, “forcing him instead to buy from Monsanto each season”).

¹³⁷ See *id.* at 282 (noting that Bowman used the saved seeds for his “late-season” planting because “late-season planting [is] ‘risky’ [and] he did not want to pay the premium price that Monsanto charges”).

¹³⁸ *Id.*

¹³⁹ See *id.* at 287 (citing *Cotton-Tie Co. v. Simmons*, 106 U.S. 89, 93–94 (1882)).

giving the purchaser or any subsequent owner a right to use or resell the item initially sold, “leaves untouched the patentee’s ability to prevent a buyer from making new copies of the patented item.”¹⁴⁰ The Supreme Court refused to create an exception for self-replicating articles on the basis that if the purchaser could make and sell endless copies, patents on such articles would have little value, and that it was the farmer, not the beans themselves, who controlled the reproduction.¹⁴¹

III. IMPRESSION PRODUCTS DECISION: ANALYSIS & COMMENTARY

After the Federal Circuit in its en banc decision in *Lexmark Int’l, Inc. v. Impression Products, Inc.* refused to overrule *Mallinckrodt* and *Jazz Photo* in light of the Supreme Court’s *Quanta Computer* and *Kirtsaeng* decisions,¹⁴² the Supreme Court decided to speak on the exhaustion doctrine again as part of its own *Impression Products* decision.¹⁴³ By overruling the Federal Circuit’s holding, the Supreme Court clarified that patent exhaustion upon the first sale should be automatic, unconditional, and international.¹⁴⁴

A. Summary of Facts

The patentee in *Impression Products* sold patented toner cartridges for its printers, domestically and abroad, and offered its customers two choices: (1) a “regular cartridge” at full price; or (2) a “return program cartridge” at a discount.¹⁴⁵ In exchange for the lower price, customers who bought return-program cartridges agreed to not to reuse the cartridges after the toner ran out,

¹⁴⁰ *Bowman*, 569 U.S. at 284 (holding that the exhaustion “doctrine restricts a patentee’s rights only as to the ‘particular article’ sold”) (internal citation omitted).

¹⁴¹ *See id.* at 289 (“[I]t was *Bowman*, and not the bean, who controlled the reproduction . . . of *Monsanto’s* patented invention.”).

¹⁴² 816 F.3d 721, 726-27 (Fed. Cir. 2016), *rev’d sub nom.* *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523 (2017) (“We find *Mallinckrodt’s* principle to remain sound after the Supreme Courts decision in *Quanta Computers* We conclude that *Jazz Photo’s* no-exhaustion principle remains sound after the Supreme Court’s decision in *Kirtsaeng*”) (internal citations omitted).

¹⁴³ *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1529 (2017).

¹⁴⁴ *See id.* at 1527, 1527, 1535 (stating that patent exhaustion was not intended just for domestic sales and that the doctrine is “uniform and automatic”).

¹⁴⁵ *Id.* at 1529–30.

as well as not to transfer them to anybody else, under a license wrapped on the cartridges — a legal agreement deemed to be accepted by customers opening the cartridge packaging.¹⁴⁶ The license read:

RETURN EMPTY CARTRIDGE TO LEXMARK FOR
REMANUFACTURING AND RECYCLING.

Please read before opening. Opening this package or using the patented cartridge inside confirms your acceptance of the following license/agreement. Th[e patented Return Program] cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.¹⁴⁷

The defendant purchased used return-program cartridges from the customers, refilled the cartridges with toner, and resold the remanufactured cartridges for use with the patentee's printers.¹⁴⁸

B. *The Supreme Court's Holding*

Relying on the common-law principle against restraints on alienation and citing its 19th- and 20th-century precedents, the Supreme Court affirmed that an authorized sale of a patented item anywhere in the world “terminates all [U.S.] patent rights to that item,” and the patentee cannot sue for infringement with respect to any further use or sale of that item in the United States.¹⁴⁹ The Supreme Court reasoned that even though, unlike the Copyright Act, the Patent Act has not codified the exhaustion doctrine, nothing shows that Congress intended the Patent Act to abrogate that longstanding common-law principle, which therefore should have its full effect as the Supreme Court first utilized it

¹⁴⁶ *See id.* at 1530.

¹⁴⁷ *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 253 F. Supp. 2d 943, 947 n.1 (E.D. Ky. 2003).

¹⁴⁸ *Impression Prods.*, 137 S. Ct. at 1530.

¹⁴⁹ *See id.* at 1531, 1536–37 (citing *Quanta Comput., Inc. v. LG Elec., Inc.*, 553 U.S. 617, 625 (2008)) (explaining that the borderless common-law principle in the doctrine of patent exhaustion was not intended to be just confined to domestic sales).

almost 160 years ago.¹⁵⁰ By holding that post-sale restrictions as a whole, instead of only unreasonable ones, are not enforceable under patent law, the Supreme Court rendered the Federal Circuit's *Mallinckrodt* decision of little precedential value.¹⁵¹ Similarly, by noting that it does not make sense to apply the exhaustion doctrine internationally for copyrights but only domestically for patents, the Supreme Court overruled the part of the Federal Circuit's *Jazz Photo* decision that limited the application of the patent exhaustion to only U.S. sales.¹⁵²

C. *Commentary*

The Supreme Court seemed to largely base this decision on its view of common-law tradition and public policy, instead of solely focusing on statutory construction. Central to the Supreme Court's holding was that IP rights must "yield to the common law principle against restraints on alienation" of personal properties.¹⁵³

1. **Statutory Interpretation & Legislative Intent**

The Supreme Court appeared to suggest that because Congress enacted and revised the Patent Act several times against the backdrop this common-law principle and has not specifically addressed it, Congress must have intended this principle to remain unchanged.¹⁵⁴ Pursuant to the Supreme Court, "[w]here a common-law principle is well established," it is safe to say that "Congress has legislated with an expectation that the principle will [continue to] apply except when a statutory purpose to the contrary is evident."¹⁵⁵ The original Patent Act,

¹⁵⁰ See *Impression Prods.*, 137 S. Ct. at 1531–32 (explaining the basic history of the doctrine of patent exhaustion and that "patent rights yield to the common law principle against restraints on alienation").

¹⁵¹ See *id.* at 1530 (explaining the Federal Circuit relied on *Mallinckrodt* then overruling the Federal Circuit's decision).

¹⁵² See *id.* at 1535–36, 1538 (explaining that "differentiating the patent exhaustion and copyright first sale doctrines would make little theoretical or practical sense" and criticizing *Jazz Photo*).

¹⁵³ See *id.* at 1531.

¹⁵⁴ See *id.* at 1532, 1536.

