

The Interaction of Patent Exhaustion and Transactions in Patented Goods After *Impression Products v. Lexmark International*

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I. INTRODUCTION

In *Impression Products, Inc. v. Lexmark International, Inc.*,¹ the U.S. Supreme Court provided a justification for patent exhaustion and established rules governing its application. Both U.S. and foreign sales of a patented product trigger application of the doctrine to the article sold.² This allows patented articles to flow in commerce without any attached patent rights interfering with the free alienability of such articles.³ Further, conditions attached to the sale of patented articles are enforceable via breach of contract actions rather than by patent infringement actions.⁴ Analogizing to copyright law, these bright-line rules should permit avoidance of exhaustion by licensing mere use rights for patented products. However, it is proposed that bona fide purchaser rules apply to such licenses so that downstream users of patented products may possess these products free of any use restrictions they lack notice of; thereby furthering the policy of minimizing restraints on alienation of such goods.

II. OVERVIEW OF THE *IMPRESSION PRODUCTS* DECISION

Lexmark manufactures and sells laser printers and replaceable ink cartridges for those printers.⁵ Typically, the ink cartridges are no longer usable once they use up the toner material contained within them.⁶ Lexmark engages in a profitable worldwide business selling new cartridges to its printer users.⁷ However, third parties, known as remanufacturers, acquire used cartridges both from domestic and foreign users, refill the cartridges with toner mate-

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1. *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523 (2017).
2. *Id.* at 1527.
3. *Id.*
4. *Id.* at 1526.
5. *See generally* LEXMARK, https://www.lexmark.com/en_us.html (visited Aug. 26, 2019).
6. *Impression Prods.*, 137 S. Ct. at 1529.
7. *Id.*

rial, and then resell the cartridges to printer users at a lower price than the new cartridges sold by Lexmark.⁸

Lexmark has engaged in various efforts to minimize the competition created by remanufacturers.⁹ It owns utility patents both on certain components of the cartridges and on how the cartridges are used.¹⁰ These patents have been asserted against remanufacturers in patent infringement lawsuits.¹¹ Lexmark has installed electronic chips in the cartridges that prevent reuse once the toner has been used up.¹² However, enterprising remanufacturers developed strategies and technological know-how to overcome these chips.¹³ Lexmark has also offered consumer purchasers a twenty-percent discount on cartridges if they agree to use them once and return the empty cartridges to Lexmark.¹⁴

Initially, Lexmark had success bringing patent infringement actions against remanufacturers.¹⁵ However, that approach was significantly limited by the recent Supreme Court decision in *Impression Products*. The Court noted that a patent grants exclusive rights to the patent owner and explained that the sale of a patented item by the patent owner ends or exhausts any patent rights in the particular item sold.¹⁶ Hence, patent law can no longer be used to control what is done with the item post-sale.¹⁷ The Court viewed a patented product as personal property that “[t]he purchaser and all subsequent owners are free to use or resell . . . just like any other item of personal property, without fear of . . . [a patent] infringement lawsuit.”¹⁸ This is consistent with the patent statute, which expressly states that “patents shall have the attributes of personal property,”¹⁹ and with the Supreme Court’s treatment of the analogous doctrine of copyright exhaustion in *Kirtsaeng v. John Wiley & Sons, Inc.*²⁰

8. *Id.*

9. *Id.* at 1529–30.

10. *Id.* at 1525.

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

12. *Id.*

13. *Id.*

14. *Id.* at 1529–30.

15. *Id.* at 1530–31.

16. *Id.* at 1529; *see also* 35 U.S.C. § 154(a) (2018).

17. *Impression Prods.*, 137 S. Ct. at 1529.

18. *Id.*

19. 35 U.S.C. § 261 (2018).

20. *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519 (2013).

III. JUSTIFICATION FOR THE PATENT EXHAUSTION DOCTRINE

Impression Products noted that the exhaustion doctrine, a common law doctrine with a long and well-established history,²¹ acts as a limit on patent rights.²² Lower courts have also recognized the well-established exhaustion doctrine.²³ However, both lower courts and the Supreme Court have espoused different underlying policy justifications for the doctrine. The Federal Circuit stated that the exhaustion doctrine was based on the premise that a patentee has been fairly economically rewarded for the use of the patented article upon its initial sale.²⁴ This rationale was approvingly acknowledged by the Supreme Court in its recent decision in *Bowman v. Monsanto Co.*,²⁵ which discussed the doctrine with regard to genetically modified soybean seeds.²⁶ Nevertheless, in the subsequent *Impression Products* decision, the Supreme Court unequivocally held that the exhaustion doctrine is based on the common law principle against restraints on the alienation of personal property.²⁷ Such restraints, which are generally viewed negatively by the law,²⁸ can be voided on public policy grounds.²⁹ They can act as a cloud on title to property, which can interfere with the free flow of goods once they enter commerce, because a purchaser of the goods may be unsure whether she is getting a good title that is unfettered by limitations or restrictions.³⁰ Likewise, such restraints can add transaction costs if a purchaser has to undertake efforts to ascertain if the seller has a clear title to the goods offered

