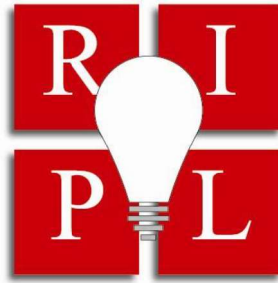


THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



IMPACT OF LEXMARK CASE ON PATENT EXHAUSTION

GOUTHAMI VANAM

ABSTRACT

In recent times, there exists a lot of confusion as to the patent exhaustion doctrine and its implications on conditional sales and international patent exhaustion. Current patent exhaustion laws do not allow for international patent exhaustion, whereas current copyright exhaustion laws favor removal of geographical boundaries and facilitate commerce. This comment examines the evolution of the patent exhaustion doctrine and compares the *Lexmark Int'l, Inc. v. Impression Prods.* case to *Kirtsaeng v. John Wiley & Sons, Inc.* and proposes solution in favor of international patent exhaustion.

Copyright © 2017 The John Marshall Law School



Cite as Gouthami Vanam, *Impact of Lexmark Case on Patent Exhaustion*, 16 J.
MARSHALL REV. INTELL. PROP. L. 487 (2017).

IMPACT OF LEXMARK CASE ON PATENT EXHAUSTION

GOUTHAMI VANAM

I. INTRODUCTION.....	488
II. BACKGROUND.....	490
A. Patent Licenses	490
B. Evolution of Patent Exhaustion	490
C. Problems after Lexmark	494
III. ANALYSIS	495
A. Comparison of Lexmark with Precedent	495
B. The Federal Circuit Wrongly Decided the Issue of Conditional Sale	496
C. International Patent Exhaustion	497
D. Impact of Lexmark on Patent Exhaustion	500
IV. PROPOSAL.....	500
A. Overrule Jazz Photo.....	501
B. Overrule Mallinckrodt	502
C. International Patent Exhaustion	503
V. CONCLUSION.....	503

IMPACT OF LEXMARK CASE ON PATENT EXHAUSTION

GOUTHAMI VANAM*

I. INTRODUCTION

There is a wide disparity in laws for copyright exhaustion and patent exhaustion. The leading case in patent exhaustion is *Lexmark Int'l v. Impression Prods.*¹ *Lexmark* is a Federal Circuit case decided in February, 2016.² The United States Supreme Court granted certiorari on December 2, 2016 to clear the confusion caused due to the holding in *Lexmark* and provide additional guidance for the issue of patent exhaustion.³ The Federal Circuit incorrectly held in *Lexmark* that an authorized foreign sale did not exhaust the patentee's rights.⁴ Recent case in copyright exhaustion held that foreign sales exhausted the copyright holder's rights.⁵ Prior to delving into the intricacies of copyright and patent exhaustion doctrines, it is important to understand where it all started.

A patent for an invention grants property rights to the inventor, issued by the United States Patent and Trademark Office.⁶ Generally, the term of a patent is twenty years from filing the application at the United States Patent and Trademark Office.⁷ A patent grants the right to exclude others from making, using, offering for sale, or selling the invention in the United States, or "importing the invention to the United States."⁸ The patenting process is so important that the United States Supreme Court declared that without a patent, an inventor owns his or her invention only so long as it is kept a secret.⁹

* Gouthami Vanam 2017. J.D. Candidate, May 2017, The John Marshall Law School. B.A. Chemistry, B.S. Business Management, Minor in Management Information Systems, University of Illinois at Chicago. I would like to thank Prof. Daryl Lim for inspiring me to write this comment and special thanks to my parents and Jim Tufts for supporting me through the comment writing process.

¹ *Lexmark Int'l, Inc. v. Impression Prods.*, 816 F.3d 721 (Fed. Cir. 2016).

² *Id.*

³ *Impression Prods. v. Lexmark Int'l, Inc.*, 137 S. Ct 546 (2016).

⁴ *Id.* The Court held that the overseas sales of the cartridges did not exhaust U.S. patentees' rights "even when no reservation of rights accompanied the sale."

⁵ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

⁶ UNITED STATES PATENT AND TRADEMARK OFFICE, *General Information Concerning Patents*, (Oct. 2015), <http://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-2>.

⁷ *Id.*

⁸ 35 U.S.C §154 (a) (1) provides that:

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

⁹ *Gayler v. Wilder*, 51 U.S. 477, 493 (1851) (holding that an inventor of a new right does not have the exclusive right to his improvement unless he obtains a patent).

A patent owner can transfer a bundle of rights, which is less than the entire ownership interest to a licensee via a patent license.¹⁰ A patent license is an agreement between the patent owner and the licensee that the owner will not sue the licensee if he/she makes, uses, offers for sale, sells or imports the claimed invention, as long as the licensee fulfills its obligations and operates within the bounds delineated by the license agreement.¹¹ The first authorized sale of a patented product by the patent owner or a licensee¹² exhausts the patent rights covering the product.¹³ This doctrine is called exhaustion or first sale. It permits the purchaser to use¹⁴ and resell¹⁵ the product free of patent infringement claims. The policy behind the doctrine of patent exhaustion is to prevent patent holder from controlling the post-sale use of the patented item and extracting double recoveries for an invention.¹⁶ The doctrine of patent exhaustion is a defense to patent infringement, not a cause of action.¹⁷

This comment explores how patent exhaustion evolved over time. In particular, this comment looks at the *Lexmark* case and its impact on the Patent Exhaustion Doctrine.¹⁸ Part I will introduce patent exhaustion and the cases which define it. Part II will analyze how *Lexmark* changed or expanded upon the existing doctrine. Part III will propose how the Supreme Court needs to overrule the Federal Circuit and clarify the law regarding conditional sales and international patent exhaustion. Part IV will summarize and conclude that the Supreme Court should overrule *Jazz Photo* and *Mallinckrodt*. Moreover, Part IV will summarize and support international patent exhaustion.

¹⁰ MANUAL OF PATENT EXAMINING PROCEDURE, § 301 (“As compared to assignment of patent rights, the licensing of a patent transfers a bundle of rights which is less than the entire ownership interest, e.g., rights that may be limited as to time, geographical area, or field of use.”)

¹¹ *Id.*

A patent license is, in effect, a contractual agreement that the patent owner will not sue the licensee for patent infringement if the licensee makes, uses, offers for sale, sells, or imports the claimed invention, as long as the licensee fulfills its obligations and operates within the bounds delineated by the license agreement.