¹⁵⁵ *Id.* at 1536 (quoting *Astoria Fed. Sav. & Loan Assn. b. Solimino*, 501 U.S. 104, 108 (1991) ("[W]here a common-law principle is well established, . . . courts may take it as given that Congress has legislated with an expectation that the

however, was first enacted in 1790, almost 50 years before the Supreme Court started to develop its IP-exhaustion jurisprudence.¹⁵⁶ While one can only surmise what Congress had in mind when it passed the Patent Act of 1790, the grant section of the current Patent Act on its face provides that each patent grants to the patentee “the right to exclude *others* from making, using, offering for sale, . . . selling, . . . or importing [a patented] invention” during the patent term.¹⁵⁷ Similarly, the infringement section of the Patent Act states that “whoever *without authority* makes, uses, offers to sell, . . . sells, . . . or imports” the invention during the patent term infringes the patent.¹⁵⁸ By the word “others,” Congress did not seem to distinguish between those that bought patented items via authorized sales and those that did not.¹⁵⁹ In addition, if the “authority” to use or sell a patented item must come from the patentee in order to avoid infringement,¹⁶⁰ the patentee should have the right to negate such authority; for example, in notices to or contracts with purchasers of the patented item. One may also notice that a purchaser’s right to resell a patented item is not the same as the right to use it; a distinction seemed to be recognized by the Supreme Court in *Bauer & Cie*.¹⁶¹ While the former is not exclusively granted to the patentee on the face of the

principle will apply except when a statutory purpose to the contrary is evident.”) (alterations in original).

¹⁵⁶ See generally Act to Promote the Progress of Useful Arts, ch. 7, 1 Stat. 109 (1790) (repealed in 1836) (the first patent statute passed by the Federal Government — also known as the Patent Act of 1790).

¹⁵⁷ See 35 U.S.C. § 154(a) (2012) (emphasis added) (describing the general contents and terms of a patent as a “right to exclude others from making, using, offering for sale, or selling the invention” or importing it into the United States).

¹⁵⁸ *Id.* § 271(a) (emphasis added).

¹⁵⁹ Compare *id.* § 154(a) (listing the right as “to exclude others”), with *id.* § 271(a) (defining infringement as violation of the exclusive right “without authority”).

¹⁶⁰ See *id.* § 271(a) (“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.”).

¹⁶¹ See *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 17–18 (1913) (“The right to manufacture, the right to sell, and the right to use, are each substantive rights, and may be granted or conferred separately by the patentee.”) (internal citation omitted).

Patent Act, the latter is.¹⁶² Based on that distinction, one could argue that while a purchaser may resell a patented item, such item may only be used as prescribed by the patentee.

Furthermore, by comparing the Patent Act with the Copyright Act, it seems fair in this Author's opinion to say that Congress gives a patentee a greater exclusivity than that of a copyright owner; a patent includes the exclusive right to use the patented invention, but a copyright owner does not enjoy the same protection.¹⁶³ While giving a copyright owner the exclusive right to distribute copies of a copyrighted work by sale, the Copyright Act explicitly allows the lawful owner of a particular copy to sell that copy without the authority of the copyright owner.¹⁶⁴ The Patent Act does not so provide. One could therefore argue that if Congress intended the common-law principle against restraints on alienation to remain in effect when granting a legal monopoly (whether a patent or a copyright), which monopoly seems to be absolute on its face, Congress would have provided an exception to such monopoly. As Congress has provided such an exception in the Copyright Act but not in the Patent Act,¹⁶⁵ it is at least conceivable that Congress could intend that exception to apply to copyrights only, leaving the more powerful patent monopoly unaffected by the exhaustion doctrine. This would create incentives for innovation and compensate for the shorter period of patent monopoly when compared to the duration of copyright exclusivity.

The Supreme Court did not seem to believe this was Congress's intention. The Supreme Court reasoned that, as it held in *Crown Die & Tool*, the "right to use, sell, or import [a patented] item exists independently of the Patent

¹⁶² See 35 U.S.C. § 154(a) (describing the general contents of a patent).

¹⁶³ Compare 35 U.S.C. § 154(a) (describing the patentee's exclusive right "to exclude others from making, using, offering for sale, or selling" the patented invention), with 17 U.S.C. § 106 (2012) (describing the exclusive rights in copyrighted works, which includes the rights "to reproduce . . . , to prepare derivative works . . . , [and] to distribute," among others, but not including the right to use the work).

¹⁶⁴ See 17 U.S.C. § 109(a) ("[T]he owner of a particular copy . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . .").

¹⁶⁵ Compare *id.* (describing the right of a purchaser of a copyright protected article to sell the article), with 35 U.S.C. § 154(a) (describing the general contents and terms of a patent as a right to exclude others but not addressing any similar right of a purchaser to sell the patented article).

Act,” which only confers on a patentee the right to exclude others from doing so.¹⁶⁶ According to the Supreme Court, because the exclusionary right conferred by the Patent Act is only incidental to the ownership of a patented item, once such ownership is transferred out, there is nothing left for the patentee to enforce.¹⁶⁷ One could argue, however, that even if the right to exclude is an incident of an inventor’s common-law right, such common-law right, as identified in *Crown Die & Tool*,¹⁶⁸ does not seem to be limited to a particular copy of the invention, but rather is the right to make and sell as many copies as the inventor desires. Therefore, by selling such a copy instead of assigning his entire title in the invention, the inventor transferred the ownership of the sold copy without relinquishing his common-law right to the underlying invention; thus, the inventor did not also give away the exclusionary right incidental to his common-law right.

2. Public Policy

In addition, as the main public policy supporting its holding, the Supreme Court seemed to believe that if a patentee is allowed to “extend[] the patent rights beyond the first sale” of a patented item and “stick remora-like to that item as it flows through the market,” this “would clog the channels of commerce.”¹⁶⁹ This is especially true when nowadays an end product assembled from various components, such as a smartphone, could potentially implicate

¹⁶⁶ *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1534 (2017) (citing *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 35 (1923)) (“The right to use, sell, or import an item exists independently of the Patent Act. What a patent adds — and grants exclusively to the patentee — is a limited right to prevent others from engaging in those practices.”).

¹⁶⁷ *See id.* (“[S]ale transfers the right to use, sell, or import because those are the rights that come along with ownership, and the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce.”).

¹⁶⁸ *See Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 36 (1923) (“It is the fact that the patentee has invented or discovered something useful and thus has the common law right to make, use and vend it himself which induces the Government to clothe him with power to exclude everyone else from making, using or vending it.”).

¹⁶⁹ *See Impression Prods.*, 137 S. Ct. at 1532, 1538 (asserting that “extending the patent rights beyond the first sale would clog the channels of commerce”).

hundreds of thousands of patents held by different owners.¹⁷⁰ This is a powerful argument.