21. *Impression Prods.*, 137 S. Ct. at 1531–36; see generally Alfred C. Server & William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 HASTINGS L.J. 561, 564–76 (2013) (review of history of patent exhaustion).
22. *Impression Prods.*, 137 S. Ct. at 1531 (“The Patent Act grants patentees the ‘right to exclude others from making, using offering for sale, or selling [their] invention[s].’”). “For over 160 years, the doctrine of patent exhaustion has imposed a limit on that right to exclude.” *Id.*; see also *id.* at 1534.
23. See generally *Lexmark Int’l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 735 (Fed Cir. 2016); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed Cir. 1992).
24. See *Jazz Photo Corp. v. Int’l Trade Comm.*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), *overruled in part by Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523 (2017); see also *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993).
25. 569 U.S. 278, 284 (2013).
26. *Id.* at 284–89.
27. *Impression Prods.*, 137 S. Ct. at 1531.
28. *Id.* at 1536.
29. *Id.*
30. *Id.* at 1534.

for sale.³¹ An example of this occurs with real property transactions where, during the pendency of a sale, the buyer must hire an attorney and title company to investigate the title of the property being sold. A historical examination of prior deeds and other recorded documents must occur to ascertain whether the seller actually owns the property. Additionally, the examination must determine that no encumbrances affecting the title exist. The existence of any encumbrances may render the title unmarketable and excuse the buyer from completing the sale. Even if no encumbrances exist, a bank financing the sale may require the buyer to purchase title insurance to protect against unforeseen encumbrances.

The differing rationales for exhaustion are perhaps not relevant with regard to the sale of patented products in the United States. However, the Federal Circuit found the rationale relied on relevant when distinguishing between subsequent sales of patented products inside and outside the United States.³² According to the Federal Circuit, the patentee was fully compensated for her patented product when it was initially sold in the United States.³³ In contrast, when a third party produced and sold the product in a foreign country, patent exhaustion did not apply to the product upon its importation into the United States because the patentee had not been rewarded in the form of monetary compensation for that specific product.³⁴ *Impression Products* eliminated this distinction and held that patent exhaustion applied to a product once it was sold, regardless of whether it was sold in the United States or in a foreign country.³⁵ *Impression Products* justified this conclusion based on a policy of preventing restraints on the alienation of personal property once such property has entered commerce via a sale by the patentee.³⁶ This approach is logical because not all downstream users will be aware of a prior foreign transaction in light of the complex international supply chains utilized by many companies today.

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31. See generally *Bowman*, 569 U.S. at 284 (noting that not extending copyright exhaustion, referred to as the first-sale doctrine, to foreign produced books or artwork that were subsequently imported into the United States would add transactional costs in the form of a complex permission-verifying process).
 32. See *Impression Prods.*, 137 S. Ct. at 1531; see also *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005) (patent exhaustion limited to sales in United States).
 33. See *Impression Products*, 137 S. Ct. at 1531.
 34. See *id.*
 35. *Id.* at 1529.
 36. *Id.* at 1538. But see *id.* at 1538–39 (Ginsburg, J., concurring in part and dissenting in part) (arguing against finding patent exhaustion based on the sale of patented good outside the United States). See generally Kumiko Kitaoka, *Patent Exhaustion Connects Common Law to Equity: Impression Products, Inc. v. Lexmark International, Inc.*, 17 CHI.-KENT J. INTELL. PROP. 96, 99 (2018) (asserting consequences of exhaustion based on foreign sales).

IV. DOWNSTREAM CONTROL OF PRODUCTS

Producers of goods and services may want to control both the initial introduction into commerce and exert continuing control over their goods and services after their injection into the marketplace.³⁷ This may be desired by producers for multiple reasons, including maintaining positive reputational aspects of their brands³⁸ and maximizing revenue generation.³⁹

A variety of approaches can be used to exert continuing control. From a legal perspective, these approaches are typically categorized as relying on either contractual or property theory.⁴⁰ Under a contract approach, a good or service is provided subject to contractual requirements.⁴¹ For example, a producer may agree to sell a product to a retailer provided that the goods are displayed and marketed in specified ways.⁴² Additionally, the agreement may stipulate that the retailer must provide certain warranty services as a condition of being permitted to sell the goods.⁴³

Under a property approach, a producer may only grant use rights as opposed to ownership rights in a product or service.⁴⁴ Ownership rights are traditionally viewed as a bundle of rights, including the right to possess the

37. *See generally* Williams v. Jani-King of Phila. Inc., 837 F.3d 314, 316–18 (3d Cir. 2016) (discussing the numerous amount and type of control a franchisor exerts over its franchisees).
38. *See, e.g.*, Queen City Pizza v. Domino's Pizza, 124 F.3d 430, 440–41 (3d Cir. 1997) (“Courts and legal commentators have long recognized that franchise tying contracts are an essential and important aspect of the franchise form of business organization because they reduce agency costs and prevent franchisees from free riding—offering products of sub-standard quality insufficient to maintain the reputational value of the franchise product while benefitting from the quality control efforts of other actors in the franchise system.”); *see also* TALCOTT FRANKLIN, PROTECTING THE BRAND 104–06 (2003) (discussing how trademark licensees and franchisees utilize trademarks).
39. Attempts to maximize revenue generation by controlling downstream use of products and services can run afoul of antitrust law. *See generally* Guy Sagi, *A Comprehensive Economic and Legal Analysis of Tying Arrangements*, 38 SEATTLE U. L. REV. 1 (2014) (discussing both antitrust issues and potential benefits raised by tying arrangements that leverage market power over one product by requiring purchase of another product for which market power does not exist); *see also* CRAIG ALLEN NARD, THE LAW OF PATENTS 664–65 (3d ed. 2017) (restrictions placed on use of patented products can be found to be patent misuse).
40. *Impression Prods.*, 137 S. Ct. at 1532.
41. *Id.* at 1526.
42. *Id.*
43. *Id.*
44. *See* Richard A. Epstein, *Possession as the Root of Title*, 13 GA. L. REV. 1221 (1979).