Id.

¹² *Forest Labs., Inc. v. Abbott Labs.*, No. 96-CV-159-A, 1999 U.S. Dist. LEXIS 23215, at 66 (W.D.N.Y. June 23, 1999) (“The Patent Exhaustion Doctrine applies as well to the disposition of a product under a license as it does to outright sale.”)

¹³ *Id.* at 67.

The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying the invention. His monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article.

Id. (citing *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942)).

¹⁴ *Adams v. Burke*, 84 U.S. 453 (1873).

¹⁵ *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895).

¹⁶ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2122, 2109 (2008). (noting that patent exhaustion “prevents the patent holder from invoking patent law to control post-sale use of the article”); *Cyrrix Corp.*, 846 F. Supp. at 539 (recognizing that the purpose of the patent exhaustion doctrine is to “prevent patentees from extracting double recoveries for an invention”).

¹⁷ *ExcelStor Tech., Inc. v. Papst Licensing GMBH & Co. KG*, 541 F.3d 1373, 1376 (Fed. Cir. 2008).

¹⁸ *Lexmark*, 816 F.3d at 721.

II. BACKGROUND

A. Patent Licenses

Before directly addressing patent exhaustion, it is important to understand the relationship between patent licensing agreements and patent exhaustion doctrine. Licenses can be implied, non-exclusive, exclusive, sub-licenses, sole licenses etc.

Implied licenses waive patentee's statutory right to exclude others from making, using or selling the patented invention.¹⁹ A non-exclusive license assures immunity from suit with respect to acts done within the scope of the license.²⁰ In exclusive licensing agreements, the patent owner promises not to practice under the patent and not to grant further licenses.²¹ This type of license addresses the problem the dissent laid out in *Adams v. Burke*.²² Exclusive and non-exclusive licenses are polar opposites, having a non-exclusive license will invalidate the exclusive license.²³ Exclusive rights under exclusive licenses only apply when the patent owner has not granted any nonexclusive licenses previously.²⁴ There are other types of specific licenses, one of which is a sub-license. To grant sublicenses, a licensor of a patent may appoint a licensee to act as his or her agent.²⁵ This right must be granted within the licensing agreement.²⁶ This type of license takes control from the licensor by allowing contracts between the licensee and sublicensee. Additionally, adding post-sale restrictions to the licenses, make it harder for the licensees to improve on the product.

B. Evolution of Patent Exhaustion

The doctrine of Patent Exhaustion is not new. In 1852, the doctrine became first recognized by the United States Supreme Court in *Bloomer v. McQuewan*.²⁷ In

¹⁹ Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc., 103 F.3d 1571, 1580 (Fed. Cir. 1997).

²⁰ TransCore, LP v. Elec. Transaction Consultants Corp., 563 F.3d 1271, 1275 (Fed. Cir. 2009). It described that a patent license is a "mere waiver of right to sue by the patentee." Additionally, it stated that "[a] non-exclusive license [is similar] to a covenant not to sue." The court noted that even a licensee can be sued if the terms of the non-exclusive license are violated.

²¹ W. Elec. Co. v. Patent Reproducer Corp., 42 F.2d 116, 118 (2d Cir. 1930). The court defined exclusive license as "the patent owner's promise that others shall be excluded from practicing it within the field of use wherein the licensee is given leave." Citing to Lord Justice Fry's definition in *Heap v. Hartley*, 42 Ch. Div. 461, 470 where he defined exclusive license as "leave to do a thing and a contract not to give leave to anybody else to do the same thing."

²² 84 U.S. 453 (1873).

²³ Compare *W. Elec. Co.*, 42 F.2d at 118; *TransCore*, 563 F.3d at 1275.

²⁴ See *W. Elec. Co.*, 42 F.2d at 118-119.

²⁵ Rubber Co. v. Goodyear, 76 U.S. 788 (1869) (noting how the true meaning and purpose authorized the licensee to make and sell India-rubber cloth).

²⁶ *Id.*

²⁷ *Bloomer v. McQuewan*, 55 U.S. 539 (1853). In this case, the Court discussed in detail "make and vend" and "use" rights. The Court determined that the "make and vend" right is a license that does not trigger patent exhaustion, while the "use" rights is a sale that does trigger patent exhaustion. The Court also distinguished between a purchaser of the right to manufacture and sell patented articles and end users of those articles. The key distinction was that a purchaser purchases a portion of rights conferred by a patent, however, when it switches hands from the purchaser, to the end user,

Bloomer, the question before the Supreme Court involved whether the purchasers of licenses to use or sell the patented invention during the patent term can continue to use those licenses through the extended term.²⁸ The Court held that the “use” right triggers patent exhaustion.²⁹ Thereafter, in 1873 the Court in *Adams v. Burke*³⁰ found that an authorized sale of the patented product essentially liberates the product from patent monopoly.³¹ The dissent in *Adams* makes a very important observation regarding geographic limitations.³² Justice Bradley explains the doctrine allows the patentee to sell the invention in another location despite assigning his patent.³³ *Boesch v. Graff* followed *Adams*, which involved a patent issued to the assignors first in Germany and then in United States.³⁴ The court held that despite the operation of German laws, the appellants infringed the patent by importing them and selling them in the United States, without a license or consent from the appellees.³⁵

The Second Circuit made three more important decisions after *Boesch*.³⁶ All three decisions focused on the sales transaction, rather than on the location to make the determination on patent exhaustion.³⁷ The first of those three cases is *Dickerson v. Matheson* in 1893.³⁸ In *Dickerson*, an American assignee of a German patent involving an improvement in dye coloring matter.³⁹ The German company gave a license to sell the patented dye color in Europe and in the United States to another German

the patented invention becomes private property and is no longer controlled by the laws of United States.

²⁸ *Id.* at 548.

²⁹ *Id.* at 549.

³⁰ *Adams*, 84 U.S. 453 (1873) (The case dealt with a patented coffin lid, the plaintiff in the case was an assignee of the patented coffin lid. The assignor of the coffin lid assigned the rights to it within a circle with a 10-mile radius originating in Boston to someone else and the rest to the plaintiff. Defendant bought the lid from the Boston patent assignee and the plaintiff sought damages for infringement. The United States Supreme Court held that the defendant, as a purchaser of single coffins, acquired the right to use them for the purpose for which all coffins are used.

