INTELLECTUAL PROPERTY LAW: ISSUES IN THE NEW MILLENIUM

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THE UNITED STATES’ DOCTRINE OF EXHAUSTION: PARALLEL IMPORTS OF PATENTED GOODS

by Margreth Barrett

I. INTRODUCTION

United States patent, copyright and trademark law have all traditionally been tempered by the doctrine of exhaustion, also called the doctrine of first sale.

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3. In a recent article, Professor Adelman has assigned different meanings to the labels “doctrine of exhaustion” and “doctrine of first sale” in the patent context. Martin J. Adelman, The Exhaustion Doctrine in American Patent Law (Apr. 16 & 17, 1998) (paper presented at the Fordham University School of Law Sixth Annual Conference on International Intellectual Property Law & Policy) (arguing that under the “doctrine of exhaustion,” sale of a patented product exhausts the patentee’s rights with respect to the product even if the parties intended otherwise, while under the “doctrine of first sale,” exhaustion of rights is a default rule that applies when the parties to the sale expressed no intention to the contrary). Other commentators have recognized the same two approaches to the issue of exhaustion, but have not necessarily adopted the same terminology. See, e.g., Christopher Heath, Parallel Imports and International Trade, 28 INT. REV. INDUS. PROP. & COPYRIGHT 623, 625-27 (1997) (distinguishing between continental or “absolute” exhaustion and common-law or “implied license” exhaustion); Richard H. Stern, Some Reflections on Parallel Importation of Copyrighted Products into the United States and the Relation of the Exhaustion Doctrine to the Doctrine of Implied License, 4 EUR. INTELL. PROP. REV. 119 (1989) (distinguishing the “exhaustion doctrine” from the “implied license doctrine”); Abdulquwia A. Yusuf & Andres M. von Hase, Intellectual Property Protection and International Trade, 16 WORLD COMPETITION: L. & ECON. 115 (1992) (distinguishing the “exhaustion” doctrine of continental Europe from the “implied license” doctrine of common-law countries); see also Mark D. Janis, A Tale of the Apocryphal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law, 58 MD. L. REV. 423, 428 (1999) (suggesting that “exhaustion of rights” and “implied license” doctrines are separate doctrines).

United States courts have not distinguished the terms, and may use the terms “exhaustion” and “doctrine of first sale” interchangeably. See, e.g., Intel Corp. v. ULSI Sys. Tech., Inc., 995 F.2d 1566, 1568 (Fed. Cir. 1993), cert. denied, 510 U.S. 1092 (1994). This article will thus treat the terms as synonymous, while recognizing that the two distinct approaches described by
This doctrine provides that once an intellectual property owner releases or authorizes others to release goods bearing or embodying the intellectual property into the stream of commerce, it exhausts its right to control the goods; purchasers and their successors in title are free to use and resell the goods without seeking the intellectual property owner's authorization or paying a further royalty. The doctrine of exhaustion reflects at least two important policies underlying the United States' intellectual property laws.

First, the doctrine honors the law's general abhorrence of restraints on alienation, and the interference such restraints impose on a free market. Second, it reflects the traditional understanding in United States law that intellectual property rights are limited rights afforded to individuals not by virtue of any natural right, but for the specific purpose of accomplishing a pragmatic goal: promotion of the general public welfare. The law contemplates that the public benefits from a robust, competitive marketplace. Granting intellectual property rights to individual creators promotes such a marketplace by providing an incentive to create, leading individuals to produce a greater selection of goods and services for public consumption. However, the rights afforded to intellectual property owners must be limited to those necessary to provide the desired incentive. By their nature, intellectual property rights restrict public access to the goods and services to which they attach. If they are not sufficiently limited, they may encumber, rather than enhance, a competitive marketplace. Thus, each of the three primary intellectual property doctrines strives to attain a balance of rights and limitations that effectively provides an incentive to create, but permits as much public and competitor access as is possible short of undermining the

4. See supra note 3. This will be discussed more fully below. Under United States patent law, the exhaustion of rights in some cases may be avoided through an express contractual agreement to the contrary.


incentive function of the rights.\textsuperscript{7}

United States case law has made it clear that free riding in the marketplace is not inherently undesirable or unlawful.\textsuperscript{8} Thus, for example, a subsequent seller of a product may take advantage of the original manufacturer/seller's reputation or expenditures to create consumer demand, as long as the subsequent seller does not injure the public in the course of doing so.\textsuperscript{9} Indeed, free riding on others' work is generally deemed beneficial to the public and is facilitated under the law, as long as it does not seriously interfere with the originator's incentive to invest in research and development of new products, services, inventions and works of authorship.\textsuperscript{10}

In line with the policies described above, the doctrine of exhaustion contemplates that an intellectual property owner will have exclusive control over the first sale of goods embodying the intellectual property, and that this should be sufficient to ensure that there is a financial incentive to invest in the creative

\textsuperscript{7} See, e.g., Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989) ("From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy"); Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc., 499 U.S. 340 (1991).

\textsuperscript{8} See, e.g., Bonito Boats, 489 U.S. at 151 ("The novelty and non-obviousness requirements of patentability embody a congressional understanding, implicit in the Patent Clause itself, that free exploitation of ideas will be the rule, to which the protection of a federal patent is the exception."); Feist Publications, 499 U.S. at 349.

\textsuperscript{9} See, e.g., Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947); Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924).

process. Extending legal rights to control goods beyond their first sale is unnecessary to accomplish the incentive function, and may unduly interfere with competition and the free movement of goods in the marketplace.11

Perhaps the most perplexing problem that arises in connection with the doctrine of exhaustion is its application to parallel imports. Parallel imports are goods that are sold, or authorized for sale, abroad by the United States intellectual property owner, but are subsequently imported into the United States without the United States intellectual property owner’s authorization.12 Assuming that the United States intellectual property owner (or an affiliated business entity) made the first sale abroad, or authorized a licensee to do so in return for a royalty payment, it can be characterized as having received the benefit of the first sale of the good, as envisioned by the United States intellectual property laws. Should the doctrine of exhaustion apply, releasing the goods from further control by the intellectual property owner, so that subsequent purchasers can import them into the United States and resell them in competition with the United States rights owner? Two competing theories have emerged to address this quandary.

