

Exhausting Patents

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A bedrock principle of patent law - patent exhaustion - proclaims that an authorized sale of a patented article exhausts the patentee's rights with respect to the sold article. Over one hundred and fifty years of case law, however, has produced two conflicting notions of patent exhaustion, one considering exhaustion to be mandatory regardless of whether the patentee subjects the sale to express conditions, and one treating exhaustion as a default rule that applies only to unconditional sales. The uncertainty as to what patent exhaustion really means has clouded both scholarly debates on the contour of intellectual property rights and patent licensing practices in the modern innovative economy. This Article takes a normative approach to patent exhaustion and argues that the correct rule on exhaustion is a "default-plus" rule, a rule that combines a default-rule component with a patent-misuse test that is independent of the exhaustion analysis. The default-rule component allows patentees to avoid exhaustion through express restrictions, while the patent-misuse test ensures that such restrictions do not violate public policy. This Article contends that this default-plus rule is superior to the mandatory rule in terms of theoretical foundation, malleability, and circumvention. In terms of theoretical foundation, this Article rejects the prevailing justifications for patent exhaustion and argues that the purpose of patent exhaustion is to require patentees to exercise their patent rights at the time of the sale of a patented article so as to protect and enable fair bargaining between the buyer and the seller. This purpose is served by a default rule and does not require a mandatory rule. In terms of malleability, the mandatory rule of exhaustion is not malleable enough and can only give legal effects to socially beneficial licensing practices in a haphazard way. In terms of circumvention, the formalistic nature of the mandatory rule of exhaustion creates more incentives for patentees to circumvent patent exhaustion by adopting socially inefficient transaction forms or product designs.

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