While a licensee authorized to distribute a patented item may be able to negotiate terms with the patent owner, it is hard to imagine that an individual consumer possesses the same bargaining power. This leaves the consumer with only the choices of either accepting whatever conditions are imposed by the patentee, or not using the product at all. One may argue that this is only true during the patent term. This Author believes, by continuing to improve upon an invention, however, a patentee can seek endless follow-up patents to prolong the patent monopoly and thus always be in a position to demand restrictions. Another counterargument proffered by this Author is that even if the Patent Act grants to a patentee a complete monopoly against the world (including purchasers) to use and sell the patented invention during a limited period, it does not exempt the patentee from violating other laws;¹⁷¹ so, if a patentee's restrictions unreasonably constrain commerce, antitrust and unfair competition laws will come into play and keep the patentee's practices checked.¹⁷² Therefore, it is arguably not necessary to categorically deny a patent owner's ability to impose sale conditions under patent law, as this may potentially deprive the patentee of the opportunities to devise marketing strategies to recover what was spent in developing and commercializing the patented invention in today's complex business environment.

Some of such strategies may count for environmental, humanitarian, or similar reasons. For example, the return program in *Impression Products* seemed

¹⁷⁰ See *Impression Prods.*, 137 S. Ct. at 1532 (“A generic smartphone assembled from various high-tech components could practice an estimated 250,000 patents.”) (internal citation omitted).

¹⁷¹ See, e.g., *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 637 n.7 (2008) (clarifying that the Supreme Court “express[ed] no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages,” which suggest that action otherwise allowed under patent law may violate another body of law).

¹⁷² See, e.g., *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 49 (1912) (“Rights conferred by patents are indeed very definite and extensive, but they do not give any more than other rights a universal license against positive prohibitions. The Sherman law is a limitation of right”) (internal citations omitted).

to be at least partially designed to encourage recycling of the used cartridges.¹⁷³ Going-forward, this Author believes the patentee may only offer cartridges at the regular price. Would society as a whole benefit from such a less environmentally friendly practice? Similarly, should a pharmaceutical company that sells patented drugs in underdeveloped countries at a considerable discount or for a nominal amount be discouraged by arbitrageurs that buy the drugs from locals in such countries and then sell them in the United States at a price lower than what the drug maker normally charges? Even if a patentee's motive is solely to maximize profits by selling the same products to different market segments at different prices, it seems to be well within the patentee's prerogative to do so. But now because of *Impression Products*, this Author believes it will likely be more difficult, if not entirely impossible, for a patentee to charge differently situated consumers around the globe different prices for the same products, as the patentee can no longer rely on its U.S. patents to prevent purchasers who bought the products cheaper from reselling them and thus equalizing the price difference.¹⁷⁴

What "tip[ped] the scales for global exhaustion" in the Supreme Court's deliberation seemed to be that the common-law exhaustion doctrine by its nature does not make geographical distinctions.¹⁷⁵ According to the Supreme Court, a straightforward application of that doctrine requires it to apply internationally, and nothing in the Patent Act shows that Congress intended to confine the common-law principle to domestic sales.¹⁷⁶ The Supreme Court distinguished *Boesch* on the basis that the patentee in *Boesch* had nothing to do with the first sale, and therefore, it was not an authorized sale.¹⁷⁷ As the Supreme Court noted,

¹⁷³ See *Impression Prods.*, 137 S. Ct. at 1529 (noting that the agreement "encourages customers to return spent cartridges" so they can be recycled by Lexmark).

¹⁷⁴ See generally *id.* at 1538 ("Exhaustion does not depend on whether the patentee receives a premium for selling in the United States . . . what matters is the patentee's decision to make a sale.").

¹⁷⁵ *Id.* at 1536 (citing *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 538–39 (2013)).

¹⁷⁶ See *id.* ("The lack of any textual basis for distinguishing between domestic and international sales means that 'a straight forward application' of the [exhaustion] doctrine required the conclusion that it applies overseas.") (internal citation omitted).

¹⁷⁷ See *Impression Prods.*, 137 S. Ct. at 1537 (citing *Boesch v. Graff*, 133 U.S. 697, 703 (1890)) (stating that the *Boesch* case asserts that sales abroad do not

it probably makes little sense to differentiate the exhaustion doctrine in the patent- and copyright-contexts, because many modern products are subject to both protections.¹⁷⁸

This holding, however, may lead to diminishing values of U.S. patents in international commerce. For example, the World Trade Organization's Agreement on Trade Related Aspects of Intellectual Property Rights explicitly leaves to each member to decide whether and when national IP rights should be exhausted.¹⁷⁹ Therefore, post-*Impression Products*, products bought in the United States with exportation restrictions might not be able to move freely into countries that only recognize exhaustion of IP rights on domestic sales, while products sold abroad could find their way to the United States without facing the threat of IP liabilities.

IV. *IMPRESSION PRODUCTS* DECISION: IMPLICATIONS

By analyzing the scope and impact of the *Impression Products* decision, this Author hopes to provide guidance on how to differentiate permissible license conditions from prohibited post-sale restrictions.

A. *Scope*

To appreciate the implications of the *Impression Products* decision, it is important to first understand its scope. The Supreme Court made clear that it did not address whether the patentee in *Impression Products* could enforce the restrictions under contract law,¹⁸⁰ leaving open the possibilities for a patentee to put a contract in place to restrict a purchaser's right to use or resell the patented

exhaust a patentee's rights when the patentee had nothing to do with the transaction).

¹⁷⁸ See *id.* at 1536 (stating that the two doctrines share a strong similar purpose and many everyday products are subject to both patent and copyright protection).

¹⁷⁹ Agreement on Trade-Related Aspects of Intellectual Property Rights art. 6, Apr. 15, 1994, 1869 U.N.T.S. 299, 323 [hereinafter TRIPS Agreement] (“[N]othing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”).

¹⁸⁰ See *Impression Prods.*, 137 S. Ct. at 1538 (“More is at stake when it comes to patents than simply the dealings between the parties, which can be addressed through contract law. Instead, exhaustion occurs because, in a sale, the patentee elects to give up title to an item in exchange for payment.”).

item.¹⁸¹ Furthermore, in order to exhaust IP rights, the sale must be authorized by the IP owner.¹⁸² For example, if a patentee has not granted a licensee the authority to make a sale, any sale by such licensee cannot exhaust the patentee's rights. In addition, since the Supreme Court did not overrule *General Talking Pictures*, it arguably preserved the validity of *field-of-use-license limitations*.¹⁸³ Finally, if the *Impression Products* decision leads to undesired results, such as disadvantages to U.S. IP-owners, Congress may step in and introduce new legislation to change or qualify the Supreme Court's IP-exhaustion jurisprudence.

