A Framework for Patent Exhaustion from Foreign Sales

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A Framework for Patent Exhaustion from Foreign Sales

Jay A. Erstling† & Frederik W. Struve‡

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INTRODUCTION

The patent exhaustion doctrine generally holds that the authorized first sale of a patented good terminates the patent holder’s right to restrict the buyer’s subsequent use and sale of that good. Patent exhaustion is an affirmative defense to a claim for patent infringement. It is grounded under U.S. patent law in the public policy rationale referred to in this Article as the single reward principle. The premise of the single reward principle is simple and fair. A patent holder is entitled only to a single reward for the sale of a patented good, because a patent holder receives the reward intended as the utilitarian incentive to invent when selling the patented good.

But despite this simple policy rationale and its more than 150-year history, U.S. courts so far have not articulated a complete framework for applying the patent exhaustion doctrine to foreign sales. The application of the doctrine to foreign sales is complicated, because patent law is territorial, existing generally under the national laws of each country. Since 2001, the Federal Circuit has ruled several times on patent exhaustion from foreign sales. The decisions are consistent with the territorial boundaries of patent law and hold that the patent exhaustion doctrine is territorially li-
The Federal Circuit’s decisions, however, rely on a limited rationale and as a result lack certainty when applied to new fact patterns. Most importantly, the Federal Circuit decisions do not address the effect of patent exhaustion in a foreign sale when the sale contractually authorizes the buyer to engage in conduct with respect to the invention within U.S. territory.

This Article employs the legal principles underlying the Federal Circuit decisions to propose a simple but complete framework that the courts may use to apply patent exhaustion to foreign sales in future decisions. The proposed framework holds that the patent exhaustion doctrine does not apply to a foreign sale unless the U.S. patent holder has also contractually authorized importation into, use, or sale of the patented good in the U.S. Contractual authorization under the proposed framework means that the patent holder receives some form of consideration in exchange for the termination of the statutory right to exclude under a U.S. patent. The proposed framework thereby leaves the exhaustion doctrine free of fact-dependent inquiries regarding parallel foreign patent rights.

The proposed framework is based on two foundational principles of U.S. patent law: the nature of the patent grant solely as a right to exclude and the territorial scope of the patent grant as limited to U.S. territory. By closely adhering to these foundational principles, the framework produces predictable and consistent outcomes across a full spectrum of possible fact patterns involving the

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7 See Fuji Photo Film Co., 394 F.3d at 1376 (“The patentee’s authorization of an international first sale does not affect exhaustion of that patentee’s rights in the United States.”); Jazz Photo Corp., 264 F.3d at 1105 (“United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.”). The territoriality doctrine thus holds, in general, that transactions occurring outside U.S. jurisdictional territory are not subject to U.S. patent law. See Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 454–55 (2007); Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641, 650–51 (1915) (holding that U.S. patent law does not apply to a foreign sale where “no part of the transaction occur[ed] within the United States”); 3 Moi, supra note 3, § 12:11 (“[A]ctivities outside the United States are outside the scope of the patent.”).

8 For example, where a U.S. patentee sells a good covered by a U.S. patent in Denmark but also contractually authorizes importation into and resale in the U.S.


10 See infra Part I.A.

11 See infra Part I.B.
foreign sale of goods also patented in the U.S. As a result, the framework’s territorial limitation of the patent exhaustion doctrine ensures that the doctrine can be applied uniformly to all foreign sales with foreseeable results, thereby providing certainty to U.S. patent holders, licensees, and their foreign purchasers when structuring foreign sales potentially involving U.S. patent rights.

Part I of this Article reasserts the basic nature of the U.S. patent grant solely as a statutory right to exclude.\textsuperscript{12} It next reviews the territorial scope of the U.S. patent grant, finding that Congress must show clear intent for a provision of U.S. patent law to apply to conduct outside U.S. territory, and that international agreements have reinforced the limited territorial scope of U.S. patent law.\textsuperscript{13} Part II lays out the foundation for the proposed framework by first analyzing the theoretical underpinnings of the single reward principle.\textsuperscript{14} It then applies the limited territorial scope of the U.S. patent grant to the single reward principle to demonstrate why patent exhaustion must be limited territorially.\textsuperscript{15} Lastly, to present a complete framework, Part II examines the boundaries of the territorial limitation of patent exhaustion, concluding that patent exhaustion must also result from a foreign sale contractually authorizing conduct with regard to the invention within U.S. territory.\textsuperscript{16} Part III applies the proposed framework for patent exhaustion from foreign sales to common fact patterns to illustrate how the framework provides certainty to U.S. patent holders, licensees, and their foreign purchasers.\textsuperscript{17}

I. The Nature and Territorial Scope of the U.S. Patent Grant

The proposed framework rests on two foundational principles of U.S. patent law: the nature of the patent grant as a right to exclude and the territorial scope of the patent grant as defined by Congress and the Supreme Court. These principles operate as the

\textsuperscript{12} See infra Part I.A.
\textsuperscript{13} See infra Part I.B.
\textsuperscript{14} See infra Part II.A.
\textsuperscript{15} See infra Part II.B.
\textsuperscript{16} See infra Part II.C.
\textsuperscript{17} See infra Part III.
boundaries for the patent exhaustion doctrine when applied to foreign sales.

A. The Statutory Right to Exclude

1. A Right to Exclude

Utilitarian theory generally justifies U.S. patent law as a means to maximize the greatest good to society from intellectual endeavors.\(^\text{18}\) Patent law may therefore best be understood as a legal means to an economic end.\(^\text{19}\) Patent law incentivizes innovative behavior to create economic growth and to expand the knowledge base spurring future innovative activity.\(^\text{20}\)


\(^{19}\) See United States v. Masonite Corp., 316 U.S. 265, 278 (1942) ("[T]he promotion of the progress of science and the useful arts is the ‘main object’; reward of inventors is secondary and merely a means to that end.").

achieves its utilitarian objective by granting a patentee the statutory "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." The statutory right to exclude is necessary because inventions are public goods—consumption or possession of the invention by one person does not preclude consumption or possession of the invention by another. Without the right to exclude, an inventor would have little incentive to invest time and effort if a second-comer could appropriate an invention and sell it before the inventor could recover the costs of developing the invention and creating a market for it.

2. The Patent Does Not Grant a Positive Right to Make, Use, and Sell

The right to exclude is the only right conferred by the patent. The Supreme Court has unequivocally held that the U.S. patent

21 35 U.S.C. § 154(a)(1) (2012). See also United States v. Univis Lens Co., 316 U.S. 241, 250 (1942) ("The declared purpose of the patent law is to promote the progress of science and the useful arts by granting to the inventor a limited monopoly, the exercise of which will enable him to secure the financial rewards for his invention."); Rich, supra note 18, at 164 (discussing the economic power effectuated by the statutory right to exclude).

22 See KIEFF ET AL., supra note 18, at 60. Thomas Jefferson described the public goods problem in a letter to Isaac McPherson in 1813:

He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property. Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility, but this may or may not be done, according to the will and convenience of the society, without claim or complaint from anybody.


23 See KIEFF ET AL., supra note 18, at 60–61.

24 See Bloomer v. McQuewan, 55 U.S. 539, 549 (1852) ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or
grant is not a positive right to make, use, and sell the patented invention. Patentees have the right to make, use, and sell an inven-

vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent."

25 See United Shoe Mach. Corp. v. United States, 258 U.S. 451, 463 (1922) (“From an early day it has been held by this court that the franchise secured by a patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee.”); Bauer & Cie v. O’Donnell, 229 U.S. 1, 10 (1913) (“The right to make, use, and sell an invented article is not derived from the patent law. This right existed before and without the passage of the law, and was always the right of an inventor. The act secured to the inventor the exclusive right to make, use, and vend the thing patented, and consequently to prevent others from exercising like privileges without the consent of the patentee.”); United States v. Am. Bell Tel. Co., 167 U.S. 224, 238–39 (1897); McQuewan, 55 U.S. at 549; In re Brosnahan, 18 F. 62, 64 (C.C.W.D. Mo. 1883).