The “international exhaustion” or “universality” theory provides that the doctrine of exhaustion should apply whenever the United States intellectual property owner sells or authorizes the first sale of the good, regardless of


Parallel imports must be differentiated from counterfeit goods, which are goods that were initially produced and/or sold unlawfully, without the authorization of an intellectual property owner.
whether the good was manufactured or originally sold in the United States, or abroad. The reasoning, essentially, is that the United States intellectual property owner has enjoyed the opportunity to control the first sale, which occurred abroad, and can be presumed to have obtained sufficient benefit to maintain an incentive to invest in creative efforts. Regardless of whether the good is protected by intellectual property rights in the foreign country, the United States intellectual property owner’s decision to sell there generally suggests that it finds the sale beneficial. Providing a “second bite of the apple,” by granting the opportunity to control foreign purchasers’ resale of the goods in the United States, is not necessary in order to serve the incentive function of intellectual property laws, and would interfere unnecessarily with the free international flow of goods and the competitive marketplace, depriving consumers of the benefits of competition and greater accessibility of goods. It also arguably would favor intellectual property owners selling abroad over intellectual property owners whose sales are strictly domestic, since the latter have no opportunity to control resales.13

The “territorial” or “domestic” exhaustion theory essentially limits the doctrine of exhaustion to goods manufactured and initially sold within the territory of the United States. The reasoning is that intellectual property laws only provide rights within the boundaries of individual nations, and the doctrine of exhaustion should extend no further, geographically, than the rights to be exhausted. A United States intellectual property owner selling goods abroad does not benefit from its United States intellectual property rights in the sale. Therefore, it should be able to assert those rights (for the first time) when the goods enter the United States without the owner’s authorization. It is irrelevant whether the United States intellectual property owner enjoys patent, copyright or trademark rights comparable to its United States rights in the country in which the first sale took place, or otherwise reaped a benefit from the sale abroad. Each country’s intellectual property laws provide a separate opportunity to benefit and control goods as they enter that country’s borders. Moreover, the ability to control the movement of goods from one country to another is

necessary from a business standpoint, because it permits the United States intellectual property owner, effectively, to adapt its price and marketing methods to each country in which it does business.\textsuperscript{14}

The United States has adopted neither the international exhaustion nor the territorial exhaustion theory, to its fullest possible extent. The specific application of the doctrine of exhaustion in each of the three primary intellectual property regimes has varied, in part because of differences in the statutory language codifying each regime, and in part because of perceived differences in the purposes of each regime.

Recent case opinions construing Lanham Act §42\textsuperscript{15} and Tariff Act §526\textsuperscript{16} establish a partial or qualified rule of international exhaustion for United States trademark owners: as a general rule, United States trademark owners lack authority to prevent the import and resale of parallel imports, as long as the United States owner itself, or an affiliated business entity, put the goods bearing the mark on the market abroad.\textsuperscript{17} However, an important exception to this rule arises when the imported goods differ materially from those the United States trademark owner sells domestically. In such cases, courts have reasoned, consumers may be misled by the importer's sales of the foreign goods bearing the same mark—they may rely on the mark to indicate that the foreign goods possess the same qualities that their domestic counterparts have, when they do not. Since the very purpose of trademark rights is to avoid such consumer confusion about the nature or quality of goods, courts have reasoned that trademark owners must be permitted a cause of action for trademark infringement to prevent the parallel imports under these circumstances.\textsuperscript{18}


In a very recent decision, the Supreme Court construed the Copyright Act to apply a rule of international exhaustion when the copyrighted goods at issue were initially manufactured in the United States, and then sold to foreign purchasers. While the Court's reasoning in that case would seem to extend to goods that the United States copyright owner, or its licensee, manufactured abroad, the Court had no occasion to expressly address that issue. The Court of Appeals for the Third Circuit has suggested that the same rule of exhaustion should apply, at least in the case of goods manufactured abroad by the United States copyright owner itself. However, another line of cases has construed Copyright Act § 109(a) to establish a rule of territorial exhaustion with regard to goods manufactured outside of the United States.

Notwithstanding the recent judicial focus on the extent of the doctrine of exhaustion (and thus the legality of parallel imports) in the trademark and copyright context, courts have had relatively little to say about the applicability of United States patents to prohibit parallel import of goods embodying patented language of Tariff Act § 526, the Supreme Court has also differentiated sales abroad by licensees of the United States trademark owner from sales abroad by the owner itself or an affiliated entity, holding that, under § 526, United States Customs must prevent entry of parallel imports in the former case. K-Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988).

The case law has not yet indicated conclusively whether a similar distinction between goods sold abroad by an owner or its affiliates and goods sold abroad by a licensee will be made in the case of infringement claims under the Lanham Act. There is no apparent reason why that distinction should be carried over into the Lanham Act, since it relies on specific language in Tariff Act § 526 that does not exist in the Lanham Act. In the domestic context, the doctrine of exhaustion traditionally has not distinguished between goods sold by the trademark owner itself and goods sold by others who are authorized to do so by the trademark owner. See Restatement (Third) of Unfair Competition § 24, cmt. b (1995).

inventions. Yet, that topic has become the subject of important multinational trade negotiations and spirited international debate, and has been the subject of highly controversial decisions in Japanese and European courts.

22. Parallel importation of goods protected by intellectual property rights was debated in the Uruguay Round of Negotiations on the General Agreement on Tariffs and Trade (Hereafter “GATT”), which introduced minimum standards for intellectual property protection into the GATT. See Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, 33 I.L.M. 81 (1994) (hereafter “TRIPs Agreement”). Because the parties were unable to reach agreement on the proper scope of the exhaustion doctrine, TRIPs Article 6 ultimately was added to exclude the exhaustion issue from the WTO dispute resolution process. It reads in pertinent part:

For the purposes of dispute settlement under this Agreement . . . nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights. While TRIPs Article 28(1)(a) requires all World Trade Organization members to provide patentees an exclusive right of importation, a footnote to that Article clarifies:

This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6.

Id. (internal citations and quotations omitted). For further discussion of these provisions, see discussion infra Part IV. It is likely that the issue of exhaustion will be taken up again in multinational trade negotiations.

Recent scholarly works addressing the issue of parallel import of patented goods from an international standpoint include: Abbott, supra note 13; Frederick M. Abbott, Second Report (Preliminary) to the Committee on International Trade Law of the International Law Association on the Subject of the Exhaustion of International Property Rights and Parallel Importation (Aug. 10, 1999) (draft on file with this author); Bale, supra note 12; Heath, supra note 3; David Malueg & Marius Schwartz, Parallel Imports, Demand Dispersion, and International Price Discrimination, 37 J. INTERNAT. ECON. 167 (1994); Rothnie, supra note 13; WARWICK A. ROTHNIE, PARALLEL IMPORTS (1993); Stack, TRIPs, Patent Exhaustion and Parallel Imports, 1 J. WORLD INTELL. PROP. 657 (1998); Joseph Straus, Implications of the TRIPs Agreement in the Field of Patent Law, in FROM GATT TO TRIPS--THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 160, 192-93 (Friedrich-Karl Beier & Gerhard Schricker, eds. 1996) (relying on TRIPs Art. 27(1) and 28(1)); John A. Tessensohn & Shusaku Yamamoto, The BBS Supreme Court Case--A Cloth Too Short for an Obi & Too Long for a Tasuki, 79 J. PAT. & TRADEMARK OFF. SOC. 721 (1997); Verma, supra note 13; Yusuf & von Hase, supra note 3; Claude E. Barfield & Mark A. Groombridge, Parallel Trade in the Pharmaceutical Industry: Implications for Innovation, Consumer Welfare, and Health Policy, 10 FORDHAM INTELL. PROP., MEDIA & ENT. L.J. 185 (1999).