According to the Supreme Court, the correct application of the exhaustion doctrine seems to be that even if a patentee sold an item under an express restriction (as the patentee did in *Boston Store*),¹⁸⁴ the patentee could not retain any patent rights in that item.¹⁸⁵ To reconcile *Impression Products* with *General Talking Pictures*, the Supreme Court explained that while a licensee's sale that was knowingly made outside the scope of its license should essentially be treated as an unauthorized sale and entitle the patentee to sue for infringement, a patentee cannot use licenses to impose post-sale restrictions on downstream purchasers and then enforce such restrictions through patent law.¹⁸⁶ As long as a licensee complies with the license terms when selling the item, that sale is considered authorized; as a result, the exhaustion doctrine should apply.¹⁸⁷ Post-*Impression Products*, a patentee may continue to "require a licensee to impose a restriction on purchasers," but even if the licensee does so, including having each

¹⁸¹ See *id.* at 1534 (describing that patentee restrictions are generally allowable in a license but not in a sale).

¹⁸² See *id.* at 1537 (citing *Boesch v. Graff*, 133 U.S. 697, 703 (1890)).

¹⁸³ See *id.* at 1535 (distinguishing *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175 (1938)).

¹⁸⁴ See *Bos. Store of Chi. v. Am. Graphophone Co.*, 246 U.S. 8, 25 (1918) (stating that the price-fixing contract was explicitly disclosed in the certificate).

¹⁸⁵ See *Impression Prods.*, 137 S. Ct. at 1533 (explaining that the patentee cannot bring a patent-infringement suit because the rights retained are a matter of contract law, not patent law).

¹⁸⁶ See *id.* at 1534–35 ("A patentee's authority to limit licensees does not . . . mean that patentees can use licenses to impose post-sale restrictions on purchasers that are enforceable through patent law.").

¹⁸⁷ See *Impression Prods.*, 137 S. Ct. at 1535 (explaining when and how the doctrine should apply for a licensee).

purchaser sign a contract promising to follow such requirement, “the sale nonetheless exhausts all patent rights in the item sold.”¹⁸⁸ If a purchaser fails to comply with the restriction, the only recourse seems to be to enforce such restriction through contract law, which, however, requires the patentee to establish privity of contract with the purchaser.¹⁸⁹

B. *Impact*

The impact of *Impression Products* is profound in several aspects. First of all, enhanced damages,¹⁹⁰ which are quite typical in IP-infringement suits but rarely awarded in contract cases, may no longer serve as a deterrent to purchasers for violating IP owners’ various restrictions. Second, IP owners may need to develop more complex contracting practices, or carefully withhold certain rights in order to avoid IP exhaustion. Third, IP owners likely will have to reconsider their global pricing strategies, including whether to narrow the price difference for products sold in different countries. Finally, by reviewing *Impression Products* and its progenitors against the Supreme Court’s other decisions such as *Bement* and *General Electric* (which remain good law after *Impression Products*),¹⁹¹ this Article opines that the focus of future disputes involving restrictions imposed based on IP rights could potentially shift from

¹⁸⁸ *Id.* (“A license may require the licensee to impose a restriction on purchasers, . . . the sale nonetheless exhausts all patent rights in the item sold.”).

¹⁸⁹ *See id.* (noting that the only recourse for failing to comply with a restriction “is through contract law”).

¹⁹⁰ *See generally* Halo Elecs., Inc. v. Pulse Elecs., Inc. 136 S. Ct. 1923, 1934 (2016) (quoting Highmark Inc. v. Allcare Health Mgmt. Sys., Inc. 134 S. Ct. 1744 (2014)) (“Section 284 gives district courts discretion in meting out enhanced damages it ‘commits the determination’ whether enhanced damages are appropriate ‘to the discretion of the district court’ and ‘that decision is to be reviewed on appeal for abuse of discretion.’”); 35 U.S.C. § 284 (2012) (damages).

¹⁹¹ *See id.* at 1534 (relying on *General Electric* to overturn the Federal Circuit’s opinion and making no mention of *Bement*); *United States v. Gen. Elec. Co.*, 272 U.S. 476, 488–90 (1926) (reasoning that the distinction between a license and full transfer of title allows the patentee to set restrictions on licensees but not on purchasers); *Bement v. Nat’l Harrow Co.*, 186 U.S. 70, 93–94 (1902) (holding that patentee’s license terms setting prices for resale and other limitations on licensees were not in violation of antitrust statutes because a patent grants such rights to patentee).

assessing whether the restrictions are reasonable, to deciding whether the particular transaction-in-question is an outright sale or a license.

If the transaction is held to be a sale, any restrictions the IP owner purports to impose, either directly or through a licensee, can only be enforced under contract law, if at all.¹⁹² In contrast, if the transaction is treated as a license, the IP owner may sue for IP infringement and thus has a better chance to obtain enhanced damages.¹⁹³ It is worth noting that the patentee's license in *Impression Products* clearly stated the cartridge was "sold," subject to a restriction.¹⁹⁴ So what if the license agreement in *Impression Products* made it clear that the cartridge was only licensed for a limited period on the condition that, after the license expires (e.g., when the toner runs out), the customer, who is a licensee instead of a purchaser, shall return the empty cartridge to the patentee? Could such condition then be enforced through patent law against a third party that purchased the used cartridges from consumers?

C. *Permissible License Conditions vs. Prohibited Post-Sale Restrictions*

As the Supreme Court noted in *Bauer & Cie.*, "a mere play upon words" to call the transaction-in-question a license instead of a sale does not transform an outright sale to a license.¹⁹⁵ Appellant-level-case-law on distinguishing selling and licensing patented items seems to be meager. This is likely because before the Supreme Court stepped in via *Impression Products*, the Federal Circuit recognized the effect of conditional sales to impose post-sale restrictions through patent law and thus rendered this distinction of little practicable value.¹⁹⁶

¹⁹² See *Impression Prods.*, 137 S. Ct. at 1535 (stating that the "only recourse for the licensee is through contract law, just as if the patentee itself sold the item with a restriction").

¹⁹³ See *id.* (holding that entering a license agreement does not exhaust patent rights but that sale from licensee to another party does exhaust patent rights).

¹⁹⁴ *Id.* at 1530–31.

¹⁹⁵ See *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 16 (1913) ("There was no transfer of a limited right to use [the] invention, and to call the sale a license to use is a mere play upon words.").