Despite the Supreme Court’s express admonition, there has been confusion as to the nature of the patent grant. That confusion likely arose from the poorly worded definition of the patent grant in the Patent Act of 1870, granting “the exclusive right to make, use and vend the said invention or discovery.” Patent Act of 1870, ch. 230, § 22, 16 Stat. 198, 201 (1870); see also FRANK Y. GLADNEY, RESTRAINTS OF TRADE IN PATENTED ARTICLES 9 (1910); GILES S. RICH, JUDGES’ PRIMER: PATENT AND COPYRIGHT LAW AND PROCEDURE (1970), reprinted in 3 J. FED. CIR. HIST. SOC’Y 83, 88 (2009) (“A patent grants no right to do any other thing and is no protection against Infringement. That is the established meaning of the words ‘exclusive right’ in the Constitution—only a right to exclude. Throughout history, there has been much confusion on this point principally because of use of the phrase ‘exclusive right to make, use, and vend the invention’ in pre-1958 law (old 85 U.S.C. § 40, R.S. 4884.’).” It appears that Judge Rich, as a drafter of the Patent Act of 1952, took great joy in the new patent act correctly defining the patent grant in section 154 as a right to exclude. See Giles S. Rich, Address to the New York Patent Law Association on the Patent Act of 1952 (Nov. 6, 1952), reprinted in 3 J. FED. CIR. HIST. SOC’Y 104, 111 (2009) (“Section 154 at long last brings about a realistic and accurate statement of the patent right, ‘the right to exclude others.’ In the course of the next generation or two it may help to dispel some of the fog surrounding patents.”); see also King Instruments Corp. v. Perego, 65 F.3d 941, 949 (Fed. Cir. 1995) (Rader, J.) (“The 1952 amendment should have corrected any mistaken belief that patent rights somehow hinged upon the patentee’s exploitation of the invention. Inventors possess the natural right to exploit their inventions (subject to the patent rights of others in a dominant patent) apart from any Government grant.”). Judge Rich’s satisfaction reflects prior writings, in which he had lamented the general misunderstanding between the statutory right to exclude conferred by the patent grant and a patent owner’s common-law right to make, use, and sell an invention. Rich, supra note 18, at 168 (“This first principle of patent law would not be here reviewed but for a sincere desire to add the author’s mite towards ending the confusion between what is given by the patent law, and is therefore within its scope, and what is not received from the patent law, and is therefore subject solely to the general law.”). But see generally Mossoff, supra note 18 (arguing that the prevailing understanding of the patent grant solely as a right to exclude fails to include the significant historical influence of natural rights property theory).
tion without the grant of a patent. Patentees do not need permission or power under U.S. patent law to conceive an invention, reduce it to practice, or create a tangible embodiment of the invention. Likewise, patentees need no positive statutory right to sell the embodiment of the invention to another. Accordingly, the proposed framework treats the patent grant solely as a statutory right to exclude others—not as a right to make, use, or sell the invention.

The rights exercised in the sale of a patented good in itself are therefore no different than the rights exercised in the sale of a nonpatented good—they are generally protected by common law and thus subject to state contract law. E.g., McQuewan, 55 U.S. at 549–50; see GLADNEY, supra note 25, at 38. Accordingly, the only rights actually transferred in a sale of any good, whether patented or not, are the rights to use, sell, and repair the good as long as the good exists. Bloomer, 55 U.S. at 549 (“In using [the patented good], [the purchaser] exercises no rights created by the act of Congress, nor does [the purchaser] derive title to it by virtue of the franchise or exclusive privilege granted to the patentee.”); GLADNEY, supra note 25, at 81. As such, the economic power residing in the statutory right to exclude is not valuable in itself. Only where the statutory right to exclude protects an invention that is valuable to society will the patentee reap the benefits of controlling price and output to maximize the invention’s commercial value. That is, the true economic value of the statutory right to exclude is that it makes valuable the patentee’s common law right to make, use, and sell the invention. Id. at 79; see also Rich, supra note 18, at 171.

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26 See Crown Die & Tool Co. v. Nye Tool & Mach. Works, 261 U.S. 24, 34–36 (1923); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 510 (1917) (“It has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using, or selling that which he has invented. The patent law simply protects him in the monopoly of that which he has invented and has described in the claims of his patent.”); Patterson v. Kentucky, 97 U.S. 501, 507 (1878) (“The sole operation of the [patent] statute is to enable him to prevent others from using the products of his labors except with his consent.”); McQuewan, 55 U.S. at 549; see also GLADNEY, supra note 25, at 13 (“A patentee has two kinds of rights in his invention. He has a right to make, use and sell specimens of the invented thing; and he has a right to prevent all other persons from doing either of these acts. The first of these rights is wholly independent of the patent laws; while the second exists by virtue of those laws alone.”) (quoting ALBERT H. WALKER, TEXT-BOOK OF THE PATENT LAWS OF THE UNITED STATES OF AMERICA § 155 (4th ed. 1904))); Rich, supra note 18, at 166–67.

27 The rights exercised in the sale of a patented good in itself are therefore no different than the rights exercised in the sale of a nonpatented good—they are generally protected by common law and thus subject to state contract law. E.g., McQuewan, 55 U.S. at 549–50; see GLADNEY, supra note 25, at 38. Accordingly, the only rights actually transferred in a sale of any good, whether patented or not, are the rights to use, sell, and repair the good as long as the good exists. Bloomer, 55 U.S. at 549 (“In using [the patented good], [the purchaser] exercises no rights created by the act of Congress, nor does [the purchaser] derive title to it by virtue of the franchise or exclusive privilege granted to the patentee.”); GLADNEY, supra note 25, at 81. As such, the economic power residing in the statutory right to exclude is not valuable in itself. Only where the statutory right to exclude protects an invention that is valuable to society will the patentee reap the benefits of controlling price and output to maximize the invention’s commercial value. That is, the true economic value of the statutory right to exclude is that it makes valuable the patentee’s common law right to make, use, and sell the invention. Id. at 79; see also Rich, supra note 18, at 171.
B. The Territorial Scope of U.S. Patent Law

1. Supreme Court and Statutory Limitations on the Territorial Scope

   a) Traditional Territorial Scope

   Congress has the power under the Exclusive Rights Clause to enact patent laws that apply to conduct outside U.S. territory. 28 But the Supreme Court has consistently applied a presumption against extraterritoriality to hold that U.S. law does not apply to conduct occurring outside U.S. territory absent clear Congressional intent to the contrary. 29 Accordingly, the Supreme Court construes U.S. patent law to generally apply only to conduct within U.S. territory:30

   The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law. The traditional understanding that our patent law operates only domestically and does not extend to foreign activities is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States.31

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28 Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 530 (1972) (“The direction of Art. I is that Congress shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress.”), superseded by statute, 35 U.S.C. § 271(f) (2004), as recognized in Limelight Networks, Inc. v. Akamai Techs., Inc., 134 S. Ct. 2111, 2118 n.4 (2014).


31 Id. at 454–55 (emphasis added) (internal quotation marks omitted).
The strict territorial limitation of U.S. patent law originates in the Supreme Court’s 1856 decision in *Brown v. Duchesne*, in which a French vessel, temporarily in a U.S. port, was accused of infringement resulting from the use of a gaff saddle, also patented in the U.S. \(^{32}\) The Supreme Court held that the power granted to Congress under the Exclusive Rights Clause is “domestic in its character” and that the laws enacted under it are therefore presumed to be limited to U.S. territory:

> [Nothing] in the patent laws . . . should lead to a different conclusion. [The laws] are all manifestly intended to carry into execution this particular power. They secure to the inventor a just remuneration from those who derive a profit or advantage, within the United States, from his genius and mental labors.

. . .

> [T]hese acts of Congress do not, and were not intended to, operate beyond the limits of the United States; and as the patentee’s right of property and exclusive use is derived from them, they cannot extend beyond the limits to which the law itself is confined.\(^{33}\)

The territorial limitation of U.S. patent law was subsequently codified in section 22 of the Patent Act of 1870.\(^{34}\) The Patent Act of 1952 expanded the express statutory territorial limitation of U.S. patent law, by directly inserting the limitation in the patent grant under section 154, and the right to claim infringement under sec-

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\(^{33}\) Id. at 195 (emphasis added).