³¹ *Id.* (noting that “it is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees”).

³² *Id.* at 459-60.

³³ *Id.* The Court noted that under the existing conditions, patent owners can assign rights of the patented article to manufacturers and limit them to one particular area of locality and they can effectively do it for multiple localities. *Id.* However, the majority view destroys the value of these limited patents.

³⁴ *Boesch v. Graff*, 133 U.S. 697 (1890).

³⁵ *Id.* This case was about a patent involving lamp burners. A patent was granted by the Government of Germany before a patent was granted by the United States for the same invention. The invention was imported into United States and sold. The issue here was whether a United States dealer can purchase the lamp burners in Germany from a person who is authorized to sell them, and then import the lamp burners to United States and sell them here without a license. The Court held that the dealer cannot import and sell the patented invention in United States without the license or consent of the United States patent. *Id.*

³⁶ *Dickerson v. Matheson*, 57 F. 524 (2d Cir. 1893); *Daimler Mfg. Co. v. Conklin*, 170 F. 70 (2d Cir. 1909); *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920).

³⁷ *Dickerson*, 57 F. 524 at 527; *Daimler Mfg. Co.*, 170 F. 70 at 72-73; *Curtiss Aeroplane & Motor Corp.*, 266 F. 71 at 72.

³⁸ *Dickerson*, 57 F. 524 (2d Cir. 1893).

³⁹ *Id.*

company.⁴⁰ The plaintiff alleged that the defendant bought the color from the German licensee, imported and sold it in United States.⁴¹ The court held that the defendants failed to obtain proper permission to import and sell patented product in United States.⁴² It also said that if someone purchases a patent in a different country as well as in United States, without any restrictions, they acquire an unrestricted ownership, and can use or sell it in United States.⁴³ In *Daimler Mfg. Co v. Conklin* (1909), the defendant purchased an automobile abroad from a person authorized to sell the patented improvements there.⁴⁴ The overseas seller did not have any U.S. Patent rights.⁴⁵ The court concluded that “the use of articles covered by a United States patent within the United States could no more be controlled by foreign law than could the sale.”⁴⁶ Finally, in *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.*, the court held an overseas sale exhausted U.S. Patent rights.⁴⁷ In that case, the defendant obtained charges for “selling and offering for sale in the United States aeroplanes manufactured in Canada pursuant to certain agreements between plaintiff and the British government.”⁴⁸ The court held the sale as unrestricted, which resulted in the purchaser becoming free to use the airplanes in the United States.⁴⁹

In 2001, the Federal Circuit considered the scope of geographic limitations in patent exhaustion doctrine in *Jazz Photo Corp. v. ITC*.⁵⁰ In *Jazz Photo*, the Federal Circuit held that “United States patent rights are not exhausted by products of foreign

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.* at 527. *Dickerson* drew parallels to the *Boesch* case in which the dealer purchased patented articles from an authorized dealer in Germany. The Court in *Boesch* held that the dealer cannot import and sell the patented invention in United States without the license or consent of the United States patent. Similarly, in *Dickerson*, the court held that had the defendant obtained consent to import and sell in United States from a company which had the right to sell under both German and United States patents, he could have imported and sold the patented article in United States.

⁴³ *Id.* A purchaser in a foreign country of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions upon the extent of his use or power of sale, acquires an unrestricted ownership in the article, and can use or sell it in this country.

⁴⁴ *Daimler Mfg. Co.*, 170 F. 70 (2d Cir. 1909).

⁴⁵ *Id.*

⁴⁶ *Id.* at 72-73 (noting that “[t]he purchaser abroad cannot get [greater] rights than the patentee has from whom he buys.”)

⁴⁷ *Curtiss Aeroplane & Motor Corp.*, 266 F. 71 (2d Cir. 1920).

⁴⁸ *Id.* at 72.

⁴⁹ *Id.* (noting that a monopoly in a patent ends when the patented article passes hands in a rightful manner and that a valid sale and purchase makes a patent an individual’s personal property and they are free to do whatever they want with the patented article—i.e., repair, use, sell etc.).

⁵⁰ *Jazz Photo Corp. v. ITC*, 264 F.3d 1094 (Fed. Cir. 2001.) This case deals with single use cameras called “lens-fitted film packages” (LFFP). *Id.* These cameras were originally manufactured by Fuji Photo Film Co. and sold by them to consumers. *Id.* These cameras were brought to China to be refurbished, and *Jazz Photo* imported them into United States. *Id.* United States Customs Service intercepted two of the shipments and sought to prevent their entry into United States as they violated Fuji’s patents. *Id.* *Jazz Photo* argued that the patents were not infringed because they essentially built new cameras. *Id.* The Federal Circuit held that *Jazz photo* was correct in its interpretation. *Id.* It looked at the common-law repair-reconstruction law and determined that *Jazz’s* actions counted as repairs. *Id.* The court held that *Jazz photo* legally acquired these cameras and refurbished them to extend their lives. *Id.* “The judgment of patent infringement is reversed with respect to LFFPs for which the patent right was exhausted by first sale in the United States, and that were permissibly repaired.” *Id.*

provenance.”⁵¹ It also held that “to invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.”⁵² The court also noted that imported products of “solely foreign provenance are not immunized from infringement of United States patents by the nature of their refurbishment.”⁵³ This holding also applied to patent exhaustion scenarios where a patentee grants a worldwide license to sell products embodying a patent.⁵⁴ In *STMicroelectronics, Inc. v. Sandisk Corp.*, the court found that *Jazz Photo* does not stand for the proposition that patent exhaustion doctrine can only be triggered within United States when there is a valid license covering the products.⁵⁵ Based on this, the court concluded that since STM gave Toshiba a license in all types of patents with respect to the licensed products in all countries of the world, Toshiba had the right to sell any of the licensed products under the patents in the United States or anywhere in the world.⁵⁶

The next big case in the evolution of patent exhaustion doctrine became *Quanta Computer* in 2008.⁵⁷ In *Quanta*, LGE acquired a portfolio of computer patents relating to data transfers between components within a computer⁵⁸ and Intel acquired a license to the LGE patents.⁵⁹ Quanta then purchased microprocessors from Intel and combined these components with other components to manufacture computers.⁶⁰ LGE sued Quanta for infringing its method claims of the patent.⁶¹ The Supreme Court unanimously held that patent exhaustion applies to method claims and that “[a]n authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control post-sale use of the article.”⁶² Basically, the Supreme Court said that the initial authorized sale of a patented item terminates all patent rights to that item.⁶³ The rationale behind this holding is that the patentee received the reward for the use of his invention by the sale of the article.⁶⁴

Another important case to consider does not address *patent* exhaustion, but copyright exhaustion. In *Kirtsaeng v. John Wiley & Sons, Inc.*, the Supreme Court abandoned the geographic location of the sale and went back to focusing on unrestricted sale of intellectual property.⁶⁵ In a 6-3 decision, the Court held that

⁵¹ *Id.* at 1105. (citing *Boesch*, 133 U.S. 697 at 701-703) (noting that “a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States”).