¹⁹⁶ See, e.g., *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 742–44 (Fed. Cir. 2016), *rev'd sub nom.* *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523 (2017) (holding that patentee may impose downstream

A similar distinction in the copyright context with respect to § 117(a) of the Copyright Act, which allows “the owner of a copy of a computer program to . . . copy or adapt[.]” the program for limited purposes without incurring liability for infringement,¹⁹⁷ however, has been addressed by appellate courts. For example, in *DSC Communications Corp. v. Pulse Communications, Inc.*, the Federal Circuit held that the defendants were not the owners of downloaded copies of software.¹⁹⁸ The Federal Circuit so held not only because the relevant licensing agreements characterized them as non-owners, but also because such agreements “prohibited [the defendants] from using the software on hardware other than that provided by [the copyright owner],” and from transferring the copies of software to third parties.¹⁹⁹ The Federal Circuit deemed such prohibitions to be “inconsistent with the rights normally enjoyed by owners of copies of software.”²⁰⁰

Another appellate court, also dealing with the § 117(a) issue, rejected the mere characterization of a transaction as a “license” instead of a “sale” as binding on the parties.²⁰¹ In *Krause v. Titleserv, Inc.*, where a programmer sued his former employer for modifying his software, the Second Circuit held that the formal title is not decisive and the central question should instead be whether the employer “exercises sufficient incidents of ownership . . . to be sensibly considered the owner.”²⁰² The Second Circuit determined the former employer to be the owner of the copies of software in its possession on the basis that such employer paid the programmer to develop and customize the software for its operations, with

restrictions on buyers, and bring patent infringement claims, if the buyer has knowledge of the limitations at the time of purchase from a licensee).

¹⁹⁷ 17 U.S.C. § 117(a) (2012) (limiting the right to copy or adapt the computer program to instances where it is necessary to use the computer program or for archival purposes).

¹⁹⁸ 170 F.3d 1354,1360–62 (Fed. Cir. 1999) (holding that because only limited rights were transferred, despite the fact that the transfer was for an unlimited duration, the defendant was not an owner for affirmative defense purposes under the statute).

¹⁹⁹ *See id.* at 1361.

²⁰⁰ *Id.*

²⁰¹ *See Krause v. Titleserv, Inc.*, 402 F.3d 119, 124–25 (2d Cir. 2005) (reasoning that defendant owned copies of computer program because there were sufficient incidents of ownership).

²⁰² *Id.* at 121, 124.

resulting copies of the software being stored on its server.²⁰³ The programmer, without reserving any right to repossess such copies, agreed that the employer may use the software for an unlimited period of time.²⁰⁴

In *Vernor v. Autodesk, Inc.*, an online software reseller purchased used copies of software and put said copies up for sale on eBay despite the developer's protests.²⁰⁵ Relying on the Supreme Court's remark in *Quality King Distributors*,²⁰⁶ the Ninth Circuit held that a "user is a licensee rather than an owner of a [software] copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions."²⁰⁷ The Ninth Circuit noted that, among other things, the developer expressly retained title to the copy, prohibited further transfers or leases of the copy without its consent, and provided for the termination of the license for unauthorized copying.²⁰⁸ In October 2011, the Supreme Court denied the reseller's petition for certiorari.²⁰⁹

This Author believes the *Vernor* decision appears favorable to IP owners, as it seems to be fairly easy to have a product accompanied by a license agreement stating the product is "licensed, not sold" to the user. This Article advocates that in light of the Supreme Court's long line of pro-exhaustion decisions, it will likely continue to be challenging for IP owners to establish that a bona fide purchaser is a mere licensee in order to impose downstream restrictions. Two other Ninth Circuit cases may also help to shed some light on this issue.

²⁰³ *See id.* at 124

²⁰⁴ *Id.* ("Krause never reserved the right to repossess the copies . . . and agreed that Titleserv had the right to continue to possess and use the programs forever . . .").

²⁰⁵ 621 F.3d 1102, 1105 (9th Cir. 2010) (stating that the developer went through the formal process to request removal of the copies from eBay).

²⁰⁶ *See id.* at 1107 (quoting *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.* 523 U.S. 135, 146–47 (1998)) ("[T]he first sale doctrine would not provide a defense to . . . any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.").

²⁰⁷ *Id.* at 1111.

²⁰⁸ *Id.* at 1111–12.

²⁰⁹ *Vernor v. Autodesk, Inc.*, 132 S. Ct. 105, 105 (2011).

In *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, customers used an application developed by the defendant to automatically play the plaintiff-copyright owner's online game.²¹⁰ The Ninth Circuit, applying *Vernor's* three-prong test, held that the customers were not owners of copies of the game-software downloaded by them for the purposes of § 117(a) because the copyright owner: (1) reserved title in the software by granting customers a limited license; (2) permitted transfer of the software only under certain circumstances; and (3) imposed a variety of use restrictions, including that the software could be used only for non-commercial entertainment purposes, could not be used in computer-gaming centers, and could not be run with any unauthorized third-party applications.²¹¹

In *UMG Recordings, Inc. v. Augusto*, however, the Ninth Circuit held that the exhaustion doctrine "applies not only when a copy is first sold, but [also] when a copy is given away or [the] title is otherwise transferred."²¹² UMG Recordings (the copyright owner), for marketing purposes, shipped to music critics, radio programmers, and others unsolicited promotional CDs bearing a label stating that the CDs were "licensed to the intended recipient for personal use only" and not for resale or further transfer; the defendant who obtained the CDs from various sources sold them on eBay.²¹³ The Ninth Circuit determined that by giving away unlimited possession and failing to "retain sufficient incidents of ownership," the copyright owner transferred title of the CDs to the recipients.²¹⁴ The Ninth Circuit also noted that the copyright owner permitted the retention of the CDs by the recipients without accepting the license because it had virtually no control over the distributed CDs, put in place no arrangement to assure that the recipients have assented or will assent to the license limitations, and did not require the return of the CDs if the license was not accepted.²¹⁵

²¹⁰ *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 934–35 (9th Cir. 2010).

²¹¹ *Id.* at 938–39.

²¹² *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1179 (9th Cir. 2011).

²¹³ *Id.* at 1177–78.

²¹⁴ *Id.* at 1183 (citing *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d. Cir. 2005)).

²¹⁵ *See id.* at 1182–83.

V. THE CURRENT STATE OF LAW & TAKEAWAYS

By summarizing the state of the law on IP exhaustion post-*Impression Products*, this Author hopes to offer some practical advice on how to protect and preserve one's IP rights while trying to maximize their commercial value.