\(^{34}\) See Patent Act of 1870, ch. 230, § 22, 16 Stat. 198, 201 (1870) (“[E]very patent shall contain a short title or description of the invention or discovery, correctly indicating its nature and design, and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use and vend the said invention or discovery throughout the United States and the Territories thereof, referring to the specification for the particulars thereof . . . .”) (emphasis added); see also Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2130 (2008) (“The statute . . . explicitly contains a territorial restriction . . . .”); 3 MOY, *supra* note 3, § 12:5 (inferring that the territorial limitation was codified in response to the Supreme Court’s holding in *Brown*).
tion 271. As a result, the rights conferred to a patentee under a U.S. patent are limited geographically to U.S. territory. Section 154 reads in relevant part:

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.

The right to claim infringement of the patent correspondingly limits its reach to the territorial jurisdiction of the U.S.:

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.

Further, section 100(c) of the Patent Act of 1952 for the first time defined the “United States” when used in the statute as “the United States of America, its territories and possessions.”

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37 Id. § 271(a) (2012) (emphasis added). As discussed in Part II.B.1.b infra, section 271 has been expanded by Congress to respond to strict judicial interpretation of section 271 resolving any doubt regarding the geographic reach of section 271 against the presumption of extraterritoriality.
b) Congressional Action Required to Expand the Territorial Scope

As a result of the Supreme Court’s strict territorial interpretation of U.S. patent law, the Court requires Congress to act if Congress wishes to expand the territorial scope of a provision or doctrine. For example, the Supreme Court held in *Deepsouth Packaging Co. v. Laitram Corp.* that the right to manufacture a patented combination invention was not infringed under section 271(a) where all substantial parts were made within the U.S. but assembled outside U.S. territory, because the infringing invention—all parts fully assembled—existed only outside U.S. territory. The Supreme Court reached its holding by emphasizing that the U.S. “patent system makes no claim to extraterritorial effect,” because U.S. patent law was not intended to operate outside U.S. territory. Congress, unhappy with the result, responded to *Deepsouth* by expanding the territorial scope of section 271 through the 1984 enactment of section 271(f). Section 271(f) provides holders of combination patents a cause of action for infringement, where “all or a substantial portion of the components of a patented invention” are supplied from the U.S. Similarly, Congress enacted section 271(g) in 1988, making it an infringement to import into the U.S. or to use, offer for sale, or sell within the U.S. any product made by a process patented in the U.S. Thus, Congress has acted to expand the territorial scope of U.S. patent law when it has deemed it necessary to do so.

c) Judicial Interpretation of Provisions Expanding the Territorial Scope

Despite the expansion of the territorial scope under sections 271(f) and (g), the strict presumption against extraterritorial appli-
cation of U.S. patent law has remained intact even as it applies to those expanded sections.\textsuperscript{44} The Supreme Court interpreted the expanded territorial scope of section 271(f) in \textit{Microsoft Corp. v. AT&T Corp.}, holding that a court must resolve any doubt of whether a foreign activity or transaction constitutes infringement by applying the presumption against extraterritoriality.\textsuperscript{45} Accordingly, the presumption against extraterritoriality is not inoperative merely because a provision applies to foreign activity or transactions—the presumption “remains instructive in determining the extent of the statutory exception.”\textsuperscript{46} Thus, even for a provision with expanded territorial reach, where clear congressional intent does not compel application of U.S. patent law to the foreign activity or transaction, Congress must act before such activity can be made subject to U.S. patent law.\textsuperscript{47}

d) Congress Has Not Expanded the Territorial Scope of the Patent Exhaustion Doctrine

Given the Supreme Court’s firm pronouncements limiting the territorial scope of U.S. patent law, it is fair to assume that the presumption against extraterritoriality applies equally to patent exhaustion. In other words, the territorial limitation of patent exhaustion should be seen as a necessary corollary of the Supreme Court’s presumption against extraterritoriality. Although Congress has the power to expand the territorial scope of the patent exhaustion doctrine beyond the traditional U.S. territory defined in section 100(c),

\textsuperscript{44} See \textit{Microsoft Corp. v. AT&T Corp.}, 550 U.S. 437, 455–57 (2007).
\textsuperscript{45} \textit{Id.} at 454–57.
\textsuperscript{46} \textit{Id.} at 455–56.
\textsuperscript{47} \textit{Id.} at 458. The Supreme Court in \textit{Microsoft} did not find the alleged infringing activity to fall within section 271(f): “The ‘loophole,’ in our judgment, is properly left for Congress to consider, and to close if it finds such action warranted.” \textit{Id.} at 457. However, where a transaction occurs outside, but shares a nexus with U.S. jurisdictional territory, the transaction may fall within the territorial scope of U.S. patent law. In \textit{Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.}, the Federal Circuit found sufficient congressional intent under section 271(a) that an offer for sale made outside U.S. jurisdictional territory constitutes infringement, where the delivery and sale of the patented invention would take place within U.S. territory. 617 F.3d 1296, 1309–10 (Fed. Cir. 2010). While recognizing the presumption against extraterritorial application of U.S. patent law, the Federal Circuit found the foreign offer for sale infringing under section 271(a), because “the location of the contemplated sale controls whether there is an offer to sell within the United States.” \textit{Id.} at 1309 (emphasis added).
it has not done so. As a result, foreign sales should be viewed as subject to the presumption against extraterritoriality and should therefore not be subject to U.S. patent law where all aspects of the sale occur outside U.S. territory.

2. International Agreements Have Not Expanded the Territorial Scope

A separate question is whether international agreements influence the territorial scope of U.S. patent law. The U.S. adheres to the three leading international agreements on patent law: the Paris Convention,49 the Patent Cooperation Treaty (“PCT”),50 and the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”).51 None of the agreements, however, have effected substantive changes expanding the territorial scope of U.S. patent law; to the contrary, the agreements have reinforced the U.S. patent grant’s limited territorial scope.

a) The Paris Convention

The Paris Convention, enacted in 1883, was the first international agreement on patent law.52 The Convention is limited to procedural issues, leaving substantive matters of patent law to the national law of each member country.53 The enacting member countries had great differences in their underlying policy of each country’s national patent grant and therefore could not fully agree on one “true” justification for the grant of patents.54 As a result,

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48 Section 100(c) defines “United States” to only include “the United States of America, its territories and possessions.” 35 U.S.C. § 100(c) (2012).
53 See id. at 70.
54 EDITH TILTON PENROSE, THE ECONOMICS OF THE INTERNATIONAL PATENT SYSTEM 20 (1951). An attempt to include natural rights as the theoretical basis for patent law in the Paris Convention was unsuccessful. See BAGLEY ET AL., supra note 52, at 9–11.
the goal of international harmonized substantive patent legislation was abandoned early on, in light of the practical impossibilities of achieving agreement between countries having different theories underlying the patent grant, diverging legal structures, and inconsistent economic goals.55

The Paris Convention nevertheless resulted in agreement on two foundational procedural concepts. First, under Article 2, national treatment ensures that foreign applicants are entitled to the same patent rights afforded to citizens of another member country under the other country’s national law.56 Second, under Article 4, applicants who have filed an application in one member country are entitled to claim priority to that earlier filing date when filing an application in another member country within twelve months.57

Article 4 thereby permits the applicant to expand the geographic scope of patent protection for the invention. But Article 4 does not extend the exclusive rights available under the national law of the first filed patent application.58 The rights obtained under the national law of the country of the second filed application are governed solely by the national law of the country granting the patent and are independent of all other patents for the same invention issued under other countries’ national laws.59

Article 4 thereby permits the applicant to expand the geographic scope of patent protection for the invention. But Article 4 does not extend the exclusive rights available under the national law of the first filed patent application.58 The rights obtained under the national law of the country of the second filed application are governed solely by the national law of the country granting the patent and are independent of all other patents for the same invention issued under other countries’ national laws.59