23. See BBS Kraftfahrzeugtechnik AG v. Rashimcakkusu Japan Co. Ltd. & JAP Auto Prods. Co,
domestic front, Congress recently amended the United States Patent Act to incorporate, for the first time, an express right of importation, seeming on the surface to invite litigation over parallel import of patented goods.24 United States legal literature has begun to pick up on the issue from a domestic perspective.25 However, one of the more interesting features of the legal literature is the sharp difference in commentators' interpretation of the existing United States case law on the subject. A significant number of commentators have characterized United States case law as establishing a territorial exhaustion rule for parallel-patented goods.26 Others have characterized it as establishing a modified international exhaustion rule.27

This article undertakes a comprehensive evaluation of the status of parallel imports under the United States Patent Act. Section II provides a general overview of the doctrine of exhaustion and its underlying theoretical justifications in United States patent law. Section III provides a thorough evaluation of the existing case law regarding parallel imports of patented products, examines some unresolved issues, and concludes that the weight of United States judicial authority adopts a form of modified international exhaustion, rather than the territorial exhaustion rule that a number of commentators have asserted. Section IV examines the impact of Congress' recent amendments to provide a general importation right, concluding that it is unlikely that Congress intended to change the existing balance of rights concerning parallel import of patented goods. Finally, Section V reviews and

24. See infra note 133 and accompanying text.
27. See, e.g., 5 DONALD S. CHISUM, CHISUM ON PATENTS § 16.03[2][a][iv] (1998); Adelman, supra note 3, at 13; Donnelly, supra note 25.
evaluates arguments that have been raised in favor of the alternative territorial exhaustion doctrine, and finds that advocates of this doctrine have not made a convincing case for change.

II. THE DOCTRINE OF EXHAUSTION IN UNITED STATES PATENT LAW

The United States' Patent Act does not codify the doctrine of exhaustion, but the doctrine is well established in the case law as a limitation on patentees' rights. The Supreme Court embraced the doctrine in *Adams v. Burke*,\(^\text{28}\) noting:

> [W]hen 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. The article . . . passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentee.

* * *

> [W]hen they are once lawfully made and sold, there is no restriction on [the articles'] use to be implied for the benefit of the patentee or his assignees or licensees.\(^\text{29}\)

Subsequent case opinions have made it clear that the doctrine gives lawful purchasers of patented goods the unrestricted right not only to use the goods, but also to resell them,\(^\text{30}\) and applies equally to goods sold directly by the patentee

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28. 84 U.S. (17 Wall.) 453 (1873).
29. *Id.* at 456-57. The foundation for this rule of law had been laid in earlier decisions. See *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852); *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340 (1863); *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1872).
30. *See, e.g.*, United States v. Univis Lens Co., 316 U.S. 241, 250 (1942) ("[S]ale of [a patented article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article."); *Intel Corp. v. U.L.S.I. Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993) ("[T]he patent owner's rights with respect to the product end with its sale, and a purchaser of such a product may use or resell the product free of the patent."); *cert. denied*, 510 U.S. 1092 (1994); *Unidisco, Inc. v. Schattner*, 824 F.2d 965, 968 (Fed. Cir. 1987) ("Resale of the product by Unidisco could not infringe the patent if Unidisco purchased the product from an authorized seller.").
and those sold by the patentee’s licensees.31

Over the years, the case opinions applying the doctrine have explained its underlying purpose and justification. They note that the purpose of the patent law is to secure the benefit of an invention (and the investment in research and development underlying it) to the patentee, in order to provide an incentive to invent and as a means of rewarding the inventor for his act of disclosure to the public through the patent application process. However, they have stressed that this purpose is accomplished once the patentee has received the sales price or (in the case of sales by authorized licensees) royalty payment arising from the initial sale of the patented article. As the Supreme Court has explained:

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 .... The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of the article embodying the invention ....

* * *

Our 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.32

Sometimes the issue arises whether a transaction that purports not to be an outright “sale”, such as a licensing agreement, triggers the doctrine of first sale.

31. See, e.g., Intel Corp., 995 F.2d at 1568 (holding the doctrine of exhaustion “applies similarly to a sale of a patented product manufactured by a licensee acting within the scope of its license”); Unidisco, 824 F.2d at 968; Cyrix Corp. v. Intel Corp., 846 F. Supp. 522, 538 (E.D. Tex.), aff’d, 42 F.3d 1411 (Fed. Cir. 1994); 5 DONALD S. CHISUM, CHISUM ON PATENTS § 16.03[2][a], at 16-137 (1997) (“An authorized sale of a patented product exhausts the patent monopoly as to that product. Thus, a purchaser of such a product from the patent owner or one licensed by the patent owner may use or resell the product free of control or conditions imposed by the patent owner.”).

32. United States v. Univis Lens Co., 316 U.S. 241, 250-51 (1942); see also United States v. Masonite Corp., 316 U.S. 265, 278 (1942); B. Braun Med., Inc. v. Abbott Lab., 124 F.3d 1419, 1426 (Fed. Cir. 1997); Brandt Consol., Inc. v. Agrimar Corp., 801 F. Supp. 164, 173 (C.D. Ill. 1992) (“The purpose of the patent law is thus fulfilled with respect to any particular article once the patentee has received the reward for the use of his invention by selling the article.”).
In such cases, courts attempt to determine "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."\(^{33}\) If the patentee has received the same kind of benefit that he would have received from an outright sale, then the purpose of the patent right is fulfilled, and the patentee’s rights in the article are exhausted.

One might argue that if the purpose of the Patent Act is to benefit inventors in order to incite greater creative endeavors, inventors should be able to control subsequent dispositions of the patented article, as well as the initial one. The ability to prohibit resales or demand a royalty for each resale would surely provide further benefit to the patentee. However, the courts have stressed that the purpose of the patent law is not to ensure the greatest possible financial return to the patentee. Rather, the ultimate purpose of the patent law is to benefit the public. On balance, granting patentees control over the initial sale of patented articles will benefit the public by providing a financial incentive to invent and disclose inventions to the public. However, extending the patentee’s rights beyond the initial sale would exceed what is strictly necessary to provide an incentive to invent, and interfere unduly with the free market. Thus, the Supreme Court has explained that in determining the extent of the patentee’s rights in articles embodying the patented invention,

\[\text{[R]egard must be had for the dominant concern of the patent system }\ldots\text{ [T]he promotion of the progress of science and the useful arts is the "main object;" reward of inventors is secondary and merely a means to that end }\ldots\text{ Whilst the remuneration of genius and useful ingenuity is a duty incumbent upon the public, the rights and welfare of the community must be fairly dealt with and effectually guarded. Considerations of individual emolument can never be permitted to operate to the injury of these.}\]

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\[\text{[S]ince patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent statute.}^{34}\]

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Although United States courts have not generally characterized the exhaustion doctrine itself as contract-based, the Court of Appeals for the

It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly. This was at once the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects. The true policy and ends of the patent laws enacted under this Government are disclosed in that article of the Constitution, the source of all these laws, viz: "to promote the progress of science and the useful arts," contemplating and necessarily implying their extension, and increasing adaptation to the uses of society.