A. *Dos & Don'ts*

Post-*Impression Products*, upon a sale of a patented or copyrighted article anywhere in the world, the purchaser or a subsequent transferee has the right under the IP-exhaustion doctrine to perform the following actions in the United States with respect to the article sold, provided that such sale was authorized by the IP owner:

- 1) use the article anywhere for any purpose,²¹⁶ including combining it, or using it together, with any other articles that themselves are not patented;²¹⁷
- 2) repair it to prolong its usable,²¹⁸ including replacing components that themselves are not patented;²¹⁹ and
- 3) sell it to anyone, anywhere,²²⁰ at whatever prices,²²¹ which logically includes giving it away to anyone

²¹⁶ See *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456–57 (1873) (allowing the purchaser to use the patented product both inside and outside the territory where the licensee was authorized to sell the patented article).

²¹⁷ See *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 630, 638 (2008) (allowing the purchaser to combine the patent component with other components).

²¹⁸ See *Wilson v. Simpson*, 50 U.S. (9 How.) 109, 110, 126 (1850) (permitting the purchaser to repair the patented product).

²¹⁹ See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961) (permitting the purchaser to replace unpatented parts of the patented machine).

²²⁰ See *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (allowing the purchaser to sell the patented product without restriction because he has an absolute property interest in the product).

The purchaser or transferee, however, may *not* rely on the IP-exhaustion doctrine to:

- 1) make a different article, even if it is identical to the purchased article;²²²
- 2) remake the purchased article, after it reached the end of its usable life or have performed its intended function;²²³ and
- 3) exercise any of the IP owner's exclusionary rights, including suing anyone (even someone in unlawful possession of the article) for IP infringement.²²⁴

In addition, as illustrated in *Ethyl Gasoline*, *Univis Lens*, and *Aro Manufacturing*, the application of the exhaustion doctrine does not seem to depend on the type of patents involved (i.e., whether it be a product, method, or combination patent), but rather on whether the product or component sold embodies the underlying invention of the patent involved.²²⁵ This principle could similarly apply to copyrighted works.

²²¹ See *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 9, 17–18 (1913) (allowing the purchaser to resell the patented product cheaper than the patentee's restriction).

²²² See *Bowman v. Monsanto Co.*, 569 U.S. 278, 284–85 (2013) (prohibiting the purchaser to replant the patented beans because doing so would propagate plants that produce the patented seeds).

²²³ See *Cotton-Tie Co. v. Simmons*, 106 U.S. 89, 94–95 (1882) (prohibiting the purchaser from reconstructing the patented products after they had performed their intended function and been voluntarily destroyed).

²²⁴ See *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 550–51 (1872) (demonstrating that a purchaser of the patented machines did not acquire the patentee's monopoly because he did not lawfully own title to the patent and therefore could not practice the exclusive rights).

²²⁵ See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 344–45 (1961) (holding that the use of an unpatented element of a patented combination did not constitute infringing reconstruction because the element itself was not protected by the patent); see also *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942) (holding that a lens blank needed to make the patented glasses were within the scope of the patent and therefore the patentee could not restrict use of the blanks once sold); see also *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 458–59 (1940)

B. *What About Improvement?*

A question arises as to whether the purchaser or transferee may rely on the exhaustion doctrine to improve the patented article sold. Although not specifically addressed by the Supreme Court in its decisions so far, as the basic principle of the exhaustion doctrine is akin to dealing with one's own personal property as if it is not subject to any IP protection,²²⁶ this Article opines that the purchaser or transferee may improve the patented article sold or transferred in the absence of any patent on the improvement owned by a third party. This is true even if a patent with respect to the improvement is subsequently granted to the owner of the original patent, because it is the patent owner who puts the article into the stream of commerce. That action should exhaust not just the patent rights the owner has now, but also exhaust future patent rights the owner may possess in the article sold. But in the latter situation, in light of the patentee's exclusive right to practice the invention as-improved, which is derived from his exclusive right to use and make, the purchaser or transferee may only improve that particular article, and not articles purchased by or transferred to others.

As for copyrighted articles, however, § 106(2) of the Copyright Act grants to copyright owners the exclusive right "to prepare derivative works based upon the copyrighted work."²²⁷ Because the copyright-exhaustion doctrine as codified in § 109(a) of the Copyright Act only seems to serve as an exception to copyright owners' exclusive right to distribute under § 106(3) of the Act,²²⁸ one

(concluding that the patentee may no longer rely on its patent to exercise control over the price of its patented fuel because of the exhaustion doctrine).

²²⁶ See, e.g., *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (explaining that a patent holder loses its rights secured by the limited monopoly when the article is sold and a purchaser gets an absolute property interests in it and may use and/or sell the article as he or she see fit, unless restrained by a contract).

²²⁷ 17 U.S.C. § 106(2) (2012).

²²⁸ See *id.* § 106(3) (granting the copyright owner the exclusive right "to distribute copies . . . to the public by sale or other transfer of ownership"); see also *id.* § 109(a) ("Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.").

could argue that this exception does not seem to apply to other exclusionary rights of copyright owners under § 106(3), including the right to create derivative works under § 106(2).²²⁹ If this is how Congress intended the exhaustion doctrine to apply in the copyright context, the purchaser or transferee as a result, may only use the purchased or received copy as-is, and any revision to such copy is prohibited. A counterargument could be that the Supreme Court in *Impression Products* did not seem to believe that Congress intended its IP statutes to abrogate the common-law-exhaustion doctrine, and therefore, the purchaser or transferee should be allowed to edit the purchased copy as if it is not subject to any copyright.²³⁰

C. *Must Be Bought From Authority Without Conditional Precedents*

For the IP-exhaustion doctrine to apply, however, the purchaser must establish that the patented or copyrighted article was bought from someone with the authority to sell.²³¹ If an article is bought from a seller that has never been granted the right to sell or who acted beyond the authority granted by the IP owner, the purchaser, even acting in good faith, might not be shielded from an infringement action.²³² The exchange must also be a completed transaction: if the transfer of the article to the buyer is subject to an unsatisfied conditional precedent, it may not be ripe for the IP-exhaustion doctrine to apply.²³³In other

²²⁹ See 17 U.S.C. § 106; see also H.R. Rep. No. 94-1476, at 5676 (1976) (“As section 109 makes clear . . . the copyright owner’s rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.”).

²³⁰ See *supra* Section III.C.2.

²³¹ See, e.g., *Boesch v. Graff*, 133 U.S. 697, 700–03 (1890) (finding the purchaser was not allowed to import and sell products in United States because the purchaser bought the patented products from someone who was not the owner of the U.S. patent nor authorized by the owner to sell the patent).

²³² See *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 548 (1872) (stating where the purchaser bought the patented machines from a seller whose authority was limited to the initial patent term cannot use the machines after such period).