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55 Paris Convention, supra note 49, art. 2; PENROSE, supra note 54, at 53.
56 BAGLEY ET AL., supra note 52, at 70–71.
57 Paris Convention, supra note 49, art. 4.
58 PENROSE, supra note 54, at 71.
59 Id. at 72–73. While national treatment and the right of priority harmonize the ability to obtain patent protection in each member country, neither Article imposes substantive changes in national law. See id. at 70–71. Thus, even with national treatment, each member country remains free to provide as many or few substantive rights to patent holders as desired, commensurate with the underlying public policy and territorial scope of the national patent grant. See BAGLEY ET AL., supra note 52, at 69 and accompanying text. The Supreme Court in Boesch v. Graff therefore properly concluded, consistent with the territoriality doctrine and the Paris Convention, that action taken under a foreign patent does not affect the rights held under a U.S. patent: “A prior foreign patent operates under our law to limit the duration of the subsequent patent here, but that is all.” 133 U.S. 697, 703 (1890). It should be noted that while the Court’s statement is wholly consistent with the articles of the Paris Convention, the Court did not expressly refer to the Paris Convention.
Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not." Actions taken under a patent granted in another Paris Convention member country therefore do not have any substantive impact on the rights held under a parallel U.S. patent.

b) The Patent Cooperation Treaty

Article 19 of the Paris Convention reserves to member countries the right to make additional “special agreements for the pro-

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60 Paris Convention, supra note 49, art. 4bis(1) (emphasis added).
61 Any argument that the foreign sale under a foreign parallel patent right results in patent exhaustion under U.S. patent law is therefore nothing more than the broad assertion that parallel foreign patent rights should be viewed as coterminous as a matter of law—an outcome without legal basis until such harmonization is achieved by international agreement. But see John A. Rothschild, Exhausting Extraterritoriality, 51 SANTA CLARA L. REV. 1187, 1205–15 (2011) (arguing exhaustion results under a U.S. patent from the foreign sale under a parallel foreign patent, because the foreign sale results in a “patent-based” reward under the foreign patent grant regardless of the rights and scope actually granted under each national patent grant). Alternatively, an argument could hold that parallel foreign patent rights may be sufficiently identical to justify that the authorization under one patent must exhaust the statutory right to exclude under the U.S. patent. The district court in Griffin v. Keystone Mushroom Farm, Inc., refused this argument as requiring an extensive inquiry into foreign law:

For us to hold that the United States patent monopoly was destroyed because [the licensee] took free of the Italian patent monopoly, we believe we would have to determine under defendant’s theory that those monopolies were virtually identical or, at least, very similar. Even if we were to accept conceptually that unjust enrichment defense, accordingly, we would have to make some inquiry into exactly what the plaintiff had under the Italian patent. The Supreme Court in Boescht avoided an inquiry into the legal significance of differences between American and German patent laws by framing the question before it broadly, in terms of persons “authorized” under German law. We consider it unwise to involve ourselves in the niceties of Italian patent law, and the difficulties inherent in determining those facts and comparing the plaintiff’s foreign and American patent rights underscore the untenability of defendant’s theory.

453 F. Supp. 1283, 1286–87 (E.D. Pa. 1978) (internal citations omitted). Thus, as demonstrated by the court in Griffin, by requiring that the rights and scope of the U.S. and the foreign patent are identical, the argument proves itself incapable of any real application as a legal rule, because the outcome under U.S. law would be dependent the rights and scope of a foreign patent, which vary considerably from one country to the next.
tection of industrial property.”62 The Patent Cooperation Treaty is such an agreement. The PCT creates an international patent filing system, but it does not grant an international patent and does not prescribe substantive requirements for patentability.63 The PCT is therefore also a procedural treaty, improving upon the framework created by the Paris Convention to enable a simple application procedure, allowing an applicant to easily file applications in several countries simultaneously by filing a PCT application.64 The PCT does not provide a “global patent” or otherwise provide any substantive harmonization of patent rights in its currently 148 member countries.65

c) The TRIPS Agreement

The Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”), signed in April 1994 and administered by the World Trade Organization, is the most recent of the three agreements.66 TRIPS is a substantive agreement requiring the national law of member countries to meet certain minimum standards. But the TRIPS agreement expressly excludes any effect on issues of patent exhaustion:

Article 6 – Exhaustion
For the purposes of dispute settlement under this Agreement, subject to the provisions of [TRIPS] Articles 3 and 4 nothing in this Agreement shall be

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62 Paris Convention, supra note 49, art. 19.
63 Patent Cooperation Treaty, supra note 50, art. 27(5) (“Nothing in this Treaty and the Regulations is intended to be construed as prescribing anything that would limit the freedom of each Contracting State to prescribe such substantive conditions of patentability as it desires.”); see also Bagley et al., supra note 52, at 106.
64 Bagley et al., supra note 52, at 93–94. The PCT international stage permits the applicant to delay filing in each member country or regional office for up to thirty months from the priority date of the PCT application. Id. at 106. Additionally, each PCT application receives a non-binding search report and written opinion while in the international stage. Id. at 102–04. Applicants must still, however, at their own behest file national stage applications in each national or regional office in which patent protection is desired and “the decision to grant or refuse a patent remains solely within the jurisdiction of each office.” Id. at 106.
66 TRIPS Agreement, supra note 51.
used to address the issue of the exhaustion of intellectual property rights.\footnote{Id. art. 6.}

While the creation of the TRIPS agreement was motivated by goal of “reduc[ing] distortions and impediments to international trade”\footnote{Id. pmbl.} from varying levels of protection and enforcement of intellectual property rights and for the first time created international minimum standards for patent protection, TRIPS does not alter the principle that patents are only granted under national law in each country.\footnote{See id. art. 3 (requiring national treatment of nationals of other member countries).} As a result, although the TRIPS agreement contains certain substantive minimum standards, the agreement expressly disclaims any impact on the application of patent exhaustion under the national laws of member countries.

d) No Substantive Harmonization of International Patent Law

All three patent agreements function to allow foreign citizens to obtain patent protection under another country’s national law. But the treaties and conventions do not remove the territorial boundaries between the patents granted under each national law.\footnote{Bagley et al., supra note 52, at 45. While substantive international harmonization of patent law has been attempted, the diverging public policies underlying patent law, even among developed countries, have presented an insurmountable obstacle. See id. at 44 (“Even today, there remains a lack of the necessary consensus to create a system in which the filing of a single application would result in a globally valid patent that could be asserted in a single forum regardless of where infringement occurred.”).} As such, while the international patent system has developed dramatically since the enactment of the Paris Convention, differences persist in the extent or scope of the substantive rights granted.\footnote{See Daniel R. Cahoy, Patent Fences and Constitutional Fence Posts: Property Barriers to Pharmaceutical Importation, 15 Fordham Intell. Prop. Media & Ent. L.J. 623, 663 n.174 (2005) (noting, as an example, the broader scope of business method patents under U.S. law when compared to the national law of each member country of the European Union).} The international agreements all rest on the basic principle of independence of parallel patents granted under each country’s national
law. The agreements therefore reinforce the limited territorial scope of the U.S. patent grant and in no way cause actions taken under a parallel foreign patent to affect the right to claim infringement held under a U.S. patent.