property, use the property, exclude others from the property, and to transfer the property at issue.⁴⁵ Use rights are typically viewed as non-possessory rights.⁴⁶ This approach is common in the software industry where consumers are granted licenses to use software rather than ownership of the software.⁴⁷ More recently, software has been offered as a service for a yearly subscription fee rather than being sold to a user.⁴⁸ Additionally, machinery or other equipment may be provided pursuant to a lease arrangement which does not involve transferring title to the machinery or equipment.⁴⁹

In the patent context, contractual restrictions on downstream use of patented products are common.⁵⁰ They may provide geographic limitations or use restrictions.⁵¹ For example, in *Bowman v. Monsanto Co.*, genetically modified soybean seeds were sold pursuant to use restrictions that permitted the seeds to only be used for one planting season.⁵² In *Jazz Photo Corp. v. International Trade Comm.*, disposable cameras were sold pursuant to a single-use restriction.⁵³ Additionally, in *Mallinckrodt, Inc. v. Medipart, Inc.*, medical devices were sold with a single-use restriction.⁵⁴ Analysis of such restrictions requires categorizing them as either property or contract rights. Such categorization then dictates the appropriate analysis and remedies.

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45. *See id.*; *Alevizos v. Metro. Airports Comm'n*, 216 N.W.2d 651, 661 (Minn. 1974); *Smith v. Erie R.R. Co.*, 16 N.E.2d 310, 313 (Ohio 1938); *see also* *Moore v. Regents of the Univ. of Cal.*, 271 Cal. Rptr. 146, 176 (Cal. 1990) (Mosk, J., dissenting), *cert. denied*, 449 U.S. 936 (1991).
46. *See generally* WILLIAM STOEBOCK & DALE WHITMAN, *THE LAW OF PROPERTY* § 8.1, at 435–56 (3d ed. 2000) (distinguishing between possession and use with regard to rights in real property).
47. *See* CRAIG ALLEN NARD ET AL., *THE LAW OF INTELLECTUAL PROPERTY* 662 (3d ed. 2011); *see also* Michael J. Madison, *Reconstructing the Software License*, 35 *LOY. U. CHI. L.J.* 275, 279–80 (2003) (describing the contours of typical software license).
48. *See* David Politis, *The 2017 State of the SaaS-Powered Workplace Report*, BETTERCLOUD MONITOR (May 18, 2017), <https://www.bettercloud.com/monitor/state-of-the-saas-powered-workplace-report/>.
49. *See id.*
50. NARD ET AL., *supra* note 47, at 664; *see generally* *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 705 (Fed. Cir. 1992) (“The practice of granting [patent] licenses for restricted use is an old one”).
51. NARD ET AL., *supra* note 47, at 664.
52. *Bowman v. Monsanto Co.*, 569 U.S. 278, 278 (2013).
53. *Jazz Photop Corp. v. Int’l Trade Comm.*, 264 F.3d 1094 (Fed. Cir. 2001), *overruled in part by* *Impressions Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523 (2017).
54. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

V. CONDITIONAL SALES

Since *Impression Products*, the threshold question with regard to whether patent exhaustion applies to a particular product focuses on whether the product at issue was sold to another party.⁵⁵ This sale transaction would trigger the patent exhaustion doctrine, thus terminating patent rights in the article sold and barring any patent infringement action arising from the buyer's use or importation of the patented article.⁵⁶ Any conditions applied to the sale, such as a geographic restriction or single-use restriction, would only be subject to enforcement via a contract theory.⁵⁷ Pursuant to this approach, the condition would only be enforceable if the necessary requirements existed to create a contract between the buyer and seller.⁵⁸ Additionally, any action could only be brought by the seller against the buyer because only the contracting parties are typically bound by the contractual relationship.⁵⁹ This is in contrast to a property-based patent infringement action, which would be available against any third party who violated a patentee's patent rights.⁶⁰ In light of this, attempting to limit the use of a product via a mere notice applied to the product may be inadequate. For example, placing a prominent notice on the front of a product stating "Single-Use Only" may communicate the seller's intent.⁶¹ However, such a notice by itself may not create an enforceable contract.⁶² Furthermore, even if a contract was created, it would not provide a practical remedy for the scenario involved in *Impression Products*. In *Impression Products*, customers who received the twenty-percent discount for cartridges in return for promising to use them only once could be liable for breach of contract if they provided the cartridges to third-party remanufacturers.⁶³ However, such contractual liability would not necessarily provide a cause of action against remanufacturers.⁶⁴ Additionally, this would

55. *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1529 (2017). Patent exhaustion also applies to patented methods when the method is embodied in an article or device that is sold. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 628–29 (2008).

56. *Impression Prods.*, 137 S. Ct. at 1529.

57. *Id.* at 1527.

58. See generally *Vega v. T-Mobile USA, Inc.*, 564 F.3d 1256, 1272 (11th Cir. 2009) (explaining a contract requires offer, acceptance, consideration, and sufficient specification of essential contractual terms).