²³³ See, e.g., *id.* (stating that for the product sold to become the property of the purchaser, the sale must be “absolute, and without any conditions”).

words, the transaction-in-question must be an outright sale with the seller retaining no ownership interest.²³⁴

D. *While Contracts Cannot Negate Exhaustion, They Are Still Important*

The fact that the purchaser has entered into an agreement with the IP owner, or assented to IP owner's terms and conditions, could not negate the application of the IP-exhaustion doctrine nor be relied on by the owner to sue for infringement.²³⁵ Then one may ask, When trying to commercialize IP rights, why would IP owners be interested in spending resources in contract negotiations anymore? This Article advocates that quite to the contrary, *Impression Products* may actually prompt, rather than discourage, IP owners to protect their interests via contracts.

First of all, a contract that is otherwise valid between the IP owner and a purchaser may continue to be enforced despite application of the IP-exhaustion doctrine. So after selling an article embodying the IP, the IP owner may still sue the purchaser for breach of contract, even when an infringement action is no longer a viable option.²³⁶ In addition, the IP owner may seek injunctive relief to enjoin the violation of imposed restrictions not only through IP rights,²³⁷ but also based on contractual rights (similar to enforcing a confidentiality agreement).²³⁸ Moreover, the IP owner may want to use the contract language to establish that the transaction-in-question is not a sale but rather a license; therefore, pairing it

²³⁴ *Id.*

²³⁵ *See, e.g., Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 457–58 (1940) (holding that a patentee “could not lawfully contract” in a way that negates the effects of the patent exhaustion doctrine).

²³⁶ *See, e.g., Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (suggesting that if the patentee had a valid contract restricting the purchaser's right to use or resell the articles sold, he may be able to enforce such restriction as a matter of contract law).

²³⁷ *See* 35 U.S.C. § 283 (2012) (“The several courts . . . may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent . . .”).

²³⁸ *See Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181–82 (1938) (holding license limitations enforceable against the licensee and those acting in concert with it, including downstream purchasers that knew the products were sold outside the scope of the license).

with certain restrictions is a legitimate exercise of the IP owner's legal monopoly.²³⁹

E. What Patent Owners & Licensors Should Do Post-Impression Products

Post-Impression Products, patent owners and licensors may be unsure of how to proceed when trying to conduct business based on their IP portfolios. This Author proposes three strategies that may be effective in dealing with the aftermath and implications of the Court's decision in *Impression Products*.

1. Establish a Valid & Effective Licensing Program

One could argue that *Impression Products* is not applicable to a situation where a valid license is established because its facts only dealt with conditions accompanying a sale, not those imposed on a licensee;²⁴⁰ with careful planning, it seems at least conceivable to establish a licensing program for any recyclable product. For example, instead of offering cartridges at a discount,²⁴¹ the patentee in *Impression Products* could have potentially retained the title of its cartridges and licensed them for use with its printers on the condition that the cartridges should be returned when the toner runs out, and provided in the license agreement that once returned the user is entitled to a refund of a portion of the license fee.

In addition to explicitly providing that the transferee is a licensee and not the owner of the transferred item, the IP owner may want to include provisions that limit any further transfer of the patented or copyrighted product beyond the original transferee and impose notable use restrictions in an effort to

²³⁹ See, e.g., *United States v. Gen. Elec. Co.*, 272 U.S. 476, 488 (1926) (holding that reasonable limitations imposed by a patentee on a licensee were permissible); *Bement v. Nat'l Harrow Co.*, 186 U.S. 70, 94 (1902) (permitting the enforcement of restrictions within a license when they are consistent with the exclusive rights granted to the patentee).

²⁴⁰ See *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1529–30 (2017) (summarizing the purchase options made available by patentee–seller).

²⁴¹ *Id.* (noting that Lexmark offered the recycled cartridges for sale at a lower price than new ones).

meet the three-part test set forth in *Vernor*.²⁴² The IP owner may also consider explicitly requiring return or destruction of the transferred item upon the termination of the license grant, and reserving the right to repossess such item to boost the claim that the owner retains sufficient incidents of ownership of that item.²⁴³ One factor that seems to be considered by courts is whether the article is exchanged for a gross consideration.²⁴⁴ By requiring users to pay periodic fees through the usable life of the article instead of a lump-sum amount, it may help to convince judges that the transaction is not an outright sale.

When accompanying products with licenses that do not require signatures,²⁴⁵ the IP owner should require the recipients to return the articles if they decide not to accept the license terms and put in place an arrangement to monitor the recipients' acceptance and the whereabouts of articles shipped.²⁴⁶ If technically possible, it may also be wise for the IP owner to only allow consumers to access or use the patented or copyrighted technologies, instead of letting them possess copies of the product embodying such technology. This strategy may be easier for software companies (especially those offering copyrighted software as a service) to implement, and could prove to be more difficult for patent owners (such as manufacturing, hardware, and

²⁴² See *Vernor v. Autodesk, Inc.*, 621 F.3d at 1102, 1111 (9th Cir. 2010) (stating that the user is a licensee and not the owner if the IP owner "(1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the [patented article]; and (3) imposes no use restrictions").

²⁴³ See *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d at 928, 938–39 (9th Cir. 2010) (reasoning that customers were licensees and not owners of downloaded software copies because the copyright owner reserved title in, limited transfer of, and imposed use restrictions on distributed copies).

²⁴⁴ See, e.g., *Bos. Store of Chi. v. Am. Graphophone Co.*, 246 U.S. 8, 27 (1918) (holding that once a patented machine was sold for a gross consideration, the patentee could not reserve part of his monopoly).

²⁴⁵ For example, shrink-wrap licenses, which become effective upon the purchaser opening the product. See generally *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996) (defining shrink-wrap licenses and holding that they are enforceable against the purchaser unless otherwise objectionable).

²⁴⁶ See, e.g., *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011) (holding that the recipient was an owner, not a licensee, because the copyright owner had no control over distributed CDs where they permitted recipients to retain the CDs without accepting a license, they had no means to track or monitor the CDs, and no means to retrieve them).

biopharmaceutical companies) whose customers typically purchase tangible products first before starting to consume or use them.