II. NO PATENT EXHAUSTION FROM FOREIGN SALES ABSENT CONTRACTUAL AUTHORIZATION

While the Supreme Court has provided clear guidance on the territorial scope of U.S. patent law, the Court has so far not ruled on facts presenting a foreign sale, where the seller held both U.S. patent rights and patent rights in the foreign jurisdiction in which the sale occurred. The absence of an express framework by the Supreme Court for applying patent exhaustion to foreign sales allowed several federal district and circuit courts to apply patent exhaustion to all foreign sales as a default rule, despite being irreconcilable with the foundational nature and territorial scope of the U.S. patent grant.72

Two Federal Circuit decisions in 2001 and 2005 ended the previous application of patent exhaustion to foreign sales. The Federal Circuit first limited patent exhaustion territorially in Jazz Photo Corp. v. International Trade Commission by holding that the first sale of a patented good “must have occurred under the United States patent.”73 The court subsequently clarified in Fuji Photo Film Co. v. Jazz Photo Corp. that the limited territorial scope of the U.S. patent grant prevents a foreign sale by the U.S. patent holder from exhausting the rights held under the U.S. patent.74 Perhaps because

73 264 F.3d 1094, 1105 (Fed. Cir. 2001) (citing Boesch v. Graff, 133 U.S. 697, 701–03 (1890)).
74 394 F.3d 1368, 1376 (Fed. Cir. 2005); see also Fuji Photo Film Co. v. Jazz Photo Corp., 249 F. Supp. 2d 434, 450 n.20 (D.N.J. 2003) (applying Jazz Photo Corp. as stare decisis). The Federal Circuit has since affirmed the territorial limitation of patent exhaustion twice. See Ninestar Tech. Co., Ltd. v. ITC, 667 F.3d 1373, 1378–79 (Fed. Cir. 2012); Fujifilm Corp. v. Benun, 605 F.3d 1366, 1371–72 (Fed. Cir. 2010) (holding that
the question of patent exhaustion from a foreign sale was not the primary issue in dispute in either decision, the Federal Circuit did not provide an in-depth analysis to support its holdings. As a result, the Federal Circuit decisions cannot readily be applied to a full spectrum of fact patterns, including the effect of contractual authorization of conduct with respect to the invention within U.S. territory. The simple framework that this Article proposes for resolving questions of patent exhaustion resulting from a foreign sale—that actions taken outside U.S. territory should have no effect on U.S. patent rights unless contractually authorized—is consistent with the Federal Circuit decisions and provides a straightforward method of analysis that those decisions lack. To provide a full framework for the application of patent exhaustion to foreign sales, this Article next analyzes the doctrine’s theoretical underpinnings not fully articulated by the Federal Circuit.

A. The Single Reward Principle

1. Theoretical Underpinnings

The public policy rationale for patent exhaustion, referred to in this Article as the single reward principle, was developed in a line of mid-nineteenth century Supreme Court decisions. The premise of the rationale, as stated above, is that patent holders are entitled only to a single reward as the incentive to invent, and they received that reward when they sell the patented good, thereby terminating the statutory exclusive right. The rationale for the single reward principle was first explained by the Supreme Court in the 1852 decision, Bloomer v. McQuewan, addressing whether a


See Fuji Photo Film Co., Ltd., 394 F.3d 1368 (Fed. Cir. 2005); Jazz Photo Corp., 264 F.3d 1094 (Fed Cir. 2001).


United States v. Univis Lens Co., 316 U.S. 241, 251 (1948) (“Our decisions have uniformly recognized that the purpose of the patent law [to promote progress in the useful arts] is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.”).
purchaser of a wood-planing machine during the original term of
the patent also held the right to use the machine during the pa-
tent’s extension term. The Supreme Court held that the first sale
of a patented good frees that article from the statutory right to ex-
clude, permitting unrestricted use by the purchaser:

In using [the patented good], [the purchaser] exer-
cises no rights created by the act of Congress, nor
does he derive title to it by virtue of the franchise or
exclusive privilege granted to the patentee. The in-
venter might lawfully sell it to him, whether he had
a patent or not, if no other patentee stood in his
way. And when the machine passes to the hands of
the purchaser, it is no longer within the limits of the
monopoly. It passes outside of it, and is no longer
under the protection of the act of Congress. And if
his right to the implement or machine is infringed,
he must seek redress in the courts of the State, ac-
cording to the laws of the State, and not in the
courts of the United States, nor under the law of
Congress granting the patent. The implement or
machine becomes his private, individual property,
not protected by the laws of the United States, but
by the laws of the State in which it is situated.

Once a patented good is sold, the patent grant is therefore not
available to restrict the purchaser’s rights to use, sell, and repair
the article. Thus, the result of the patent exhaustion doctrine is
that it operates to preclude the patent owner from placing post-sale
restrictions on the sale of a patented good, which would otherwise

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78 *McQuewan*, 55 U.S. at 540–41. The term of a patent could, under section 18 of the
1836 Patent Act, be extended by the Commissioner of Patents for an additional seven
1861).


80 *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 626–27 (2008); *Univis*, 316
U.S. at 251–52; *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502,
515–17 (1917); *Bauer & Cie v. O’Donnell*, 229 U.S. 1, 17–18 (1913); *Adams v. Burke*, 84
U.S. 453, 458 (1873); *Millinger*, 68 U.S. at 350; *McQuewan*, 55 U.S. at 549–50.

81 While the prohibition against post-sale restrictions results from the limited nature of
the U.S. patent grant solely as a right to exclude, the corollary benefits of free use of the
patented good by the purchaser should not be viewed as an independent underlying public
provide the patent owner a right the U.S. patent grant never conferred—a right to restrict the purchaser’s common law rights in the good.\footnote{The patent exhaustion doctrine’s strict prohibition against post-sale restrictions likewise demonstrates why the case law applying exhaustion to foreign sales as a default rule, but allowing a patentee to contractually preclude exhaustion, is erroneous. \textit{Contra Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp.}, 266 F. 71, 77–78 (2d Cir. 1920); Dickerson v. Tinling, 84 F. 192, 195 (8th Cir. 1897); Dickerson v. Matheson, 57 F. 524, 527–28 (2d Cir. 1893); Sanofi, S.A. v. Med-Tech Veterinarian Prods., 565 F. Supp 931, 938 (D.N.J. 1983); Holiday v. Mattheson, 24 F. 185, 185–86 (C.C.S.D.N.Y. 1885). Additionally, this aspect of patent exhaustion has been misunderstood as an implied license under the patent grant instead of the transfer of the common-law rights to the good sold, \textit{See Alfred C. Server & William J. Casey, Contract-Based Post-Sale Restrictions on Patented Products Following Quanta}, 64 Hastings L.J. 561, 568 (2013) (“[T]he authorized first sale of a product is accompanied by an implied license to use and dispose of the product free from downstream control by the patent holder.”); John W. Osborne, \textit{A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness}, 20 Santa Clara Computer & High Tech L.J. 643, 689 (2004) (“[B]uying an article includes the implied right to use and resell the article.”). However, where there is no right under the patent to exclude, there is nothing from which to license. Accordingly, understanding the patent grant solely as a right to exclude dispels the argument that the public policy underlying the patent exhaustion doctrine “is that purchasers of patented goods who lack knowledge of any restrictions should be free to use the goods in an unlimited manner.” Osborne, \textit{supra}, at 658.}

Nevertheless, the Supreme Court in \textit{McQuewan} left unanswered how the single reward principle itself becomes satisfied, merely stating that once a patented good is sold “it is no longer within the limits of the monopoly.”\footnote{\textit{McQuewan}, 55 U.S. at 549.} The subsequent 1863 Supreme Court decision in \textit{Bloomer v. Millinger}\footnote{68 U.S. 340 (1863).} provided the answer. The Court in \textit{Millinger} focused on the consideration received by the patent holder in exchange for the termination of the statutory right to exclude:

\begin{quote}
Patentees acquire the exclusive right to . . . their patented inventions . . . but when they have made and
\end{quote}
vended . . . one or more of the things patented, to that extent they have parted with their exclusive right. They are entitled to but one royalty for a patented machine, and consequently when a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, or to construct and use and operate it, and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly . . . .

Thus, the single reward principle as a public policy justification operates through the termination of the statutory right to exclude in exchange for some form of consideration—not merely from compensation for the sale and transfer of title of personal property. This conclusion follows from the nature of the patent grant solely as a right to exclude. The patent holder’s ability to sell the patented good is not a right granted by the patent. Accordingly, the sale of a good embodying a U.S. patent does not result in patent exhaustion if that sale does not operate to terminate the statutory right to exclude.