59. *Id.*

60. See 35 U.S.C. § 154(a)(1) (2018); see also § 271(a). See generally JOSEPH WILLIAM SINGER, *PROPERTY* (3d ed. 2010) ("Owners have the right to exclude non-owners from their property.").

61. *Impression Prods.*, 137 S. Ct. at 1533.

62. *Id.* at 1529.

63. *Id.* at 1530.

64. *Id.*

involve suing your own customers, which is, arguably, a poor business model.⁶⁵ It would also involve having to sue numerous individual customers, which would be impractical.⁶⁶

VI. USE RIGHTS VS. OWNERSHIP

Alternate property-based approaches should still be permissible after the *Impression Products* decision. From a theoretical perspective, the article containing patented subject matter would not be sold—it would have to be provided via a transaction that transfers rights to a transferee that are less than ownership. For example, the mere right to use the article could be granted to the transferee. This would be closely analogous to a use right, which is recognized in real property law.⁶⁷ Such use rights are referred to as easements, profits, real covenants, or equitable servitudes when realty is involved.⁶⁸ Likewise, use rights could be closely analogous to a lease or rental arrangement commonly used for certain personal property, such as renting a car for a week.

Frequently, intellectual property rights are transferred via a license, but the term “license” is sometimes used inconsistently and can contribute to confusion. Typically, licensing of intellectual property connotes the grant of the right to use intellectual property under certain conditions or in certain contexts.⁶⁹ It does not grant ownership of the property to the licensee.⁷⁰ Therefore, licensing of intellectual property is analogous to non-possessory use rights, such as real property easements or leases of personal property.⁷¹

A conveyance or transfer of ownership of intellectual property rights is referred to as an assignment.⁷² Nevertheless, some licenses may be exclusive⁷³ in nature and coupled with the grant of such extensive rights that they

65. *Id.*

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

67. *See generally* SINGER, PROPERTY, *supra* note 60.

68. *See* GERALD KORNGOLD, PRIVATE LAND USE ARRANGEMENTS: EASEMENTS, REAL COVENANTS AND EQUITABLE SERVITUDES § 2.01, at 5–6 (2d ed. 2004) (easement is a non-possessory right to engage in some use of another’s land).

69. 1 MICHAEL A. EPSTEIN & FRANK L. POLITANO, DRAFTING LICENSE AGREEMENTS § 1.01 at 1–3 (4th ed. 2014).

70. *Id.*

71. *Id.*

72. *Id.* at 1–3 n.1; *see also* 2 RAYMOND T. NIMMER, INFORMATION LAW § 11:9 at 11–17 (2010) (distinguishing a license of intellectual property from an assignment of intellectual property).

73. An exclusive license could mean that the licensor is only granting one license although most commonly it means the licensor will not grant other licenses of the same scope. J. THOMAS MCCARTHY ET AL., MCCARTHY’S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY 339 (3d ed. 2004).

resemble assignments. For example, copyright law provides that a “transfer of copyright ownership” includes an assignment or an exclusive license.⁷⁴ Consequently, the critical issue is what rights are actually transferred by the patentee.⁷⁵ If the patentee merely grants the right to use a patented article or device in lieu of ownership, that should prevent the application of the patent exhaustion doctrine because the article has not been sold.⁷⁶ In contrast, if the rights granted are so extensive that the licensee has de facto possession and total control of the article, it can be viewed as having been sold and patent exhaustion will be applicable.⁷⁷

A fundamental aspect of a property-based approach is recognizing that a patented article or device simultaneously comprises both a tangible object and intangible patent rights.⁷⁸ The tangible object can be viewed from a property law perspective as tangible personal property, while the patent rights can be viewed as intangible personal property.⁷⁹ The analogous issue is expressly recognized under copyright law, which states that “[o]wnership of a copyright . . . is distinct from ownership of any material object in which the work is embodied”⁸⁰ Despite this distinction, the two pieces of intertwined property are physically inseparable.⁸¹ Granting the owner of the tangible object the usual bundle of rights associated with property ownership affects the patentee’s intangible patent rights in the object. Likewise, granting the patentee the rights associated with owning a patent affects the rights of the tangible object owner. The resulting inseparability of the tangible and intangible rights means the law must favor one property owner at the expense of the other. The determination of whom to favor must, therefore, be a policy-based decision. The doctrine of patent exhaustion represents a policy decision that the patentee’s transfer of ownership of a patented article extinguishes the intangible patent rights in that specific article.⁸² It is based both historically and in the most recent Supreme Court pronouncement that favored a policy

74. 17 U.S.C. § 101 (2018).

75. *See, e.g., Intergraph Corp. v. Intel Corp.*, 241 F.3d 1353, 1354 (Fed. Cir. 2001) (license provided non-exclusive, non-transferable world-wide right to make, use, sell, or lease products covered by certain patents and patent applications).

76. *Id.*

77. *Id.*

78. *See The Importance of Intellectual Property Valuation and Protection*, MARSH, <https://www.marsh.com/us/insights/research/importance-of-intellectual-property.html> (last visited Aug. 26, 2019).

79. *Id.*

80. 17 U.S.C. § 202 (2018).