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *STMicroelectronics, Inc. v. Sandisk Corp.*, No. 4:05CV45, 2007 U.S. Dist. LEXIS 21226, at *12 (E.D. Tex. Mar. 23, 2007).

⁵⁵ *Id.* (noting that “The *Jazz Photo* case does not stand for the proposition that only sales within the United States can trigger the doctrine when there is a valid license covering the products”)

⁵⁶ *Id.* at *12.

⁵⁷ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008).

⁵⁸ *Id.*

⁵⁹ *Id.* at 623-24.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.* at 638.

⁶³ *Id.*

⁶⁴ *See id.*; *Jazz Photo*, 264 F.3d at 1094.

⁶⁵ *Kirtsaeng*, 133 S. Ct. 1351 (2013). *Kirtsaeng* a native of Thailand, was sued by John Wiley & Sons, Inc. for selling foreign edition textbooks made outside United States. *Id.* These books were marked for sale exclusively abroad. *Id.* *Kirtsaeng* imported these books into United States and sold

Kirtsaeng could import and resell textbooks that had been lawfully made and sold by the copyright holder abroad.⁶⁶ In this case, the Court created a new standard for copyright exhaustion and did not follow the standard for patent exhaustion in *Jazz Photo*, which held that lawful sales of patented goods outside the United States did not give rise to patent exhaustion inside the United States.⁶⁷ This difference is important because these cases laid the ground work for the differences in international exhaustion of patents and copyrights.⁶⁸

This split will be further examined in the analysis section by using *Lexmark*, decided *en banc* by the Federal Circuit in 2016.⁶⁹ The Federal Circuit rejected arguments that foreign sales and sales under a single-use license automatically exhaust patent rights in a patented article.⁷⁰ The Federal Circuit held that the patent rights were not exhausted by either domestic sales subject to the single-use condition, or by foreign sales absent the patentee's express release of rights.⁷¹

C. Problems after *Lexmark*

Lexmark decision has pros and cons.⁷² The biggest pro is that it is pro-competitive.⁷³ However, as the dissenting judge in *Lexmark* said, “[e]xhaustion does

them here. *Id.* The Second Circuit held that the copyrighted works cannot be sold in United States without the authority of U.S. copyright owner. *Id.* Kirtsaeng appealed to the Supreme Court arguing first sale doctrine. *Id.* The United States Supreme Court held that the “first-sale doctrine applies to goods manufactured outside United States, and the protections and exceptions offered by the Copyright Act to works ‘lawfully made under this title’ is not limited by geography.” *Id.*

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Lexmark Int'l, Inc.*, 816 F.3d 721 (Fed. Cir. 2016).

⁶⁹ *Id.* In *Lexmark*, the Federal Circuit considered *Jazz Photo*, *Kirtsaeng*, and *Quanta* cases on issues of patent exhaustion. *Id.* The facts were not at dispute during the appeal. *Id.* *Lexmark* is a manufacturer of laser printers and toner cartridges. *Id.* *Lexmark* offers two types of cartridges to its consumers: the first type of cartridge is a regular cartridge which is sold at full price without any limitations and the second type is a return program cartridge which is sold at a discount rate for purchaser's agreement that the cartridge is used only once. *Id.* Both the cartridges are identical, but the cartridge purchased under the return program must be returned to *Lexmark* for remanufacturing or recycling. *Id.* The regular cartridges on the other hand can be disposed of by the purchasers as they see fit. *Id.* *Lexmark* sells these cartridges to both end users and to authorized sellers who sell to end users. *Id.* The language of the *Lexmark*'s agreement binds both authorized resellers and customers and is a restriction on both sale and use. *Id.* All this works because of the computer chips present in the cartridge which forces the single-use restriction. *Id.* However, some third parties have hacked these computer chips and produced new versions to circumvent the single-use license. *Id.* To address this piracy issue, *Lexmark* obtained a general exclusion order and cease-and-desist orders barring the importation of the modified chips. *Id.* *Lexmark* sued *Impression* products regarding the same. *Id.* *Impression* products argued that patent rights were exhausted despite the express contractual conditions under the Return program. *Id.* *Impression* also stated that Supreme Court's decision in *Quanta* overturned *Mallinckordt*'s holding. *Id.* It also stated that *Jazz Photo* was overruled by *Kirtsaeng*. *Id.* The district Court however disagreed because *Kirtsaeng* was a copyright exhaustion case. The case was appealed to the Federal Circuit. *Id.* The Federal Circuit gave an *en banc* decision in Feb 2016. *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.*

⁷³ *Id.*

not turn on whether a post-sale restriction is desirable or undesirable, pro-competitive or anti-competitive, but whether the authorized sale and the item passed beyond the scope of patent monopoly.”⁷⁴ Two important issues arose after the Federal Circuit decided Lexmark: “conditional sales” and the difference in patent exhaustion and copyright exhaustion. First is whether the “conditional sale” of a patented item permits enforcement of post-sale restrictions and avoids the application of patent exhaustion doctrine. The second issue arises from the Supreme Court’s holding in *Kirtsaeng*.⁷⁵ The issue is whether court decides to harmonize patent and copyright exhaustion doctrines and paves the way for international patent exhaustion.