The Supreme Court further explained the rationale that exhaustion occurs where a patent holder receives some form of consideration in exchange for terminating the right to exclude in the 1873 decision Adams v. Burke. In Adams, the Court applied the patent exhaustion doctrine to determine the right of a purchaser to

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85 Id. at 350 (emphasis added).
86 The Supreme Court’s reasoning underlying the single reward principle accordingly demonstrates why the patent exhaustion does not result merely from a patentee’s foreign sale of a good covered by a U.S. patent. Merely controlling the first sale is not sufficient to satisfy the patent exhaustion doctrine’s public policy justification where no reward is received in exchange for the termination of the statutory right to exclude under U.S. patent law. But see Margreth Barrett, The United States Doctrine of Exhaustion: Parallel Imports of Patented Goods, 27 N. KY. L. REV. 911, 948–49, 962–63 (2000) (arguing a patentee’s foreign sale results in the satisfaction of U.S. patent law’s utilitarian incentive, because the patentee received a financial benefit from the foreign sale, regardless of whether the sale terminates the statutory right to exclude under U.S. patent law).
87 See supra Part I.A.
88 See United States v. Am. Bell Tel. Co., 167 U.S. 224, 239 (1897) (“The patentee, so far as a personal use is concerned, received nothing which he did not have without the patent.”); McQuewan, 55 U.S. at 549; GLADNEY, supra note 25, at 9–10.
89 84 U.S. 453 (1873).
use a patented good outside the ten-mile radius of the center of Boston, in which the licensee selling the good was permitted to sell. 90 The Supreme Court again focused on the termination of the statutory right to exclude in exchange for consideration, holding that “in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use.” 91 As a result, “the patentee . . . having in the act of the sale received all the royalty or consideration . . . for the use of his invention in that particular machine or instrument, [the patented good] is open to the use of the purchaser without further restriction on account of the monopoly.” 92 The same public policy rationale has been repeated in more modern decisions. For example, in its 1942 decision U.S. v. Univis Lens Co., 93 the Supreme Court held that the earlier decisions “have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.” 94


In accordance with the single reward principle, this Article’s proposed framework adopts the view that the patent exhaustion doctrine, as developed by the Supreme Court, only applies when a patent holder authorizes the first sale of a patented good and receives consideration in exchange for the termination of the statutory right to exclude others from using, selling, and repairing the article sold. 95 Likewise, the Federal Circuit adopted the same policy justification for patent exhaustion in Jazz Photo Corp. v. International

90 See id.
91 Id. at 456.
92 Id. (emphasis added).
93 316 U.S. 241 (1942).
95 E.g., Masonite, 316 U.S. at 278.
Trade Commission,\textsuperscript{96} citing to the Supreme Court’s decision in United States v. Masonite\textsuperscript{97} for the underlying policy justification that patent exhaustion occurs when “there has been such a disposition of the [patented good] that it may fairly be said that the patentee has received his reward for the use of the [good].”\textsuperscript{98}

When the proposed framework is applied to a domestic sale of a patented good, the sale necessarily satisfies the single reward principle because the sale makes the use, sale, and repair by the purchaser of the patented good lawful under U.S. patent law—actions by the purchaser that were not lawful prior to the sale without the patent owner’s authorization. For sales within U.S. territory, the proposed framework therefore operates as a strict bright-line or per se rule—a domestic sale transferring all right and title in the patented good also terminates the patent holder’s statutory right to exclude and precludes the patent owner from asserting patent rights against the purchaser in the article sold.\textsuperscript{99} The Supreme Court has similarly applied patent exhaustion as a bright-line rule to domestic sales.\textsuperscript{100} Ironically, perhaps the application of patent exhaustion as a bright-line rule to domestic sales contributed to the

\textsuperscript{96} 264 F.3d 1094 (Fed. Cir. 2001).

\textsuperscript{97} 316 U.S. 265 (1942).

\textsuperscript{98} Jazz Photo Corp., 264 F.3d at 1105 (quoting Masonite, 316 U.S. at 278).

\textsuperscript{99} The purchaser, however, would still be excluded from making the patented invention without the authorization of the patentee.

\textsuperscript{100} See Quanta Computer, Inc. v. LG Elecs., Inc., 553 U.S. 617, 625, 638 (2008); Server & Casey, supra note 82, at 579–82. Prior to Quanta, the Court of Appeals for the Federal Circuit had permitted some post-sale restrictions to be placed on the outright sale of patented goods, where the court judicially treated the sale as less than a full sale, in effect reviving the conditional sale doctrine struck down by the Supreme Court in Bauer & Cie v. O’Donnell, 229 U.S. 1 (1913). See B. Braun Med., Inc. v. Abbott Labs., 124 F.3d 1419, 1426–28 (Fed. Cir. 1997); Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 703–09 (Fed. Cir. 1992). The conditional sale doctrine originated in Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co. by the Sixth Circuit in an 1896 opinion by then Judge Lurton. 77 F. 288, 295–97, 301 (6th Cir. 1896). After appointment by President Taft to the Supreme Court in 1909, Justice Lurton authored the opinion in Henry v. A.B. Dick Co. in 1912 adopting his own rationale in Heaton-Peninsular and the conditional sale doctrine. See Henry v. A.B. Dick Co., 224 U.S. 1, 18–26 (1912). However, the doctrine was struck down only one year later by the Court in Bauer & Cie v. O’Donnell. 229 U.S. at 14–17. The Supreme Court in Quanta did not expressly overrule the Federal Circuit’s revived application of the conditional sale doctrine, but Quanta may be viewed as doing so implicitly. See, e.g., Server & Casey, supra note 82, at 592–94; Rajec, supra note 81, at 344 n.115.
development of case law applying patent exhaustion as a default rule to all foreign sales.101

B. Subjecting the Single Reward Principle to the Limited Territorial Scope of the U.S. Patent Grant

1. Mechanics

In Fuji Photo Film Co. v. Jazz Photo Corp., the Federal Circuit adhered to the limited territorial scope of the U.S. patent grant to limit the patent exhaustion doctrine to domestic sales.102 The proposed framework likewise adheres to the territorial limitation of the U.S. patent grant to explain why the single reward doctrine cannot be satisfied in a foreign sale, unless the sale contractually authorizes conduct with respect to the invention within U.S. territory. The underlying reasoning of the proposed framework is that because U.S. patent law has no effect outside U.S. territory,103 the buyer in a foreign jurisdiction can already make, use, sell, and offer for sale the invention claimed in the U.S. patent without the need for any permission from the U.S. patent holder.104 Accordingly, a foreign sale cannot satisfy the single reward principle, because the sale does not provide any consideration that operates to terminate the statutory right to exclude under U.S. patent law.

2. Boesch v. Graff

The foundational principles of the nature and territorial scope of the U.S. patent grant were also addressed by the Supreme Court


102 See Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1376 (Fed. Cir. 2005) (“The patentee’s authorization of an international first sale does not affect exhaustion of that patentee’s rights in the United States.”).

103 See supra Part I.B, Fuji Photo Film Co., 394 F.3d at 1376 (“...[T]he United States patent system does not provide for extraterritorial effect.” (citing Int’l Rectifier Corp. v. Samsung Elecs. Co., 361 F.3d 1355, 1360 (Fed. Cir. 2004))).

104 This reasoning necessarily does not apply where the U.S. patentee, or another person or entity, holds a patent for the same invention under the laws of the foreign jurisdiction.
in the 1890 decision Boesch v. Graff,\textsuperscript{105} relied on by the Federal Circuit in Jazz Photo Corp.\textsuperscript{106} But Boesch did not present a fact pattern where the seller in a foreign sale held patent rights both in the U.S. and in the jurisdiction in which the sale occurred.\textsuperscript{107} In Boesch, a U.S. buyer had purchased lamp burners from a German seller.\textsuperscript{108} The lamp burners were patented in both Germany and the U.S.; however, the German seller was not the owner of the German patent but only held the right to sell the lamp burners under prior user rights afforded by imperial German law.\textsuperscript{109} The Supreme Court nevertheless framed the question before the Court broadly:

[W]hether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent.\textsuperscript{110}

The Supreme Court distinguished domestic sales of patented goods by limiting patent exhaustion to sales authorized under a U.S. patent.\textsuperscript{111} The Court’s reasoning appears rooted in the limited territorial scope of U.S. patent law, holding that “[a] prior foreign