81. U.S. COPYRIGHT OFFICE, COPYRIGHT BASICS 2–3 (2017), <https://www.copyright.gov/circs/circ01.pdf>.

82. Charlene M. Morrow & Armen N. Nercessian, *Supreme Court’s Lexmark Decision Expands Scope of Patent Exhaustion Defense*, FENWICK & WEST (June

of allowing the patented article to be transferred to others free of any restrictions.⁸³

In contrast, when the patentee does not originally sell the article, the balance should favor the patentee's rights. In such a transaction, when the patentee has only granted limited use rights in a patented article, the grantee's rights should be subservient to the patentee's rights and patent exhaustion should not apply.⁸⁴ This dividing line, based on whether the patented article was sold, allows the article to freely flow in commerce post-sale but, at the same time, recognizes the ability of the patentee to alternatively provide mere use rights in the patented article. Allowing this alternative recognizes that property owners, in general, have long had the ability to divide up property rights and transfer interests, such as use rights, that are less than ownership. In the realm of real property, such use rights commonly take the form of easements, profits, real covenants, or equitable servitudes.⁸⁵ Likewise, copyright law expressly allows various rights provided by copyright ownership to be divided and transferred to different parties.⁸⁶ In light of the Supreme Court's reliance on copyright law to inform its analysis of the exhaustion doctrine in *Impression Products*, it seems plausible that the court will permit the division of patent rights. Such an approach may be desirable for a patentee to maximize revenue generation, or to maximize control of the property. It may also spur the creation of innovative property ownership or business models that could be beneficial to society in general. The risk that such new models may negatively interfere with competition is best left to the existing bodies of law, such as antitrust⁸⁷ law and patent misuse law,⁸⁸ which are designed to police business agreements that restrain trade and behavior that monopolizes commercial marketplaces.⁸⁹

Nevertheless, the transfer of mere use rights in a patented product could act as a de facto restraint on alienation because downstream parties who acquire the product may be unaware of the limited rights originally granted.

2, 2017), . <https://www.fenwick.com/publications/Pages/Supreme-Courts-Lexmark-Decision-Expands-Scope-of-Patent-Exhaustion-Defense.aspx>.

83. *See* *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1523 (2017).

84. *Id.* at 1534.

85. *Id.*

86. 17 U.S.C. § 201(d)(2) (2018).

87. *See* 15 U.S.C. § 1 (2018) (prohibiting agreements in restraint of trade); *id.* § 2 (prohibiting monopolizing trade or commerce).

88. *See* ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* § 21.3 (2003) (discussion of patent misuse law).

89. U.S. DEP'T OF JUSTICE, *ANTITRUST ENFORCEMENT AND THE CONSUMER* (2015), <https://www.justice.gov/atr/file/800691/download>.

Consequently, they may erroneously believe that they have more rights—such as ownership—in the product than they have actually acquired. This issue also arises with tangible products that incorporate copyrightable subject matter. For example, assume the author purchases a copyrighted book. Even though he owns the book, the author is not free to make a copy of the book via scanning it.⁹⁰ If the author purchases a DVD of a copyrighted movie, he is free to watch the movie privately, but he cannot show it in a public forum.⁹¹ This problem is not limited to the transfer of rights in patented and copyrighted products. The same issue arises both with real estate and tangible personal property generally.

A purchaser of real property may incorrectly believe they are acquiring an unencumbered fee simple absolute in land when, in reality, the land is encumbered by an easement, profit, real covenant, equitable servitude, or a mortgage. Likewise, a buyer of tangible personal property may believe they have acquired good title to a good when, in fact, the seller lacks good title.⁹² In these situations, the initial creation and transfer of property rights that are less than full ownership can have the effect of interfering with downstream transactions. In response, the law developed equitable approaches to mitigate this problem.⁹³ Typically, those approaches, often referred to as bona fide purchaser rules,⁹⁴ focus on notice,⁹⁵ namely, whether the transferee had notice that he or she was acquiring less than full ownership rights.⁹⁶

The meaning of “notice” has been further developed to include three types of notice.⁹⁷ First is actual notice given to the buyer.⁹⁸ Second, constructive notice is imputed to the buyer based on material properly recorded in publicly available governmental records.⁹⁹ Finally, inquiry notice imputes to the buyer information about the property which would be revealed by a rea-

90. Scanning the book would violate the reproduction right. *See* 17 U.S.C. § 106(1) (2018).

91. Showing it in a public forum would violate the public performance right. *See id.* § 106(4).

92. *See generally* *Mossler Acceptance Co. v. Johnson*, 109 F. Supp. 157, 168 (W.D. Ark. 1952) (stating the general rule that a buyer cannot ordinarily get a better title than what the seller had).

93. *See id.*

94. *See id.*

95. *See* KORNGOLD, *supra* note 68, § 5.02, at 197–200 (discussing various types of notice including actual, record, constructive, and inquiry notice).

96. *See generally* *Mossler Acceptance Co.*, 109 F. Supp. at 168 (property subject to encumbrance when taken with notice of encumbrance).