III. ANALYSIS

A. Comparison of Lexmark with Precedent

Lexmark’s holding, regarding patent exhaustion doctrine, is inconsistent with what the Supreme Court previously held in *Quanta* and it gave rise to two issues mentioned above.⁷⁶ In *Quanta*, the Supreme Court held that the initial authorized sale of a patented item terminates or exhausts the patent holder’s rights and prevents the patent holder to control the post-sale use of the patented article.⁷⁷ However, in *Lexmark*, the Federal Circuit held the patent rights were not exhausted by either domestic sales subject to the single-use condition, or by foreign sales absent the patentee’s express release of rights.⁷⁸ This raises the issue of patentees’ ability to circumvent patent exhaustion by expressly stating conditions or placing post-sale restrictions on the use or resale of a patented article at the time of first sale.⁷⁹ *Lexmark*’s holding regarding international exhaustion is inconsistent with the Supreme Court’s *Kirtsaeng* decision.⁸⁰ While *Kirtsaeng* revolved around copyright, the Supreme Court dealt with the idea of international exhaustion in it.⁸¹ In *Kirtsaeng*, the Supreme Court held that a sale made by a copyright holder outside the United

⁷⁴ *Id.* at 783.

⁷⁵ *Kirtsaeng*, 133 S. Ct. 1351 (2013).

⁷⁶ *Lexmark*, 816 F.3d at 731. These issues were considered, but not resolved in Federal Circuit’s 2016 en banc opinion, the questions that the court raised can be summarized as follows:

1. The first issue dealt with how patent exhaustion rule differs from copyright exhaustion in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) where the Court ruled that foreign sale of a patented item does not exhaust a patent in United States.

2. The second issue dealt with whether end-user restrictions and single-use-and-return restrictions have any impact on patent exhaustion.

⁷⁷ *Quanta*, 553 U.S. at 638.

⁷⁸ *Lexmark*, 816 F.3d at 726 (noting that it adhered to the holding of *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

⁷⁹ See also *Lexmark* 816 F. 3d at 731 (The two issues considered but left unresolved in *Lexmark* dealt with placing post-sale restrictions on a patented invention and their implications on patent exhaustion doctrine.)

⁸⁰ *Id.*

⁸¹ *Id.*

States exhausts its U.S. rights.⁸² However, in *Lexmark*, the Federal Circuit upheld *Jazz Photo* and held that an overseas sale exhausts U.S. Patent rights.⁸³ This duality gave rise to the second issue of international patent exhaustion, whether *Lexmark* gives rise to international patent exhaustion like international copyright exhaustion.

B. The Federal Circuit Wrongly Decided the Issue of Conditional Sale

The doctrine of patent exhaustion is intended to terminate patentee's rights to the patented article at the time of first sale. The idea behind patent exhaustion is to ensure that the patentees do not extract double recoveries for an invention.⁸⁴ According to the U.S. Patent Statute, "whoever" without authorization uses, sells, or offers to sell a patented article is liable for patent infringement.⁸⁵ This language infers that without patent exhaustion doctrine, everyone who purchases from the party who purchased from the patent owner is infringing the patent and is liable for patent infringement unless, there is an explicit authorization from the patentee or licensee to purchase, sell, or offer for sale.⁸⁶ This would essentially create a monopoly with the patented product for the patent term, in addition to, the sales that can be made overseas without reserving U.S. patent rights.⁸⁷ This monopoly is created by repeated sales from one person. For example, say a person received a patent for a product, and he decides to sell the product outside of United States; he is probably able to sell the product at a lower price because, he can sell it over a longer period of time, and still make a profit from the patented product. It is because of *Lexmark's* holding that foreign sales do not lead to patent exhaustion; the seller can essentially sell the product overseas for a long time without reserving U.S. patent rights. Moreover, the buyers of the product would prefer to buy it from the patentee of the product than someone else, especially if the patented product is at a lower price. So, in this hypothetical, it is very much possible to create a monopoly by selling a product outside of united states at a lower price than others while not exhausting the patent in United States. Creating a monopoly for a long period of time is not the intention of having a patent system; it only gives exclusive rights to the patentee for twenty years.⁸⁸ Patent law is designed to encourage innovation and facilitate commerce.⁸⁹ Therefore, the Federal Circuit's

⁸² *Kirtsaeng*, 133 S. Ct. 1351, 1355-56 (2013) ("We hold that the "first sale" doctrine applies to copies of a copyrighted work lawfully made abroad.)

⁸³ *Lexmark*, 816 F.3d at 727 (holding that by selling or authorizing a sale of a U.S. patented article overseas, the patent owner does not authorize importing and selling the same product in U.S. without patentee's authority).

⁸⁴ *Quanta*, 128 S. Ct. at 2122 (noting that patent exhaustion "prevents the patent holder from invoking patent law to control post[-]sale use of the article").

⁸⁵ 35 U.S.C. § 271 (a) ("Except as otherwise provided in this title, whoever 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.").

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ *Adams*, 84 U.S. at 453.

⁸⁹ U.S. CONST. art I, § 8, Cl. 8 ("The Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.").

holding which encourages avoiding patent exhaustion by imposing conditions on the sale of a patented product goes against the fundamental idea of having a patent system and against the policy behind having the patent exhaustion doctrine.⁹⁰

Secondly, the Federal Circuit relied on *Mallinckrodt*, though not overruled by *Quanta*, could be implied to be overruled due to their exact opposite conclusions.⁹¹ *Mallinckrodt* was a Federal Circuit decision from 1992.⁹² *Mallinckrodt* held that restrictions on reuse were enforceable under patent law.⁹³ However, *Quanta*, decided by the Supreme Court in 2008, came to an opposite conclusion.⁹⁴ Therefore, it is clear that the Supreme Court did not intend for the consumers of patented articles to go around the doctrine of patent exhaustion.⁹⁵ It is also clear that the Supreme Court overruled *Mallinckrodt* in *Quanta* without expressly stating so.⁹⁶ The Supreme Court went around expressly overruling *Mallinckrodt* because it concluded that the licensing issue in *Quanta*, did not broadly relate to the conditional licensing agreements.⁹⁷ *Mallinckrodt* did not state what exactly constitutes as “authority” when it comes to conditional sale, while *Lexmark* briefly considers the issue of “authority”

Finally, *Lexmark* relies on the wrong precedent of *General Talking Pictures* which does not involve an authorized sale. The Supreme Court, relying on *General Talking Pictures*, came to a conclusion as to what constitutes authority when it comes to making, selling, or using a patented invention.⁹⁸ *General Talking Pictures* does not deal with an initial authorized sale—the first sale by the licensee was outside the terms of the license.⁹⁹

C. International Patent Exhaustion

There is a difference between patent exhaustion¹⁰⁰ and copyright exhaustion.¹⁰¹ The holding in *Lexmark* is contrary to the Supreme Court’s decision in *Kirtsaeng*.¹⁰² The Court in *Kirtsaeng* talks about international exhaustion in general.¹⁰³ *Kirtsaeng* delves into the realm of copyright, but keeps the idea of international exhaustion

⁹⁰ *Id.*

⁹¹ *Quanta*, 128 S. Ct. at 2122.