2. Impose Appropriate Restrictions on Licensees

For companies that rely on patent protection, it is important to include appropriate restrictions in license agreements with manufacturers or exclusive licensees,²⁴⁷ as they may be able to enforce such agreements against downstream purchasers based on the theory of contributory patent infringement, at least against those that are aware of such restrictions.²⁴⁸

For example, if a U.S. company that owns worldwide patent rights to a drug product grants a license to a European company to make and sell the drug within the European Union (E.U.) but not anywhere else, and if the European company sells the drug in the United States to a competitor of the patent owner (who is on notice of the restriction for resale in the United States), *Impression Products* does not seem to prevent the licensor from suing both the European licensee and the U.S. competitor for patent infringement on the basis that the initial sale is made outside the authority granted by the licensor.²⁴⁹ In this example, the U.S. company may require the licensee to sell the drug at a certain price,²⁵⁰ and may also impose *field-of-use limitations*.²⁵¹ It may also require the licensee to only make and sell the drug for treating certain indications and reserve the right to grant licenses with respect to other indications. If the licensee knowingly sells the drug for use in treating such other indications, such licensee

²⁴⁷ See *Bement v. Nat'l Harrow Co.*, 186 U.S. 70, 94 (1902) (affirming the enforcement of license restrictions that are consistent with the patentee's exclusive rights).

²⁴⁸ See *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181–82 (1938) (holding license limitations were enforceable against the licensee and those acting in concert with it, including downstream purchasers that knew the products were sold outside the scope of the license).

²⁴⁹ See *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1534–35 (2017) (citing *Gen. Talking Pictures*, 304 U.S. at 181–82) (suggesting that the question of patent exhaustion depends upon whether the sale was authorized, and any unauthorized sale does not exhaust the patentee's rights in a product).

²⁵⁰ See, e.g., *Bement*, 186 U.S. at 91 (“The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.”).

²⁵¹ See, e.g., *Gen. Talking Pictures*, 304 U.S. at 181–82 (upholding field-of-use limitations).

and purchasers acting in concert with it could infringe the patentee's patent rights.²⁵²

The patentee's restrictions, however, have to pass antitrust- and unfair-competition-law muster.²⁵³ Therefore, it is advisable to seek counsel's opinion before imposing restrictions that may result in fixing prices, tying other goods with the IP-protected product, or other anti-competitive effects. In addition, the IP owner should condition the license grant on the licensee's strict compliance with such restrictions and preserve the ability to terminate the license in case of violation.²⁵⁴ The IP owner may also want to explicitly disclaim any implied licenses.²⁵⁵ For example, if the IP owner only desires to have the licensee manufacture and/or sell the product but not to practice it, it may be worth specifically withholding the right to use from the license grant as reserved to the patentee, and vice versa. Moreover, while the permissible repair under the exhaustion doctrine seems to be rather expansive,²⁵⁶ the IP owner could potentially use contracts to require purchasers to replace no more than a certain percentage of the purchased article's components or to prescribe such article's usable life.

3. Require Appropriate Restrictions on Downstream Users

In addition to imposing restrictions on licensees, the IP owner should consider requiring its licensees to include appropriate restrictions in their

²⁵² See 35 U.S.C. § 271(d) (2012) (allowing patentees to recover for contributory infringement). See also *Gen. Talking Pictures*, 304 U.S. at 182 (holding that the license limitations were enforceable against downstream purchasers acting in concert with the licensee).

²⁵³ See *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 49 (1912) (noting that patent rights do not immunize the owner from antitrust law prohibiting unreasonable restraint of trade).

²⁵⁴ See *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 624, 638 (2008) (refusing to recognize a license restriction partially because any violation thereof was not a basis for terminating the license agreement).

²⁵⁵ See generally *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241 (1927) (holding that an implied license may be inferred from words and actions that indicate consent).

²⁵⁶ See, e.g., *Wilbur-Ellis Co. v. Kuther*, 377 U.S. 422, 425 (1964) (finding that repair encompasses fairly extensive refurbishment and likely extends to anything that bears on the useful capacity of the patented article).

agreements with distributors, retailers, and even end-users in an attempt to enforce such restrictions under contract law. To enforce a contract to which it is not a party (thus lacking privity of contract),²⁵⁷ the IP owner may consider establishing that it is the intended third-party beneficiary of the restrictions.

In addition, as illustrated in *Quanta Computer*, the patent owner may want to specifically condition the license grant on the licensee's imposition of restrictions on downstream purchasers and list the patent owner as a third-party beneficiary, thus explicitly providing itself with the ability to terminate the license in case of non-compliance.²⁵⁸ The U.S. company in the example above may impose on the European licensee a condition that it may only sell the drug to someone who has agreed to use the drug only within the E.U. and not to ship it to anywhere else; but if the U.S. competitor came to the E.U. and purchased the drug there, that sale seemed to take place within the declared geographic limits and thus exhaust the U.S. company's U.S. patent rights therein, which would potentially allow the competitor to ship the drug to the U.S. without fear of infringement actions.²⁵⁹

This is different from the situation in *Boesch*, because the licensee here was granted by the IP owner the right to sell the drug in Europe and Europe is where the sale took place, while the buyer in *Boesch* bought from someone unrelated to the IP owner.²⁶⁰ Similarly, if the licensee initially sold a large amount of the drug to patients on the conditions prescribed in the license agreement, and some patients then sold the surplus amount without the conditions, it seems difficult to argue that *General Talking Pictures* supports finding infringement for

²⁵⁷ See *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 499 (finding the patentee could not sue defendants' department store under contract law because it was not in privity of contract with the patentee).

²⁵⁸ See *Quanta Comput., Inc.*, 533 U.S. at 623–24 (noting that the license at issue specifically warned purchasers that the product was patented and that the sale was authorized by the patentee, but that the authorization did not extend to any product that the purchaser might make with the patented article).

²⁵⁹ See generally *Hobbie v. Jennison*, 149 U.S. 355, 361–62 (1893) (noting that once the patented articles were purchased from someone with the authority to make and sell the patented articles within his authorized territory, such articles may be used outside such territory).

²⁶⁰ See *Boesch v. Graff*, 133 U.S. 697, 701–02 (1890) (explaining that the defendant purchased the article from a foreign entity with a foreign patent, so the purchased was authorized, but not by the U.S. patent holder).

such action as such conditions are conditions of sale but not license conditions.²⁶¹ Therefore, in such a situation, it seems that the IP owner could only resort to contract law for recourse.

VI. CONCLUSION

In summary, IP owners should appreciate the default IP-exhaustion rules as set forth in the Supreme Court's decisions spanning almost 160 years, and should consider using suitable agreements in achieving their objectives. In light of *Impression Products*, to maintain the desired control over their products, it is important for IP owners to: (1) vigilantly avoid IP exhaustion; (2) carefully draft corresponding agreements; (3) clearly delineate the imposed restrictions; and (4) explicitly subject any license grant to strict compliance with, and the diligent enforcement of, such restrictions.

²⁶¹ See *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S.175, 181–82 (1938) (upholding licensing restrictions on downstream purchasers, but only when they are consistent with the patentee's exclusive rights).