97. KORNGOLD, *supra* note 68, § 8.01, at 289–90.

98. *Id.*

99. *Id.*

sonable inspection or reasonable inquiries about the property.¹⁰⁰ For example, a purchaser of land will typically acquire the land free of restrictive covenants and easements for which he or she lacks notice.¹⁰¹ Additionally, in most states, recording statutes can result in land being transferred without being subject to prior claims if the buyer doesn't know of the claims and if the claims are not included in the recorded chain of title maintained by the government.¹⁰² Similar federal recording statutes exist for the transfer of patents,¹⁰³ copyrights,¹⁰⁴ and trademarks.¹⁰⁵ Under the Uniform Commercial Code (U.C.C.), the owner of a voidable title in tangible personal property in the form of goods can transfer good title to a third party who buys the goods in good faith without notice of the title problem.¹⁰⁶ Also, under the U.C.C., a party who buys goods in good faith from a merchant in the ordinary course of the merchant's business can acquire good title to the goods even if the merchant lacks any title, provided that the buyer is unaware of any title problems.¹⁰⁷ Finally, at common law, money in the form of currency that is paid for property is acquired free and clear of any prior ownership claims if the recipient lacks notice of such prior claims.¹⁰⁸ This approach favors the free alienability of property but still enables property owners to transfer, when appropriate, less than a full unfettered ownership interest in property, provided that the transferee is on notice of the lesser interest being transferred.¹⁰⁹

100. *Id.*

101. *See id.* § 5.02, at 195–96, § 8.01, at 289–90 (notice required to bind subsequent owners to easements).

102. *See* JOSEPH WILLIAM SINGER ET AL., PROPERTY LAW: RULES, POLICIES, AND PRACTICES 995–96 (7th ed. 2017) (“In general, a subsequent interest holder who has no notice of a prior conveyance and who records his interest will prevail over any prior unrecorded interest”). Patent law contains a recording statute for assignments of ownership of patent rights. *See* 35 U.S.C. § 261 (2018); *see also* *Filmtec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1573–74 (Fed. Cir. 1991).

103. *See* 35 U.S.C. § 261 (notice recording statute).

104. *See* 17 U.S.C. § 205(c) (2018).

105. *See* 15 U.S.C. § 1060(4) (2018).

106. *See* U.C.C. § 2-403(1) (AM. LAW INST. & UNIF. LAW COMM'N 2010). Likewise, courts generally hold that a deed to land obtained via fraud creates voidable title which can become good title if it is transferred to a subsequent bona fide purchaser who lacks knowledge of the fraud. *JESSE DUKEMINIER ET AL.*, PROPERTY CONCISE EDITION 390 (2d ed. 2017).

107. *See* U.C.C. § 2-403(3).

108. *Newell v. Hadley*, 92 N.E. 507, 512 (Mass. 1910).

109. *Id.*

VII. USE RIGHTS IN PATENTED ARTICLES

Adoption by *Impression Products* of a patent exhaustion rule based on maintaining alienability of patented articles weighs heavily in favor of adopting a bona fide purchaser rule for patented articles. Otherwise, the ability to license patent rights that are less than ownership rights may be negatively impacted.

If the patentee initially only provides use rights in a patented article, in lieu of selling it, patent exhaustion should not apply to that article. In this situation, the article at issue has not been sold, and title to the article remains with the patentee. Therefore, the bright-line rule established in the *Impression Products* decision for the application of patent exhaustion upon the sale of the article has not been crossed. Nevertheless, the potential exists for the possessor of the article to resell it to a third party who may be unaware that the seller lacks title to the article. In such a situation, the third party should only obtain whatever interest in the article the seller possesses. However, if the third party buyer purchases the item in good faith, without any notice that the seller lacks good title to the article, the buyer should be treated as a bona fide purchaser, which would permit him or her to obtain good title to the article based on equity.¹¹⁰ This approach is commonly used with regard to the sale of tangible personal property and real estate.¹¹¹ The same approach should be used for the sale of patented articles or products.¹¹²

VIII. MARKET EFFECTS

Whether patented products could be provided to users without transferring ownership in the products will be determined by practical considerations, consumer demand, and technological change. In theory, however, a patentee could offer products to purchasers in three different transactions.¹¹³ The patented article could be sold with no restrictions, triggering patent exhaustion for the specific articles sold so that patent rights in those articles would end.¹¹⁴ Alternatively, the article could be sold subject to a contractual agreement between the patentee and the buyer.¹¹⁵ Any breach of that contract would be remediable by a breach of contract action brought by the patentee against the buyer.¹¹⁶ Finally, the patentee could utilize a property approach

110. *DUKEMINIER ET AL.*, *supra* note 106, at 390.

111. *Id.*

112. *See generally* *NIMMER*, *supra* note 72, § 11:73, at 11-162 (2010) (noting a similar approach has generally not been used for licensing of intellectual property).

113. *See* *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1533–34 (2017).

114. *Id.* at 1533.

115. *Id.* at 1526.

116. *Id.*

and only provide a third party a use right in the patented article.¹¹⁷ Typically, the parties would have to enter an agreement comprised of two parts: a grant of property rights in the form of use rights and any contractual agreement related to the use rights agreed to by the parties.¹¹⁸ This property approach would not trigger patent exhaustion because the article was not provided via a sale.¹¹⁹ A patent infringement action for use of the article in violation of patent rights could be brought against using the article contrary to the patentee's rights.¹²⁰ Additionally, the patentee could bring an action against the original contracting party if any rights in the contractual agreement were violated.¹²¹ However, any party subject to a patent infringement suit for use of the patented article would be able to assert a bona fide purchaser defense if they were not on notice of patent rights in the specific article.¹²² This defense would enable the article to freely flow in commerce, which would satisfy the policy of preventing restraints on alienation from interfering with commerce.¹²³

Under the facts asserted in *Impression Products*, it may be difficult for Lexmark to provide laser printer ink cartridges directly to consumers from a brick and mortar store via any transaction other than a sale. However, online sales of the same cartridges could use a click-through agreement on the website that conveys less than ownership rights in the cartridge, thereby avoiding patent exhaustion in the cartridges sold online.¹²⁴ Nevertheless, suing individual online purchasers for patent infringement for reselling the spent cartridges to remanufacturers would likely be an undesirable approach. In contrast, college textbooks are now available for either sale or rental by the semester.¹²⁵ Additionally, technology can make providing only use rights in books a plausible alternative.¹²⁶ For example, books provided online only in

117. *Id.* at 1534.