Kendal, 62 U.S. at 328. See also Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 666-67 (1895) (finding that a failure to find a patentee’s rights exhausted after the first sale would constitute an “inconvenience and annoyance to the public . . . too obvious to require illustration”); Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., Inc., 365 U.S. 336, 357-60 (1960) (Black, J., concurring); Lackner Co. v. Quehl Sign Co., 145 F.2d 932, 934 (6th Cir. 1944) (“The exclusive right conferred by a patent is a monopoly permitted only because of the public benefit to be derived from the invention. The maintenance of the public interest is the dominant concern of the patent law; profit to the patentee is secondary.”); Cyrix Corp. v. Intel Corp., 846 F. Supp. 522, 539-40 (E.D. Tex.), aff’d., 42 F.3d 1411 (Fed. Cir. 1994).

35. The United Kingdom and other British Commonwealth nations have based their version of the exhaustion doctrine on a theory of implied consent on the patentee’s part arising out of the act of sale. See Rothnie, supra note 22, at 106-42, 183; Stack, TRIPs, Patent Exhaustion and Parallel Imports, 1 J. WORLD INTELL. PROP. 657, 668-69 (1998); see also infra note 136. The United States Supreme Court, the Court of Appeals for the Federal Circuit, and other United States courts have, in some circumstances, found implied licenses arising from the sale of a patented article. However, they have generally done so to uphold a purchaser’s subsequent use or repair of the patented article against an infringement claim, and have not tended to look to an implied license rationale as the theoretical underpinning of a purchaser’s right to resell (as opposed to use) the patented article. For example, in Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., 377 U.S. 476, 484 (1964), the Supreme Court reasoned that “sale of a patented article by the patentee or under his authority carries with it an ‘implied license to use,’” and thus maintain and repair, the patented article. In Kendall Co. v. Progressive Med. Tech., Inc., 85 F.3d 1570, 1573 (Fed. Cir. 1996), the Court of Appeals for the Federal Circuit held that this license to use and repair the patented article is implied from the act of sale “as a matter of law.” See also United States v. Univis Lens, 316 U.S. 241 (1942), in which the Court stated:
Federal Circuit has held that patentees can counteract the effect of the doctrine through express contractual provisions restricting purchasers' subsequent use or resale of the patented article. In Mallenckrodt, Inc. v. Medipart, Inc., the Federal Circuit found that the patentee could restrict purchasers of its patented medical device to a single use, and hold those who reused the device in violation of the restriction liable for patent infringement. The court reasoned that the

Sale of a lens blank by the patentee or by his licensee is ... in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, and a license to practice the final stage of the patented procedure [of grinding and polishing the lens]. [T]he entire consideration and compensation for both is the purchase price paid by the finishing licensee to the Lens Company. Id. at 249-59. See also Met-Coil Systems Corp. v. Komers Unlimited, Inc., 803 F.2d 684, 686 (Fed. Cir. 1986) (discussing prerequisites for grant of an implied license arising from sale of unpatented equipment used to practice a patented invention); Monroe Auto Equip. Co., v. Precision Rebuilders, Inc., 229 F. Supp. 347 (D. Kan. 1964). In Monroe, the court held:

The principle that a purchaser of a patented article has the right to repair it during its useful life is based upon the idea that the patentee, in selling his protected article, intends to and does part with the use thereof, and that the buyer intends to and does buy the use of the machine until it wears out or becomes substantially destroyed. For this reason, the license to repair is limited to preserving the article's fitness for use so far as it may be affected by wear or breakage; beyond this there is no license. The royalty paid by the buyer is intended by the parties as compensation to the patentee for parting with his exclusive right of use.

Monroe, 229 F. Supp at 353. But see McCoy v. Mitsubishi Cutlery, Inc., 67 F.3d 917 (Fed. Cir. 1995). In McCoy, the patentee licensed the defendant to manufacture its patented knives. Id. The patentee ordered a number of the knives from the defendant, but later refused to pay for them. Id. When the defendant sold the knives under Texas law as a self-help remedy for the patentee's breach of contract, the patentee sued the defendant for patent infringement. Id. The Court of Appeals for the Federal Circuit held for the defendant, finding that "the law may create an implied license to enforce the contract obligations of the patent holder and recognize legal rights of aggrieved parties." Id. at 922. Cf. Holiday v. Mattheson, 24 F. 185 (S.D.N.Y. 1885) (Court seems to rely on the intent of the parties in finding exhaustion in a parallel imports case). See note 72, infra, and accompanying text.

The "benefit" and "implied consent" rationales for exhaustion of rights might be reconciled by finding that, as a result of the benefit the patentee received through the first sale, his consent to resell is implied as a matter of law.

36. 976 F.2d 700 (Fed. Cir. 1992).
37. Id.
enforceability of restrictions on the use of patented goods derives from the patent grant itself, which is framed as “the right to exclude . . . [t]his right to exclude may be waived in whole or in part . . . . As in other areas of commerce, private parties may contract as they choose, provided that no law is violated thereby . . . . “38 In a subsequent decision, the Federal Circuit elaborated on its reasoning:

As a general matter . . . an unconditional sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device thereafter. The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. This exhaustion doctrine, however, does not apply to an expressly conditioned sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the “use” rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld. Such express conditions, however, are contractual in nature and are subject to antitrust, patent, contract, and any other applicable law, as well as equitable considerations such as patent misuse. Accordingly, conditions that violate some law or equitable consideration are unenforceable. On the other hand, violation of valid conditions entitles the patentee to a remedy for either patent infringement or breach of contract.39

It is useful to note that the “contractual restriction” at issue in Mallenckrodt was not an individually negotiated agreement, but rather took the form of an inscription stating “Single Use Only” on the device itself, and reiterated in a packaging insert. While the court did not find it necessary to determine whether this was sufficient to condition the sale, it noted that “[i]n accordance with the Uniform Commercial Code a license may become a term of sale, even if not part of the original transaction, if not objected to within a reasonable time” which made it clear that purchasers must have adequate notice of restrictions before they can be deemed binding.40