⁹² *Mallinckrodt*, 976 F.2d at 700.

⁹³ *Id.* at 709 (stating that “We conclude that the district court erred in holding that the restriction on reuse was, as a matter of law, unenforceable under the patent law”).

⁹⁴ *Quanta*, 128 S. Ct. at 2122.

⁹⁵ *Id.*

⁹⁶ *See id.*

⁹⁷ *See, Mallinckrodt*, 976 F.2d at 700.

⁹⁸ *Lexmark*, 816 F.3d at 735. (It is undisputed and clear under Supreme Court precedent—most prominently, the 1938 decision in *General Talking Pictures*—that *Lexmark*’s patent rights in the cartridges would not have been exhausted upon manufacturing licensee’s sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions.).

⁹⁹ *Id.*

¹⁰⁰ According to *Lexmark*, sales by the U.S. Patent holder outside United States does not exhaust U.S. Patent rights. *Lexmark*, 816 F. 3d at 774.

¹⁰¹ According to *Kirtsaeng*, sales outside United States exhausts U.S copyright rights. *See, Kirtsaeng*, 133 S. Ct. 1351.

¹⁰² *See id.*

¹⁰³ *Id.*

broad.¹⁰⁴ The Supreme Court held that there are no geographical limitations when it comes to international exhaustion.¹⁰⁵

The concept of international exhaustion is very complex. It cannot be decided solely based on whether something is a copyright or a patent. The best way to approach this issue is to examine the arguments made by both cases while keeping in mind the broad implications of them on the concept of international exhaustion.

In *Kirtsaeng*, the Supreme Court first delved into the common law history of the first sale doctrine where it explained how “A law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly ‘against Trade and Traffi[c], and bargaining and contracting.’”¹⁰⁶ The court then talks about how this relates to competition in markets and how the freedom to sell would be advantageous to a consumer.¹⁰⁷ The court’s take on this is consumers benefit if the buyers freely dispose lawfully acquired goods without having to worry about patent infringement.¹⁰⁸ Another reason the court mentions is the “administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods.”¹⁰⁹ The Supreme Court clearly stated that “(t)he common-law doctrine makes no geographical distinctions.”¹¹⁰ Patent exhaustion is a common law doctrine, so the decision of international patent exhaustion rests with the court.¹¹¹ It is clear from the analysis of general international exhaustion and common law international exhaustion, *Kirtsaeng* wants to remove the geographic boundaries and facilitate commerce.¹¹²

The *Kirtsaeng* court also looked at the impact of geographic limitation of exhaustion and determined that it will injure a large portion of used book business.¹¹³ It then expanded its reach to technology, automobiles, etc., and concluded that if first overseas sale did not exhaust U.S. patent rights, then the purchaser of the products will not be able to sell them in United States.¹¹⁴ The court noted that a geographic

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ *Kirtsaeng*, 133 S. Ct at 1363 (2013) (Citing Lord Coke’s explanation of “common law’s refusal to permit restraints on the alienation of chattels” in Gray, *Two Contributions to Coke Studies*, 72 U. Chi. L. Rev. 1127, 1135 (2005). Lord Coke wrote that when a man cannot impose conditions on chattel when he gave up his whole interest in the chattel at the time of transfer. *Id.* Similarly, [a] law that permits a copyright holder to control the resale or other disposition of a chattel once sold is against the bargaining contract between the chattel holder and the purchaser.

¹⁰⁷ *Kirtsaeng*, 133 S. Ct at 1363 (2013)

¹⁰⁸ See *id.* (“With these last few words, Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods. American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer.”)

¹⁰⁹ *Id.*

¹¹⁰ *Id.* at 1363-1364.

¹¹¹ See *supra*, II (regarding patent exhaustion being a common-law doctrine).

¹¹² *Kirtsaeng*, 133 S. Ct at 1363.

¹¹³ *Id.* at 1365.

¹¹⁴ *Id.*

“Technology companies tell us that “automobiles, microwaves, calculators, mobile phones, tablets, and personal computers” contain copyrightable software programs or packaging . . . Many of these items are made abroad with the American copyright holder’s permission and then sold and imported (with that permission) to the United States . . . Many of these items are made abroad with the American copyright holder’s permission and then sold and imported (with that permission) to

limitation would subject many industries to the disruptive impact of the threat of infringement suits.¹¹⁵ Thus, it is clear that *Kirtsaeng* considered the pros and cons of having geographical limitations to goods prior to holding that geographic limitations should not apply to international exhaustion.¹¹⁶

Finally, the *Kirtsaeng* court looks at multiple arguments made by the dissent in *Lexmark*.¹¹⁷ One of those arguments is about copyright owners' ability to charge different market prices for foreign and domestic markets.¹¹⁸ The *Kirtsaeng* court looked at Art. I Sec. 8 of United States Constitution, and concluded that the language regarding exclusive right does not suggest the right to divide markets or the right to charge different purchasers different prices.¹¹⁹ This analysis makes it clear that the *Kirtsaeng* court approached the idea of international exhaustion in a general manner, and not just limiting it to copyright as stated in *Lexmark*.¹²⁰

Lexmark quickly to dismissed *Kirtsaeng* as a copyright case, and also failed to recognize the broader meaning.¹²¹ Additionally, *Lexmark* looked at the portions of *Kirtsaeng* where the court talked about museums, libraries and booksellers, but ignored the portions where the court talked about the impact of geographical limitations on automobiles, technology, which is applicable to patents as well.¹²² *Lexmark* narrowly interpreted *Kirtsaeng*; granted that *Kirtsaeng* is a copyright case, but not a patent case, same theory and logic apply in both cases and should be dealt with in a similar manner.

the United States . . . Without that permission a foreign car owner could not sell his or her used car." *Id.*

¹¹⁵ *Id.*

Retailers tell us that over \$2.3 trillion worth of foreign goods were imported in 2011. Brief for Retail Litigation Center 8. American retailers buy many of these goods after a first sale abroad. *Id.* at 12. And, many of these items bear, carry, or contain copyrighted "packaging, logos, labels, and product inserts and instructions for [the use of] everyday packaged goods from floor cleaners and health and beauty products to breakfast cereals." *Id.* at 10-11. The retailers add that American sales of more traditional copyrighted works, "such as books, recorded music, motion pictures, and magazines" likely amount to over \$220 billion. *Id.*, at 9. *See also id.* at 10 (electronic game industry is \$16 billion). A geographical interpretation would subject many, if not all, of them to the disruptive impact of the threat of infringement suits. *Id.* at 12.