118. *Id.* at 1538.

119. *See generally Impression Prods.*, 137 S. Ct. at 1538.

120. *Id.*

121. *Id.*

122. *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454, 1454 (Fed. Cir. 1998).

123. Robert Taylor, *A Short History Lesson on Patent Policy*, IP WATCHDOG (June 21, 2015), <https://www.ipwatchdog.com/2015/06/21/a-short-history-lesson-on-patent-policy/id=58833/>.

124. *See Are "Click Through" Agreements Enforceable?*, WILMER HALE (Mar. 22, 2000), <https://www.wilmerhale.com/pages/publicationsandNewsDetail.aspx?NewsPubId=86850>; *see also* MICHAEL RUSTAD & CYRUS DAFTARY, *E-BUSINESS LEGAL HANDBOOK* 571 (2002 ed.) (click through licenses also called clickwrap or webwrap agreements).

125. *See, e.g., Rent Textbooks*, VALORE BOOKS, <https://www.valorebooks.com/rent-textbooks> (last visited May 1, 2018).

126. *See generally id.*

electronic form, such as Kindle books from Amazon, are subject to ongoing control by the seller which facilitates providing mere use rights in lieu of outright ownership of an individual copy of the book.¹²⁷

IX. ANALOGIZE TO COPYRIGHT LAW

Impression Products relies on copyright decisions by analogy to resolve when patent exhaustion applies.¹²⁸ In fact, *Impression Products* emphasizes the historic connection between patent and copyright law with regard to exhaustion.¹²⁹ Hence, it is reasonable to examine how copyright law applies exhaustion concepts. Like patent exhaustion, copyright exhaustion,¹³⁰ often referred to as the first-sale doctrine,¹³¹ is based on a policy favoring the avoidance of restraints on alienation of articles that incorporate intellectual property.¹³² This frees courts from the difficulty of applying restrictions to specific goods which are both easily movable and difficult to trace.¹³³ Copyright exhaustion has a common law ancestry,¹³⁴ just like patent exhaustion.¹³⁵ However, unlike patent exhaustion, copyright exhaustion has been codified in the federal Copyright Act.¹³⁶ The distribution right,¹³⁷ the public display right,¹³⁸ and the public performance right¹³⁹ are granted by copyright law to the copyright owner. However, the Copyright Act specifies that exhaustion applies to “the owner of a particular copy” of certain copyrighted works and terminates these rights.¹⁴⁰ The Copyright Act reinforces the notion that the sale of a copy of a copyrighted work is required for exhaustion to apply by stating that exhaustion does not apply “to any person who has acquired possession of the copy . . . from the copyright owner . . . by rental, lease, loan, or

127. See *Kindle Store Terms of Use*, AMAZON, <https://www.amazon.com/gp/help/customer/display.html?nodeId=200771440> (last updated Mar. 15, 2016).

128. See, e.g., *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 525 (2013) (holding that copyright exhaustion, referred to as the first-sale doctrine, extends to foreign produced goods subsequently imported into the United States).

129. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1536 (2017).

130. See 17 U.S.C. § 109 (2018).

131. See NARD ET AL., *supra* note 47, at 657–58.

132. See *Kirtsaeng*, 568 U.S. at 538–42.

133. See *id.* at 539.

134. See *id.*; see also *Quality King Distribs. v. L’Anza Research Int’l*, 523 U.S. 135, 142 (1998) (Congress codified first-sale doctrine in Copyright Act).

135. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1536 (2017).

136. 17 U.S.C. § 109 (2018).

137. *Id.* § 106(3).

138. *Id.* § 106(5).

139. *Id.* § 106(4).

140. *Id.* § 109(a), (c), (e).

otherwise, without acquiring ownership of it.”¹⁴¹ Additionally, the statutory scheme lays out specific rules for certain copyrightable subject matter in the form of computer software and electronic audiovisual games.¹⁴² This establishes a comprehensive statutory scheme for copyright exhaustion that is a balance of several underlying considerations, including the effect on certain specific industries. In contrast, Congress did not balance multiple underlying considerations to create a statutory scheme governing patent exhaustion.¹⁴³ Hence, the common law policy identified by the Supreme Court of disfavoring restraints on the alienation of goods is the controlling or dominant policy undergirding common law patent exhaustion.¹⁴⁴

Nevertheless, the distinction between a sale of a copyrighted work and acquiring rights in such work that are less than ownership should apply equally to both patented and copyrighted works. Under both bodies of law, exhaustion is triggered by a sale of the protected work.¹⁴⁵ However, just as transferring less than ownership of a copyrighted work does not activate copyright exhaustion, such a transfer of a patented article should not activate patent exhaustion.