\textsuperscript{105} 133 U.S. 697 (1890).
\textsuperscript{106} Jazz Photo Corp. v. Int’l Trade Comm’n, 264 F.3d 1094, 1105 (Fed. Cir. 2001).
\textsuperscript{107} The Supreme Court, however, has denied certiorari three times on the recent Federal Circuit precedent applying territorial limitation of patent exhaustion as a matter of law. Ninestar Tech. Co. v. Int’l Trade Comm’n, 133 S. Ct. 1656 (2013), denying cert. to 667 F.3d 1373 (Fed. Cir. 2012); Benun v. Fujifilm Corp., 131 S. Ct. 829 (2010), denying cert. to 605 F.3d 1366, 1371 (Fed. Cir. 2010); Jazz Photo Corp. v. Int’l Trade Comm’n, 536 U.S. 950 (2002), denying cert. to 264 F.3d 1094 (Fed. Cir. 2001). Several lower courts have also interpreted Boesch narrowly, holding it only to apply where the seller in the foreign sale did not own the parallel U.S. patent. See, e.g., Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp., 266 F. 71, 77 (2d Cir. 1920); Dickerson v. Tinling, 84 F. 192, 194 (8th Cir. 1897); Sanofi, S.A. v. Med-Tech Veterinarian Prods., 565 F. Supp 931, 937–38 (D.N.J. 1983). Other lower courts interpreted Boesch consistently with the territorial scope of each parallel patent grant as existing solely under the national law granting the respective patent right, thus requiring independent authorization by the patent owner of each patent right. See, e.g., Daimler Mfg. Co. v. Conklin, 170 F. 70, 72 (2d Cir. 1909); Griffin v. Keystone Mushroom Farm, Inc., 453 F. Supp. 1283, 1285–87 (E.D. Pa. 1978).
\textsuperscript{108} Boesch, 133 U.S. at 698–99.
\textsuperscript{109} Id. at 701–02.
\textsuperscript{110} Id. at 702.
\textsuperscript{111} Id. at 703.
patent operates under [U.S.] law to limit the duration of the subse-
quent patent here, but that is all,” because “[t]he sale of articles in
the United States under a United States patent cannot be con-
trolled by foreign laws.” The Court based its conclusion on the
fundamental nature of the patent grant, “consist[ing] altogether in
the right to exclude every one from making, using or vending the
thing patented without the permission of the patentee.”

Thus, the Boesch decision requires a foreign sale to meet the
same public policy goal as a domestic sale for patent exhaustion to
occur under U.S. patent law: the U.S. patentee must receive some
form of consideration in exchange for termination of the statutory
right to exclude with regard to the good sold. Accordingly, the
territorial limitation of patent exhaustion adopted by the proposed
framework finds support in both the limited territorial scope of the
U.S. patent grant and the Supreme Court’s decision in Boesch.
Sharing the same foundation, they are therefore best understood as
variations of the same justification.

C. Contractual Authorization Results in Patent Exhaustion

To present a complete framework for patent exhaustion from
foreign sales, a final question not yet addressed by the Federal Cir-
cuit must be answered: how strict is the territorial limitation of pa-
tent exhaustion? Two main alternatives appear available. First, a
rigid bright-line rule would hold that all sales must physically occur
within U.S. territory. Second, a more flexible rule would instead
consider the contract between the parties to establish whether the
sale, although occurring abroad, authorized the purchaser to use or
sell the patented good within U.S. territory. The second alterna-

112 Id.
113 Id. at 702 (quoting Bloomer v. McQuewan, 55 U.S. 539, 549 (1852)) (emphasis
added).
114 Id.
establish exhaustion . . . [the party claiming the affirmative defense] must establish that
the patented goods were sold in the United States—that is, delivered into the United
States ‘under’ a United States patent.’’).
116 See Tessera, Inc. v. Int’l Trade Comm’n, 646 F.3d 1357, 1370–71 (Fed. Cir. 2011);
*5 (S.D. Cal. Nov. 9, 2012); STMicroelectronics, Inc. v. Sandisk Corp., No. 4:05CV45,
2007 WL 951655, at *3 (E.D. Tex. Mar. 26, 2007) (‘‘The Jazz Photo case does not stand
tive is more consistent with the delineation in section 271 that infringement only occurs when someone acts with respect to the invention without the authority of the patentee.\textsuperscript{117} This Article therefore suggests that U.S. courts should adopt the second alternative.

1. A Flawed Bright-Line Rule

Under the first alternative, delivery of the patented good sold must occur within U.S. territory to trigger patent exhaustion. This interpretation finds support in the Federal Circuit’s statement in \textit{Fuji Photo Film Co. v. Jazz Photo Corp.} that “foreign sales can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect.”\textsuperscript{118} The district court in \textit{Minebea Co., Ltd. v. Papst} interpreted this statement to mean that patent exhaustion only applies where delivery of the patented good occurs in the U.S.\textsuperscript{119} Nevertheless, the interpretation is not entirely consistent with section 271, which states that infringement does not occur when the purchaser acts under the authority of the patentee.\textsuperscript{120}

An illustration is helpful. Consider the fact pattern where a licensee located outside the U.S. holds a worldwide license to manufacture and sell the patented invention. The licensee sells the patented good to a foreign purchaser delivery F.O.B. abroad,\textsuperscript{121} with full knowledge that the foreign purchaser intends to import the pa-

\textsuperscript{117} 35 U.S.C. § 271(a) (2012) (“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.”).
\textsuperscript{118} Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1376 (Fed. Cir. 2005).
\textsuperscript{119} Minebea Co., 444 F. Supp. 2d at 142.
\textsuperscript{120} See 35 U.S.C. § 271(a) (2012) (“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent.”) (emphasis added).
\textsuperscript{121} Delivery F.O.B (“Free on Board”) is an Incoterm indicating the seller is only responsible for getting the good onto a carrier or to a location designated by the buyer at which point the risk of loss transfers to the buyer. \textit{Free on Board}, LEGAL INFO. INST., http://www.law.cornell.edu/wex/free_on_board_fob (last visited Jan. 20, 2014).
tented good into the U.S. Applying the bright-line rule, patent exhaustion would not apply, because delivery did not occur within U.S. territory, despite authorization by the licensee to import into and sell within the U.S. The bright-line rule would therefore permit a U.S. patent holder or exclusive licensee to sue for infringement where a patented good is otherwise authorized to be imported into, used, and/or sold within the U.S., merely because the patented good was delivered F.O.B. abroad. As a result, the patentee could receive two rewards for the sale of the same patented good in contravention of the single reward principle and, in conflict with section 271, could successfully bring an action for infringement even though the purchaser acted under the authority of the patentee.

2. Contractual Authorization Must Result in Patent Exhaustion

To maintain consistency with section 271, the better rule is that patent exhaustion occurs where the U.S. patentee, or its licensee, in a foreign sale authorizes importation into, use, or sale of the patented good in the U.S. This interpretation is also consistent with the single reward principle, because a foreign sale authorizing conduct with regard to the invention within the U.S. represents consideration for termination of the statutory right to exclude. The interpretation is further consistent with patent exhaustion as an affirmative defense to a claim of patent infringement, because the contractual authorization makes actions lawful that would be unlawful without the authorization. As a result, there would be no right to claim infringement under section 271. This interpretation does not alter the territorial limitation of patent exhaustion: where the U.S. patentee sells the patented good in a foreign sale

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122 The same outcome, of course, would result if the U.S. patentee makes the foreign sale, delivery F.O.B. abroad, knowing that the foreign purchaser intends to import into and sell the patented goods in the U.S.

123 E.g., ExcelStor Tech., Inc. v. Papst Licensing GMBH & Co., 541 F.3d 1373, 1376 (Fed. Cir. 2008) (“[P]atent exhaustion is a defense to patent infringement, not a cause of action.”).

without authorizing importation into, use, or sale in the U.S., the foreign purchaser has not paid consideration in exchange for the termination of the statutory right to exclude with regard to the patented good. The U.S. patent holder would therefore still have a right to claim infringement for any unauthorized importation into, or use or sale of the patented good sold in the foreign sale.

The Federal Circuit appears to have adopted a form of this second interpretation in *Tessera v. International Trade Commission*, decided in 2011. In *Tessera*, the Federal Circuit held that patented goods sold abroad by a licensee holding an unconditional license under the U.S. patent “to sell . . . and/or offer for sale” exhausted the patent holder’s U.S. patent rights. Accordingly, a foreign buyer importing the patented goods into the U.S. did not infringe the patent. The factual record in *Tessera* regarding the exact language and nature of the license grant, however, is heavily redacted. Nevertheless, *Tessera* was decided by the Federal Circuit five years after the bright-line rule endorsed by the district court in *Minebea*. *Tessera* may therefore be viewed as implicitly overruling *Minebea*’s bright-line rule.