38. Id. at 703.
39. B. Braun Med., Inc. v. Abbott Lab., 124 F.3d 1419, 1426 (Fed. Cir. 1997). The Mallenckrodt court acknowledged that contract law dictates whether a license restriction is binding on the purchaser, but explained that “[i]n accordance with the Uniform Commercial Code a license may become a term of sale, even if not part of the original transaction, if not objected to within a reasonable time” which made it clear that purchasers must have adequate notice of restrictions before they can be deemed binding.40
40. Mallenckrodt, 976 F.2d at 708. In Mallenckrodt, the defendant did not dispute actual notice of the restriction. The enforceability of similar sorts of restrictions frequently used in the sale of
In making its ruling, the *Mallenckrodt* court distinguished a number of Supreme Court decisions that had found post-sale restrictions invalid, on the ground that these cases involved retail price fixing of patented goods or patent-enforced tie-ins. According to the court, these cases "established that price-fixing and tying restrictions accompanying the sale of patented goods were per se illegal. These cases did not hold, and it did not follow, that all restrictions accompanying the sale of patented goods were deemed illegal."42

The court also distinguished a line of early Supreme Court decisions, computer software—generally known as "shrink-wrap licenses" or "click-wrap licenses"—has been the subject of considerable recent debate. See, e.g., Step-Saver Data Sys. Inc. v. Wyse Tech., 939 F.2d 91 (3d Cir. 1991) (relying on U.C.C. §§ 2-202, 2-207 and 2-209 to find such a license unenforceable); ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (finding most shrink-wraps valid under the U.C.C.); Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239 (1995); Deborah Kemp, *Mass Marketed Software: The Legality of the Form License Agreement*, 48 LA. L. REV. 87 (1987); Rice, *Trade Secret Clauses in Shrink-Wrap Licenses*, 2 COMPUTER LAW 17 (1985). The National Conference of Commissioners on Uniform State Laws' newly proposed Uniform Computer Information Transactions Act undertakes to authorize such "mass-market licenses" under certain stated circumstances.


42. *Mallenckrodt*, 976 F.2d at 704. The court relied on *General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124 (1938), for the proposition that

[The patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.' *Id.* at 704. According to the Court, 'By the time of *General Talking Pictures*, price-fixing and tie-ins were generally prohibited under the antitrust law as well as the misuse law, while other conditions were generally recognized as within the patent grant. The prohibitions against price-fixing and tying did not make all other restrictions per se invalid and unenforceable. *Id.* at 706.

The district court in *Mallenckrodt* had declined to limit the earlier Supreme Court decisions in this fashion, stating that "their language suggests broader application." *Mallenckrodt*, Inc. v. Medipart, Inc., No. 89-C-4524, 1990 WL 19535 (N.D. Ill. 1990). The Federal Circuit responded with the maxim that "general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used. If they go beyond the case, they may be respected, but ought not to control the judgment on a subsequent suit when the very point is presented for decision." *Mallenckrodt*, 976 F.2d at 708, n.8.
including Adams v. Burke. As noted supra, Adams, like several other early Supreme Court decisions, decisively stated that upon the first sale of a patented article, the article “passes without the limit of the monopoly” and is “open to the use of the purchaser without further restriction.”43 The court of appeals found that each of these decisions involved a first sale that was “without restriction,” and concluded that:

Adams v. Burke and its kindred cases do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article. . . . Unless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law), private parties retain the freedom to contract concerning conditions of sale.44

The Mallenckrodt court noted that the appropriate criterion for determining whether a restriction (other than a price-fixing or tying restriction) is unenforceable under the patent misuse doctrine or antitrust law is whether the restriction is “reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.”45

III. APPLICATION OF THE EXHAUSTION DOCTRINE TO PATENTED PARALLEL IMPORTS

As noted earlier, there is disagreement in the legal literature about whether the United States follows an “international exhaustion” or “territorial exhaustion” doctrine with regard to patented goods sold abroad by, or under, the


44. Mallenckrodt, 976 F.2d at 707-708. For arguments that the Federal Circuit’s opinion misconstrued General Talking Pictures and the Adams v. Burke line of cases, see Adelman, supra note 3. See generally 5 DONALD S. CHISUM, CHISUM ON PATENTS § 16.03, at 100 (1998) (characterizing the Supreme Court’s decisions on whether a patent owner may limit exhaustion through contractual conditions as giving “apparently mixed signals”). For other criticisms of Mallenckrodt, see James B. Kobak, Contracting Around Exhaustion: Some Thoughts About the CAFC’s Mallenckrodt Decision, 75 J. PAT. & TRADEMARK OFF. SOC. 550 (1993).

45. Mallenckrodt, 976 F.2d at 708. For further elaboration of these standards, see Mallenckrodt, 976 F.2d at 706, 708-09, and infra note 82.
authority of the United States patentee, and imported into the United States by
purchasers down the chain of title.46 Neither the Supreme Court nor the Court
of Appeals for the Federal Circuit has directly addressed the issue.47 However,
as will be demonstrated below, careful examination of the relatively sparse case
authority reveals that the greater weight of authority adopts an international
exhaustion doctrine, which is modified by the ability of patentees to contract out
of it. Most arguments to the contrary have relied on an over-broad reading of
the Supreme Court's decision in Boesch v. Graff,48 and a single district court
decision that failed to recognize, or discuss, the earlier decisions to the
contrary.49 However, even those decisions that generally support a modified
international exhaustion doctrine leave some important uncertainties concerning
the scope of the exhaustion doctrine in the parallel imports context, which will
also be explored in this Section.

The Court of Appeals for the Second Circuit initially stated the international
exhaustion rule for parallel imports in Dickerson v. Matheson:50

A purchaser in a foreign country, of an article patented in that country and also
in the United States, from the owner of each patent, or from a licensee under
each patent, who purchases without any restrictions upon the extent of his use or
power of sale, acquires an unrestricted ownership in the article, and can use or
sell it in this country. The cases which have been heretofore decided by the
Supreme Court in regard to the unrestricted ownership by purchasers in this
country of articles patented in this country, and sold to such purchasers without
limitation or condition, lead up to this principle.51


46. See supra note 22 and accompanying text.
47. Congress created the Court of Appeals for the Federal Circuit in 1982 and assigned it
exclusive jurisdiction of all circuit court level appeals in patent cases. See Federal Courts
court replaced the Court of Customs and Patent Appeals and the United States Court of Claims,
and adopted the prior case precedent of those courts as its own. See South Corp. v. United States,
690 F.2d 1368, 1370 (Fed. Cir. 1982). While the United States' regional Circuit Courts of Appeals
no longer have jurisdiction over patent cases, their decisions prior to creation of the Federal Circuit
continue to be influential.
48. 133 U.S. 697 (1890). For a discussion of the Boesch decision, see infra notes 107-110 and
accompanying text.
discussion of the Griffin decision, see infra notes 111-132 and accompanying text.
50. 57 F. 524 (2d Cir. 1893).
51. Id. at 527 (citations omitted). Among other authority, the court cited Bloomer v. Millinger,
The Second Circuit built on the *Matheson* discussion in *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.* In *Curtiss*, the plaintiff owned United States and Canadian patents for airplane-related inventions. During World War I plaintiff licensed the British government to have airplanes incorporating the patented inventions built in Canada for British use in the war. After the war, the British government sold some of the airplanes to the defendant, who imported them into the United States for resale. Plaintiff sued the defendant for infringement of its United States patents. In finding for the defendant, the Second Circuit noted:

The agreements will be searched in vain for any restriction or condition as to the right to use or vend; and in the absence of such restriction we understand the law to be that the British government obtained a full and unqualified right to use and sell the planes and engines, and that this right passed to all subsequent purchasers, and therefore to this defendant. No American or British decision asserting a contrary doctrine is known to us.