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 1370 (arguing that a non-geographical interpretation will make it difficult to divide foreign and domestic markets; thereby making it difficult to charge different prices for the same article in different markets).

¹¹⁹ *Id.* at 1371.

¹²⁰ *See id.*

¹²¹ *Lexmark* at 727 (noting that 17 U.S.C. § 109(a) owners of copyrighted articles can take certain acts without authority whereas, such a provision does not exist under the Patent Act). It is interesting how *Lexmark* quickly got back to "authority" when it could not find an equivalent limitation in Patent Act.

¹²² *Id.* at 759-60 (noting that the issues in *Kirtsaeng* only pertains to problems of museums. Libraries and book sellers whereas the precedent cases in patent law indicate that there is no reason to adhere to a territorial line to exhaust patent rights based on a foreign sale). For all of those reasons, *Kirtsaeng* is not controlling in this case. The patent-law issue presented here requires a separate analysis in its own legal setting.

D. Impact of Lexmark on Patent Exhaustion

Lexmark went against the long-standing doctrine of patent exhaustion laid out in *Quanta*.¹²³ The court in *Lexmark* said that the initial sale of patented item does not terminate patent rights of the patent owner if the sale is associated with conditions.¹²⁴

The *Lexmark* case drastically changed the landscape of patent law and patent exhaustion doctrine by saying that foreign sales do not exhaust patent rights.¹²⁵ If the trends in exhaustion jurisprudence continue it would be hard to regulate how far down the stream of commerce the patent infringement can go.¹²⁶ Non-exhaustion of patent rights due to foreign sales makes it administratively difficult to track down goods whether domestically or internationally.¹²⁷ The second issue is the issue of international patent exhaustion. The *Lexmark* easily dismissed *Kirtsaeng* as a copyright case, but it failed to note that copyrights are also territorial, so the benefits of having geographical boundaries (if any) would apply to copyrights as well. Despite knowing that, the Supreme Court removed the geographical boundaries with respect to patents. Therefore, the Supreme Court must consider the far-reaching implications of removing geographical boundaries for patent exhaustion when hearing the oral arguments.

IV. PROPOSAL

The logic laid out in *Kirtsaeng* can be expanded to patent exhaustion. We live in a world where something as simple as a laptop comprises of parts that have been manufactured all around the world and most of these parts are patented. Moreover, United States is one of the countries that allows business method patents¹²⁸ and software patents.¹²⁹ Putting geographic limitations on patent exhaustion is as harmful as putting geographic limitations on copyrighted technological products.

This section deals with two questions: Should the Supreme Court overrule *Jazz Photo* in light of *Kirtsaeng* to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion? Should the Supreme Court overrule *Mallinckrodt* in light of *Quanta Computer Inc.*, to the extent

¹²³ *Quanta v. LGE*, 553 US 617, 625 (2008) (noting that "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item").

¹²⁴ See *Lexmark* (noting that if a sale is made under lawful restriction which is within the sale scope of the patent act does not give rise to patent exhaustion).

¹²⁵ *Lexmark*, 816 F. 3d at 774.

¹²⁶ Comparing with what was said in *Kirtsaeng*, the *Kirtsaeng* court said that it would be an administrative burden to track how far the movable goods go—if it is just hard to track them, it is almost impossible to determine if the goods have been infringed or not.

¹²⁷ Considering all the technology around us, and how easy it is to hack into software or computers, it would become very difficult from an administrative perspective to track down every single individual who is infringing a patent—so it is important to impose conditional sales and remove geographical boundaries when it comes to patent exhaustion.

¹²⁸ Tariq Hafiz, *Patent Business Methods*, USPTO <http://www.uspto.gov/patents-getting-started/patent-basics/types-patent-applications/utility-patent/patent-business>

¹²⁹ David Kappos, *An Examination of Software Patents*, USPTO (Nov. 20, 2012), <http://www.uspto.gov/about-us/news-updates/examination-software-patents>.

that it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant does not give rise to patent exhaustion? The remainder of the comment briefly explains where the Federal Circuit erred in its decision and proposes the following answers to these questions: 1) the Supreme Court should overrule *Jazz Photo* in light of *Kirtsaeng*; 2) the Supreme Court should overrule *Mallinckrodt*; 3) United States patent law should adapt to the current economic environment and adopt international patent law.

A. Overrule *Jazz Photo*

Jazz Photo held that if a patented article is sold outside United States, it does not exhaust the patent.¹³⁰ The Federal Circuit in *Lexmark* upheld this decision.¹³¹ When one looks at this decision in the perspective of the latest technological advancement, it does not add up. The American public has the ability to purchase goods made anywhere in the world using the internet. If foreign sales do not exhaust U.S. patent rights, patentees can sell goods at a lower price overseas without exhausting their U.S. rights. This ability creates a loophole in the doctrine of patent exhaustion as laid out in *Lexmark*, it however does not allow for people in United States to import or sell those products.¹³²

In *Kirtsaeng*, the Supreme Court interpreted the Copyright exhaustion doctrine and determined that the sale of a copyrighted work outside the United States exhausts the copyright owner's right under the doctrine of first sale.¹³³ It is important to note that the idea of both patent exhaustion doctrine and copy right exhaustion doctrine evolved from the same common law idea of first sale doctrine.¹³⁴ Moreover, the Supreme Court in *Kirtsaeng* considered legislative intent prior to arriving to the non-geographical interpretation of the first sale doctrine.¹³⁵

The second issue is related to the manner in which the patent exhaustion doctrine kicks in under *Jazz Photo*—after the first sale in United States.¹³⁶ The Court's

¹³⁰ *Jazz Photo*, 264 F.3d at 1105.

¹³¹ See, *Lexmark Int'l, Inc.*, 816 F.3d at 727 (Fed. Cir. 2016).

¹³² *Id.* (holding that one cannot import U.S. patented articles from overseas and sell them in domestic markets without authorization from the patent owner).