X. WHEN LICENSES ARE SALES

One issue that can arise is whether a license transaction is actually a de facto sale triggering exhaustion as opposed to an actual license that would not trigger exhaustion. This issue has arisen in the copyright context and has been addressed by courts. In *Adobe Systems v. Christenson*, the Ninth Circuit noted “that some purported software licensing agreements may actually create a sale.”¹⁴⁶ The court then relied on the earlier decision in *Vernor v. Autodesk, Inc.* to state a test for ascertaining whether a license is a legitimate license or a de facto sale.¹⁴⁷ The court stated:

To determine whether there is a legitimate license, we examine whether 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. Where these factors aren’t satisfied, the upshot is that the copyright holder has sold its software to the user, and the user can assert the first sale defense.¹⁴⁸

141. 17 U.S.C. § 109(d).

142. *Id.* §§ 109(b)(1)(B)–(e).

143. *See generally id.*

144. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1526 (2017).

145. *Id.* at 1538.

146. *Adobe Sys. v. Christenson*, 809 F.3d 1071, 1078 (9th Cir. 2015).

147. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1112 (9th Cir. 2010).

148. *Adobe Sys.*, 809 F.3d at 1078.

In *Vernor*, the court found a license existed for software.¹⁴⁹ The court focused on a number of factors including retention of title by the licensor and significant restrictions placed on the licensee.¹⁵⁰ First, the licensee could not transfer or lease the software without the licensor's consent.¹⁵¹ Second, the software could not be transferred outside the Western Hemisphere.¹⁵² Third, the software could not be modified or reverse engineered, nor could any copy protection be removed.¹⁵³ Finally, the license provided for its termination upon violation of any license restrictions.¹⁵⁴ An analogous examination of patent licenses can be conducted to ascertain whether the license is a legitimate license or a de facto sale.¹⁵⁵

XI. CONCLUSION

In *Impression Products*, the Supreme Court provided a bright line rule for triggering patent exhaustion and a clear justification for the doctrine.¹⁵⁶ The sale of a patented product, whether foreign or domestic, automatically causes the application of exhaustion to the product sold.¹⁵⁷ This prevents restraints on alienation that could arise if such sale was conditional in nature or subject to restrictions that the initial or a subsequent buyer might not be aware of.¹⁵⁸ Nevertheless, downstream control of patented products may be desirable for brand protection and to maximize return on investment.¹⁵⁹ If such control is driven by anticompetitive motivations or practices, antitrust and/or patent misuse law can provide applicable remedies.¹⁶⁰ Conditional sales contracts, in light of *Impression Products*, are to be evaluated under contract law and policed by breach of contract actions.¹⁶¹

Impression Products does not foreclose reliance on a property-based approach for transferring patented products without activating the patent exhaustion doctrine. Under this approach, a patent owner would only grant

149. *Vernor*, 621 F.3d at 1102.

150. *Id.* at 1109.

151. *Id.* at 1111–12.

152. *Id.*

153. *Id.*

154. *Id.*

155. *See generally Vernor*, 621 F.3d. at 1102.

156. *See generally Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1536 (2017).

157. *Id.* at 1537.

158. *Id.* at 1538.

159. *Id.*

160. *Id.* at 1533.

161. *Id.* at 1526.

third parties use rights in a particular patented product in lieu of transferring ownership, and the patent owner would continue to own the particular product.¹⁶² Such use rights, granted pursuant to a license, are analogous to a similar approach utilized for both real and personal property.¹⁶³ Nevertheless, the granting of mere use rights could inadvertently act as a restraint on alienation if a downstream possessor of the patented good is unaware that he or she has only acquired use rights rather than ownership of the good. This problem, which is not limited to patented goods, has traditionally been dealt with via bona fide purchaser rules.¹⁶⁴ Typically, a party who acquires goods without knowledge of restrictions on the goods takes free of such restrictions if he or she lacks notice of the restrictions.¹⁶⁵ A similar approach to patented goods would mean licensing use rights would not trigger patent exhaustion.¹⁶⁶ However, patent exhaustion would be applicable if a third party acquired possession of the goods without knowledge that only use rights in the goods were provided rather than a transfer of ownership. This approach is consistent with exhaustion under copyright law, which, analogous to *Impression Products*, applies copyright exhaustion to the sale of a copyrighted product but not to the license of rights that are not ownership.¹⁶⁷

In light of this approach, a provider of patented goods can provide the goods via at least three different transactions.¹⁶⁸ First, an outright sale could be used, which would trigger the patent exhaustion doctrine.¹⁶⁹ Second, the goods could be provided subject to contractual rights and limitations that would trigger exhaustion.¹⁷⁰ Any violation of the rights or limitations would be enforceable via a breach of contract action.¹⁷¹ Finally, third parties could obtain a license to use the patented goods.¹⁷² This would not trigger patent exhaustion and, therefore, an action for patent infringement would still be available.¹⁷³ However, if the third party, or a successor in interest, lacked notice that only use rights were originally transferred, then bona fide pur-

162. *Impression Prods.*, 137 S. Ct. at 1533–34.

163. *Id.*

164. *Mossler Acceptance Co. v. Johnson*, 109 F. Supp. 157, 168 (W.D. Ark. 1952).

165. *Id.*

166. *Impression Prods.*, 137 S. Ct. at 1527.

167. *Id.*

168. *Id.* at 1532.

169. *Id.* at 1526.

170. *Id.*

171. *Id.*

172. *Impression Prods.*, 137 S. Ct. at 1534.

173. *Id.*

chaser rules would apply and patent exhaustion would bar a patent infringement action.¹⁷⁴ The transaction type a patent owner chose to use would be driven by business and market factors.

174. *Id.*