If a patentee or his assignee sells a patented article, that article is freed from the monopoly of any patents which the vendor may possess. If the thing sold contains inventions of several United States patents owned by the vendor, the article is freed from each and all of them; and if the vendor has divided his monopoly into different territorial monopolies, his sale frees the article from them all. If the vendor's patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and his domestic patents, and where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country.

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68 U.S. (1 Wall.) 340 (1863), and *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1872), addressing exhaustion in the strictly domestic context and suggesting that it viewed the exhaustion doctrine to be unaffected by the site of the initial sale. For a discussion of the facts in *Matheson*, see infra note 63 and accompanying text.

52. 266 F. 71 (2d Cir. 1920).
53. *Id.*
54. *Id.*
55. *Id.*
56. *Id.* at 77-78. In support of its finding of no infringement, the Second Circuit relied on *Holiday v. Mattheson*, 24 F. 185 (S.D.N.Y. 1885). The court wrote:

That case raised the question whether the owner of a patent in the United States for an
The court distinguished earlier cases in which relief had been granted to a patentee against imported goods:

The plaintiff relies on certain cases, but an examination shows that they are plainly distinguishable, and do not support the plaintiff's contention. The cases upon which it relies belong to one or the other of two classes: (1) Those in which there has been a sale of a patented article, or a license to manufacture, but accompanied by explicit and unequivocal restrictions as to the time, or place, or manner of using the article so sold or licensed, or as to the ultimate disposal thereof. (2) Those in which there has been no participation whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which is alleged to infringe. And if a patentee retains title to the patented machine, which was not done in this case, he may restrict its manner of use, in the lease or other contract.57

A New York district court applied this rule more recently in Kabushiki invention, and who had sold the patented article in England without restrictions or conditions, could treat as an infringer one who had purchased the article in England of a vendee of the patentee, and could restrain him from using or selling the article in the United States.

Id. In deciding the question adversely, Judge Wallace said:

When the owner sells an article without any reservation respecting its use, or the title which is to pass, the purchaser acquires the whole right of the vendor in the thing sold, the right to use it, to repair it, and to sell it to others; and second purchasers acquire the rights of the seller, and may do with the article whatever the first purchaser could have lawfully done if he had not parted with it. The presumption arising from such a sale is that the vendor intends to part with all his rights in the thing sold, and that the purchaser is to acquire an unqualified property in it; and it would be inconsistent with the presumed understanding of the parties to permit the vendor to retain the power of restricting the purchaser to using the thing bought in a particular way, or in a particular place, for a limited period of time, or from selling his rights to others. It is quite immaterial whether the thing sold is a patented article or not, or whether the vendor is the owner of a patent which gives him a monopoly of its use and sale. If these circumstances happen to concur, the legal effect of the transaction is not changed, unless by the conditions of the bargain the monopoly right is impressed upon the thing purchased; and if the vendor sells without reservation or restriction, he parts with his monopoly so far as it can in any way qualify the rights of the purchaser.

Id. at 78-79.

57. Id. at 77.
Kaisha Hattori Seiko v. Refac Technology Development Corp.\textsuperscript{58} In that case, Refac had given Hattori a non-exclusive license to make, use and sell products coming within the scope of Refac's United States patents.\textsuperscript{59} Hattori had subsequently sold such products abroad to purchasers who then, directly or indirectly, resold them in the United States.\textsuperscript{60} The court was required to determine whether the license authorized Hattori to sell the patented products throughout the world, or only in the United States.\textsuperscript{61} In this connection the court noted:

In general, the first sale of a product by a patentee or licensee exhausts the patent monopoly, and deprives the holder of patent rights of any further control over resale of the product. This principle applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States. Following such a sale, the holder of United States patent rights is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article here. Refac concedes that Hattori had the right under the license to sell the products at issue in the United States. Therefore, if Hattori also was authorized to sell the products abroad, Refac's patent rights have not been infringed by any resale in the United States by Hattori's customers. . . . If Hattori has the right to sell abroad, it is entitled to a declaration not only of that proposition, but of the corollary proposition that Refac may not claim royalties on Hattori products purchased abroad and resold in the United States by third parties.\textsuperscript{62}

As the preceding quotations suggest, the case law appears to recognize two limitations on application of the doctrine of exhaustion in the context of parallel imports. First, as in the case of domestically sold goods, patentees may expressly prohibit importation or resale in the United States as a condition of sales abroad, and sue persons in breach of that condition for patent infringement. Second, there may be limitations that arise from the identity of the person selling the patented article abroad. The following two subsections will examine these limitations in greater depth. The final subsection will examine case authority

\textsuperscript{58} 690 F. Supp. 1339 (S.D.N.Y. 1988).
\textsuperscript{59} Id.
\textsuperscript{60} Id.
\textsuperscript{61} Id.
\textsuperscript{62} Id. at 1342 (citations omitted); see also Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc., 565 F. Supp. 931, 938 (D.N.J. 1983) ("The court will . . . not grant to Sanofi an injunction against distribution in this country of the product that it sold in France without restriction.").
cited for the proposition that the United States employs a territorial exhaustion rule, rather than the modified international exhaustion doctrine described by the Second Circuit and New York District Court.