¹³³ *Kirtsaeng*, 133 S. Ct. at 1351. This decision was based on the first sale doctrine 17 U.S.C § 109, which states:

Notwithstanding the provisions of section § 106(3) the section that grants the owner exclusive distribution rights, the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

This doctrine is a common-law doctrine, and it clearly states that once a copyrighted work is sold, the purchaser of the copyrighted work can sell or distribute that copyrighted work in any manner that the purchaser wants. *Id.*

¹³⁴ *Kirtsaeng*, 133 S. Ct. at 1351.

¹³⁵ *Id.*

¹³⁶ *Jazz Photo*, 264 F.3d at 1105. The court considered Fuji's argument that some of the imported cameras were sold only overseas but were included in the refurbished importation. *Id.* The court then said that "United States patent rights are not exhausted by products of foreign provenance. *Id.* To

reasoning involved that a foreign sale of a patented product did not relieve the purchaser of the need to obtain a license if that product became imported back into United States.¹³⁷

If one were to follow the concept of only obtaining licenses, the patent owner would be unjustly enriched from the imported patented product.¹³⁸ This allows for the patent owner to benefit multiple times from selling his or her goods internationally. Domestically, the patent owner gets licensing fees and royalties from sales in United States, and can freely sell the product overseas.

The Supreme Court should overrule *Jazz Photo* in light of *Kirtsaeng* and ensure that the patent exhaustion doctrine is consistent with the common-law doctrine of first sale and the copyright exhaustion doctrine.

B. Overrule *Mallinckrodt*

In *Mallinckrodt*, the Federal Circuit held that a post-sale restriction on a single-use device sold to hospitals did not exhaust the patent owner's rights.¹³⁹ The flaw with this holding is that it creates a system where a patent owner can control how the patented product is distributed downstream.¹⁴⁰ This kind of control is against the patent system of United States. Moreover, when this kind of control is combined with geographic limitations, it could create far reaching implications beyond the scope of the patent right. In a hypothetical scenario, if the patentee licensed to A, A sells to B without authorization, B sells to C without authorization, and then C sells to D presumably also without authorization, *Lexmark* makes it possible for A to benefit from sales to B, C and D.

Now, looking at the scenario in *Mallinckrodt*, in conjunction with *Jazz Photo*, the patent owner is able to not only sell his patented product outside United States without exhausting his patent rights, he is also able to impose post-sale restrictions on that patented product. By doing so, the patent owner is making money not only from the license holders but also from the purchasers of the product. Moreover, since

invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent" (citing *Boesch*, 133 U.S. at 701-703) (a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States).

¹³⁷ If the purchaser did not obtain a license in the United States, he would be held liable for patent infringement under 35 U.S.C. § 271.

¹³⁸ A patent owner can sell their goods for an unlimited time outside United States without having to worry about patent exhaustion. Also, this rule blurs the concept of international patent exhaustion even more when we look at it from the perspective of Hague Agreements. A Hague agreement "governs the international registration of industrial designs. First adopted in 1925, the agreement effectively establishes an international system—the Hague System—that allows industrial designs to be protected in multiple countries or regions with minimal formalities." *Hague Agreement Concerning the International Registration of Industrial Designs*, World Intellectual Property Organization, <http://www.wipo.int/treaties/en/registration/hague/>. If a patent owner uses this agreement or similar agreement, to get a patent, they have no reason to impose geographical limitations on their goods. On top of this, if the Supreme Court continues to allow the patent owner to retain control of their patent despite overseas sales, there might be unforeseen consequences of the patent owners taking unfair advantage.

¹³⁹ *Mallinckrodt*, 976 F. 2d at 700.

¹⁴⁰ *Id.*

Mallinckrodt makes it acceptable to have post-sale restrictions, it would now be okay for the patent owner to keep collecting a portion of sales for a very long time. Therefore, *Mallinckrodt* should be overruled and foreign sales with authorization must exhaust patent rights.

C. International Patent Exhaustion

International patent exhaustion could promote innovation. It allows for patented products to be sold lawfully anywhere in the world. This would give the manufacturers access to the best quality materials for best possible price. It would also give them a chance to come up with new and improved ideas to make patented products better and thereby promote innovation. The recent *Lexmark* decision, combines both *Jazz Photo* and *Mallinckrodt* to hinder such innovation. *Lexmark* is aimed at deterring domestic patent owners from benefitting multiple times from licensees and customers. However, it overlooks the economic disadvantages that it poses to business owners.

Therefore, this comment proposes to overrule *Jazz Photo* to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion. It also proposes to overrule *Mallinckrodt*, in light of *Quanta Computer Inc.*, to the extent that it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant does not give rise to patent exhaustion.

V. CONCLUSION

Internationally, patent exhaustion is a complex doctrine. Patent exhaustion is based on a common-law doctrine, called first sale doctrine. International patent exhaustion is when the patent rights exhaust after an international sale.

This comment discussed the evolution of patent exhaustion doctrine and how it is at odds with the copyright exhaustion doctrine, which also evolved from the common law first-sale doctrine. One of the important cases discussed in this article is *Jazz Photo*, which the Court found that U.S. Patent rights are not exhausted by products of foreign provenance.¹⁴¹ This holding is contrary to the Court's holding in *Kirtsaeng*.¹⁴²

This comment also discussed the Federal Circuit's decision in *Mallinckrodt* – in which the court held that a patentee could place post-sale restrictions on the patented product.¹⁴³ This holding is at odds with the Court's decision in *Quanta Computers*, where the Supreme Court held that the initial authorized sale of a patented item terminates all patent rights to that item.¹⁴⁴ The *Lexmark* decision, at issue, combined both *Jazz Photo* and *Mallinckrodt*, expanded the scope of patent rights beyond what the United States Patent system intended.¹⁴⁵

¹⁴¹ *Jazz Photo*, 264 F.3d at 1094.

¹⁴² *Kirtsaeng*, 133 S.Ct. at 1351

¹⁴³ *Mallinckrodt*, 976 F. 2d at 700.

¹⁴⁴ *Quanta Computer*, 553 U.S. at 617

¹⁴⁵ *Lexmark*, 816 F.3d at 735.

To address this dichotomy, this comment analyzed the drawbacks in the *Lexmark* decision and concluded that the Court should take up the *Lexmark* decision, and examine its impact on business owners. Moreover, this article recommends that the Court should remove the dichotomy and overrule *Jazz Photo* and *Mallinckrodt*.