Relying on *Tessera*, the District Court of the Southern District of California in *Multimedia Patent Trust v. Apple Inc.* likewise held that a sale occurring in Japan exhausted the U.S. patent rights because the licensee making the sale held a worldwide license to the U.S. patent. As a result, the court viewed that any sale made subject to the agreement represented full consideration for termination of the statutory right to exclude under U.S. patent law. The District Court for the Eastern District of Texas similarly held in *STMi-

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125 See *Tessera, Inc. v. Int’l Trade Comm’n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011).
126 Id.
127 Id. at 1370–71.
131 Id. at *4–5.
132 Id. at *5 n.7.
croelectronics, Inc. v. Sandisk Corp., decided prior to Tessera, that a worldwide license to sell a patented good resulted in patent exhaustion, even where the sale occurred outside the U.S.133 The court in SMTMcroelectronics directly addressed the question whether exhaustion occurs under U.S. patent law when a foreign sale is made subject to a worldwide license and distinguished the strict rule against exhaustion from foreign sales under Jazz Photo where the foreign sale contractually authorized resale within the U.S.134 Accordingly, Tessera, Multimedia Patent Trust, and SMTMcroelectronics are all consistent with the single reward principle and preclude a patentee from placing post-sale restrictions on the patented good, regardless of the country of sale, once the patentee has received a reward in exchange for termination of the statutory right to exclude under U.S. patent law.135

III. A FRAMEWORK PROVIDING CERTAINTY TO U.S. PATENT HOLDERS

The analysis of the single reward principle within the boundaries of the basic nature and territorial scope of the U.S. patent grant results in a simple and concise framework for the application of patent exhaustion to foreign sales. Absent contractual authorization of conduct within U.S. territory, the public policy rationale—the single reward principle—underlying patent exhaustion cannot be satisfied in a foreign sale. Applying the framework to common fact patterns involving foreign sales demonstrates that the territorial limitation provides certainty to U.S. patent holders, their licensees, and foreign buyers.

133 STMcroelectronics, Inc. v. Sandisk Corp., No. 4:05CV45, 2007 WL 951655, at *3 (E.D. Tex. Mar. 26, 2007). SMTMcroelectronics had granted “Toshiba and its subsidiaries a non-exclusive, non-transferable, royalty free, world wide license, without right to sub-license third parties, under ST PATENTS to make, HAVE MADE, use, lease, sell, offer for sale, import, or otherwise dispose of Licensed Products, and to use any methods covered by ST PATENTS, for the lives of ST PATENTS.” Id. at *1.

134 Id. at *3.

A. A Foreign Sale by U.S. Patent Holder Without Contractual Authorization

Consider a U.S. patentee selling the patented good through a wholly-owned subsidiary in a foreign country or where the U.S. patentee is a foreign entity selling the patented good directly in its home market. Applying this Article’s framework, a foreign sale would not result in patent exhaustion under U.S. law, because the single reward principle had not been met. The consideration received by the U.S. patentee seller could not be in exchange for termination of the statutory right to exclude under U.S. patent law, because U.S. patent law is territorially limited to the U.S. This outcome would also result whether the U.S. patentee owned a parallel foreign patent right in the country of sale or not. In either case, the foreign sale would not make any conduct lawful with regard to the U.S. patented invention because the sale occurred outside U.S. territory without contractual authorization of conduct with regard to the invention within the U.S. Of course, if a parallel patent right were owned in the country of sale, exhaustion could occur under the national patent law of that country.

B. Foreign Sale by Licensee without Contractual Authorization

As above, exhaustion would not occur where a licensee under the U.S. patent sold the patented good in a foreign sale. Because of the territorial limitation of U.S. patent law, the consideration was not received in exchange for termination of the statutory right to exclude under U.S. law; thus, the single reward principle is not met. This outcome results whether or not a licensee under the U.S. patent is also a licensee under a parallel foreign patent right in the country of sale, because “[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws.”\footnote{Boesch v. Graff, 133 U.S. 697, 703 (1890).} Similarly, the foreign sale by a party only holding a license under a parallel foreign patent right could not result in exhaustion under U.S. patent law.
C. Foreign Sale Contractually Authorizing Conduct within U.S. Territory

In contrast to the two previous fact patterns, patent exhaustion would occur whenever the U.S. patentee, or a licensee under the U.S. patent, in an otherwise foreign sale contractually authorized importation into, use, and/or sale within U.S. territory. For example, where a U.S. patentee sold the patented good in Denmark but contractually authorized the Danish buyer to import into, use, or resell the good in the U.S., the U.S. patentee received consideration in exchange for termination of the statutory right to exclude, thus satisfying the single reward principle. It is therefore irrelevant whether the U.S. patentee owned a parallel foreign patent right in the country of sale or not, or whether the licensee under the U.S. patent was also a licensee under a parallel foreign patent right. The sale will result in exhaustion under U.S. patent law, because the foreign purchaser’s conduct within U.S. territory was authorized and no longer subject to section 271.

D. Certainty to U.S. Patent Holders

As the fact-patterns show, the proposed framework provides certainty to U.S. patent holders, their licensees, and to foreign purchasers by providing clear and simple rules. The framework is consistent with the basic nature and territorial scope of the U.S. patent grant, because it is a simple application of the patent grant solely as a statutory right to exclude within U.S. territory. The framework thus fits squarely within current Supreme Court precedent.

Additionally, the framework leaves the exhaustion doctrine free of fact-dependent inquiries regarding parallel foreign patent rights. When making a foreign sale, the U.S. patent holder or licensee is not required to evaluate any impact on the rights held under U.S. patent law based on the ownership of a parallel patent

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137 A court, however, may need to engage in a fact-dependent analysis to determine the scope of the express or implied contractual authorization of conduct with regard to the invention within U.S. territory. See, e.g., Carborundum Co. v. Molten Metal Equip. Innovations, Inc., 72 F.3d 872, 878–80 (Fed. Cir. 1995). But whereas an inquiry into the similarity of parallel patent rights requires a sophisticated understanding of foreign national patent law and international patent law agreements, an inquiry into the nature and scope of contractual authorization is well within the competence of any U.S. federal district court.
right in the country of sale—or the lack thereof. Instead, the U.S. patent holder, or licensee, in a foreign sale must solely focus on the existence of a contractual relationship with the foreign purchaser as to any rights within U.S. territory with regard to the patented good. If the U.S. patent holder in a foreign sale does not authorize any rights within the U.S. for the patented good, patent exhaustion does not apply to the sale under U.S. law.

In contrast, where contractual authorization for conduct within U.S. territory arises—whether express or implied—138 patent exhaustion applies to the sale, even if the sale occurs entirely outside U.S. territory. The U.S. patent holder therefore cannot receive more than one reward in exchange for termination of the statutory right to exclude under U.S. patent law. The U.S. patent holder must be viewed as having received the reward bargained for in exchange for authorized use within U.S. territory, thus satisfying the single reward principle. The proposed framework therefore produces consistent and predictable outcomes from foreign sales, regardless of ownership, licensing obligations, and ownership of parallel foreign patent rights.

CONCLUSION

The framework this Article proposes for determining when patent exhaustion applies to foreign sales reaches beyond current judicial application of the patent exhaustion doctrine. It imposes a territorial limitation on patent exhaustion that both ensures consistency with the basic nature and territorial scope of the U.S. patent grant and maintains symmetry between the exercise of the statutory right to exclude and the availability of patent exhaustion as an affirmative defense to patent infringement. Where a foreign sale does not contractually authorize conduct with regard to the invention within U.S. territory, the statutory right to exclude cannot be

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exercised and thus no corresponding affirmative defense will arise. But the proposed framework should not be considered a novel exposition of the law. The Supreme Court has defined the patent grant as a right to exclude others and applied the presumption against extraterritoriality with equal force for more than 150 years.139 To now hold otherwise would confuse most basic principles of U.S. patent law.

139 See supra Part I.B.