A. Express Prohibition of Resale in the United States

Even if a defendant purchased the patented article abroad from the United States patentee or its licensee, subsequent importation and sale may infringe if the sale was made on the express condition that the product not be imported or sold in the United States, and the defendant had adequate notice of this restriction. The Court of Appeals for the Eighth Circuit stated this proposition in Dickerson v. Tinling. In that case, the defendant bought the patented product abroad, but it was unclear whether the seller was the United States patentee. The court found that if the defendant did purchase from the United States patentee, it did so subject to a printed prohibition of importation to and sale in the United States that the patentee placed on every packet of the invention that it sold abroad. This prohibition would be binding on the defendant, and would render his subsequent importation and sale an infringement:

Conceding—but not deciding—that one who buys a patented article without restriction in a foreign country from the owner of the United States patent has the right to use and vend it in this country upon the general principle that a patented article purchased from the patentee passes without the limit of the monopoly, there can be no doubt that a patentee has the same right and power to sell the patented article upon conditions or with restrictions that he has to sell it at all. Bayer & Co. had the right to sell its phenacetin in Germany without restriction. It has an equal right to sell it subject to the limitation that it should not be sold or used in any way that would curtail or affect the exclusive right, which that corporation held under this patent to make, use, and vend the phenacetin in the United States. If the corporation sold the patented article subject to such a restriction, the purchasers, with notice of this limitation, whether immediate or remote, could acquire no better right than strangers to infringe upon the monopoly secured by the patent. That monopoly would still remain intact, and purchasers of the phenacetin which had been sold under the restriction must be liable for its use and sale in the United States to the same extent as those who made it or bought it of strangers within their limits. The record is that every package of this article sold by Bayer & Co. in a foreign

63. 84 F. 192 (8th Cir. 1897).
64. Id.
65. Id.
PARALLEL IMPORTS OF PATENTED GOODS

country was sold on the express condition that it should not be imported into or sold within the United States, and that this prohibition was plainly printed upon every package. The necessary result is that . . . [the appellee is] an infringer upon the exclusive right to make, use, and vend the phenacetin within the United States, which was granted to this corporation by the letters patent.66

This result appears to be consistent with the Court of Appeals for the Federal Circuit's recent decision in the Mallenckrodt case,67 though the underlying reasoning may vary. In Mallenckrodt, the Federal Circuit relied on a contract theory to suggest that the purchaser of the patented article could be bound by the restriction on the label of the product. In Tingling, the Court of Appeals for the Eighth Circuit may have been relying on a property rationale: that one cannot pass rights greater than one has.68 If so, this rationale may be difficult to reconcile with the Supreme Court's decisions in Adams v. Burke, Keeler v. Standard Folding-Bed Co. and Hobbie v. Jennison,69 which all suggest that authorized sellers of patented articles can convey rights they do not themselves enjoy in a patented article (particularly, the right to use or sell the article in a different geographic territory), at least under certain circumstances.70 In those

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66. Id. at 194-95 (citations omitted).
67. See supra notes 36-42 and accompanying text.
70. In each of these cases the United States patent rights had been divided into separate geographic territories within the United States. The owner of exclusive patent rights in one geographic territory sold patented articles to a purchaser, who transported the articles out of the seller's exclusive territory and undertook to use or sell them in the exclusive territory of another. In Adams and Keeler, the Supreme Court held that the purchaser's subsequent use or sale did not infringe the rights of the non-selling rights owner in whose territory the purchaser's use or sale occurred. In Hobbie, the Court found that the seller would not be liable, notwithstanding the purchaser's actual use of the patented articles in the plaintiff's exclusive territory, and the seller's knowledge that the purchaser intended to use the articles there. In effect, the Court in each of these cases found that the seller could convey rights it did not itself enjoy, in that it could authorize its purchaser to use or sell the patented article in parts of the country where the seller itself lacked any rights.
cases, the Supreme Court suggested that express contractual provisions were necessary to limit the purchasers' subsequent acts.\textsuperscript{71}

The Court of Appeals for the Second Circuit faced a similar issue in \textit{Dickerson v. Matheson},\textsuperscript{72} and relied on a contract theory, as the Federal Circuit did in \textit{Mallenckrodt}. In \textit{Matheson}, the defendant purchased the patented product in Europe from a licensee of Bayer & Co., the United States patentee.\textsuperscript{73} It was clear that the defendant and its overseas agents knew that sales of the patented good abroad were usually subject to a condition against importation to the United States.\textsuperscript{74} The defendant hoped to avoid this restriction by purchasing through a series of agents.\textsuperscript{75} However, the court found that the seller had successfully conditioned the sale.\textsuperscript{76} The invoice for the sale contained an express restriction against importation to the United States, and the goods themselves bore the label: “The importation into the United States of North America is forbidden.”\textsuperscript{77} The court found that knowledge of the contents of the invoice must be imputed to the defendant through its agents, and that by accepting the invoice, the agents (and thus the defendant) assented to the conditions to sale that it contained.\textsuperscript{78} The court noted that “the invoice was not a

\textsuperscript{71} See \textit{Keeler}, 157 U.S. at 666; \textit{Hobbie}, 149 U.S. at 363.
\text superscript{72} 57 F. 524 (2d Cir. 1893).
\textsuperscript{73} \textit{Id.}
\textsuperscript{74} \textit{Id.}
\textsuperscript{75} \textit{Id.}
\textsuperscript{76} \textit{Id.}
\textsuperscript{77} \textit{Id.}
\textsuperscript{78} \textit{Id.}
mere notice or receipt, and was a paper which, from the nature of the business, must be expected to contain the terms of the contract of sale.” Since the seller successfully conditioned the sale, the defendant’s subsequent import and sale in the United States, done in violation of the restriction, constituted infringement.

The ability to counteract the doctrine of international exhaustion through express restrictions at the time of first sale provides a significant limitation on the doctrine. However, as the *Mallenckrodt*, *Tingling* and *Matheson* decisions all make clear, the effectiveness of express restrictions on foreign purchasers’ resale in the United States will depend in large part upon adequate notice of the restriction to the parallel importer defendant, who is likely to be a remote purchaser. It should also be noted that there remains some uncertainty in United States case law over the enforceability of restrictions on the label of a product against purchasers whose only alleged manifestation of assent to the restrictions is the act of purchase without objection. Thus, the effectiveness of express restrictions to prevent parallel imports will depend in part upon how strictly courts construe both the notice and assent requirements.

A final prerequisite for enforcing express restrictions to prevent parallel imports, per *Mallenckrodt*, is that the restrictions pass muster under the antitrust law and patent misuse doctrine. As noted earlier, the antitrust implications of such territorial restraints are judged under the rule of reason. Although each case must be judged on its specific facts, there is case precedent upholding international territorial restrictions under this standard.

79. *Id.* at 527.


B. The Identity of the Person Selling the Patented Article Abroad

The doctrine of exhaustion only applies when the foreign purchaser derived the patented article through the United States patentee or the patentee’s licensees. The Supreme Court made this clear in Boesch v. Graff.\(^\text{84}\) In Boesch, the defendants purchased plaintiff’s patented lamp burners in Germany from a seller who was authorized to sell in Germany by virtue of a “prior user” law,\(^\text{85}\) but was not related to the United States patentee and derived no rights from him. Although the sale to the defendants in Germany was legal, the Supreme Court found that the defendants’ resale in the United States constituted infringement of the United States patent.\(^\text{86}\)

The Court of Appeals for the Eighth Circuit applied this limitation in Dickerson v. Tinling.\(^\text{87}\) In Tinling, the composition phenacetin was patented in the United States, but not in Germany.\(^\text{88}\) The defendant purchased phenacetin in Germany, imported it to the United States and offered it for sale in competition with the United States patentee.\(^\text{89}\) Assuming that Bayer & Co. was the United States patent owner, the court noted that if the defendant bought the phenacetin from someone other than Bayer & Co. abroad:

[H]e bought with it no right to sell it in the United States, because no one but Bayer & Co. and their vendees had that right in this country .... [O]ne who purchases in a foreign country, of others than the owners of the United States patent or their vendees, pays nothing, either directly or indirectly, to the owners of the patent, and therefore he acquires no right to make, use, or vend the article which he buys within the territorial limits of their monopoly. It follows that, if the appellee bought the phenacetin he is selling of others than Bayer & Co., or its vendees, he is infringing upon the exclusive right of this patentee, and an

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\(^{84}\) 133 U.S. 697 (1890).

\(^{85}\) The German law provided that a German patent would not affect “persons who, at the time of the patentee’s application, have already commenced to make use of the invention in the country, or made the preparations requisite for such use.” \(^\text{Id.}\) at 701.

\(^{86}\) \(^\text{Id.}\) at 703. See Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 665 (1895) (noting that in Boesch “neither the patentee nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States”); Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp., 266 F. 71, 77 (2d Cir. 1920) (noting that in Boesch there had been “no participation whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which is alleged to infringe.”).

\(^{87}\) 84 F. 192 (8th Cir. 1897).

\(^{88}\) \(^\text{Id.}\).

\(^{89}\) \(^\text{Id.}\).
injunction should issue.90

The rationale underlying this limitation is self-evident. The doctrine of exhaustion is based on the premise that a patent should secure the financial benefit of the invention to the patentee, but only once: once the patentee has enjoyed the benefit of his invention, through sale of a patented article, his rights as to that article are exhausted.91 If the patentee did not make or authorize the initial sale of the patented article, it never enjoyed the benefit of its invention as to that article, and its rights were never exhausted. Thus, it should have the opportunity to exert control over the article (for the first time) when it enters the United States.92

However, some of the case opinions go beyond the proposition stated above and suggest that the doctrine of exhaustion should only apply when the person selling the patented article abroad has the right to sell it in the United States, as well.93 The district court in New Jersey applied this limitation in Sanofi, S.A. v.

90. Id. at 194. See also Featherstone v. Ormonde Cycle Co., 53 F. 110 (S.D.N.Y. 1892). In Featherstone, the owner of the British patent, who had no relationship to the owner of the United States patent in the same invention, licensed the defendants to apply tires covered by its patent to a bicycle in Great Britain. Id. The defendants then imported the bicycle into the United States and sold it. Id. The court found infringement of the United States patent:

It is well settled that the unrestricted sale of a patented article by the owner of the patent conveys to the purchaser the right of unrestricted ownership as against the vendor. But the purchaser does not acquire any rights greater than those possessed by the owner of the patent. The owner of the British patent could not authorize either the vendee or his vendor to sell the articles in the United States, so as to conflict with the rights of the owners of the American patent. This claim of defendants seems to be disposed of by the case of Boesch v. Graff...

ld. at 111 (citation omitted).

91. See supra note 11 and accompanying text.

92. Id.

93. See, e.g., Dickerson v. Matheson, 57 F. 524 (2d Cir. 1893). The court found that:

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

Id. at 527. See also Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp., 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (holding the exhaustion doctrine “applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States”).
Med-Tech Veterinarian Products, Inc.\textsuperscript{94} In that case, Sanofi, S.A., which owned the United States patent for acepromazine maleate (a tranquilizer used in the treatment of animals), granted American Home Products an exclusive license to sell the composition in the United States for veterinary purposes.\textsuperscript{95} The defendants, United States businesses, bought the composition from a subsidiary of Sanofi in France, through a series of intermediaries, and resold it in the United States without American Home Products' authorization.\textsuperscript{96} In the ensuing infringement suit, the court found that Sanofi, the United States patentee, had no right to an injunction, but that the exclusive United States licensee, American Home Products, did.\textsuperscript{97}

\footnotesize{\([\text{I}]\) It is a principle of patent law that the unrestricted sale of a patented article by the owner of the patent conveys to the purchaser the right of unrestricted ownership as against the seller. It is also a principle of patent law, however, that the purchaser does not acquire any rights greater than those possessed by the owner of the patent.

American Home holds an exclusive license to sell the drug acepromazine maleate in this country for veterinary use. Therefore, even the patent holder, Sanofi, would not have the right to sell the drug in this country.

Although defendants are correct in stating that sale of an article exhausts the patentees’ monopoly in that article, they are incorrect in applying the rule to the facts of this case. The rule has only been applied where the sale is one which the seller had the authority to make in this country. Sanofi had no authority to sell acepromazine maleate for veterinary purposes in the United States. Although the sale was consummated abroad, this country’s patent laws were not implicated until the product was brought into this country. Once the product entered and was sold in the United States for veterinary purposes, it was American Home’s interest that was directly affected. Only American Home had the right to sell here for veterinary purposes, not Sanofi. If the court were to hold that Sanofi’s sale of the product exhausted the patent, it would be crediting Sanofi with greater rights than the patentee actually had.\textsuperscript{98}

\footnotesize{\begin{enumerate}
\item This was the only purpose for which the drug had received the approval of the Food and Drug Administration. \textit{id.} at 937.
\item Sanofi, 565 F. Supp. at 931.
\item \textit{id.}
\item \textit{id.} at 939-41. \textit{See also} Selchow & Righter Co. v. Goldex Corp., 612 F. Supp. 19 (1985). In \textit{Selchow}, the owner of a design patent in the \textit{Trivial Pursuit} game board granted exclusive license}
The result in Sanofi can be reconciled with the underlying purposes of the doctrine of exhaustion, but its reasoning, and the broad rule it purports to provide, may exceed those purposes, and present some questionable inconsistencies with the case law that applies the doctrine to domestic sales.

First, the Supreme Court's decisions in the Adams, Keeler and Hobbie cases all rejected the notion that a seller cannot convey greater rights than he has in the exhaustion context. In those cases, the Court found that persons owning exclusive rights in one geographical area of the United States could, in selling the patented article to a purchaser, enable that purchaser to use and sell the article throughout the United States, even in parts of the country where the seller lacked the right to do so itself. In those cases the Court apparently believed to a manufacturer to use and sell the game in the United States to the plaintiff. Id. The defendants purchased Trivial Pursuit games manufactured in Canada by the design patent owner and imported them into the United States for sale in competition with the plaintiff. Id. The court found that this infringed the rights of the plaintiff's exclusive United States license. Id. See also PCI Parfums et Cosmetiques Int'l v. Perfumania Inc., 35 U.S.P.Q.2d 1159 (S.D.N.Y. 1995).

99. See supra note 70, and accompanying text.


[A] person who buys patented articles from a person who has a right to sell, through within a restricted territory, has a right to use and sell such articles in all and any part of the United States; [when a royalty is] paid to a party entitled to receive it, the patented article then becomes the absolute, unrestricted property of the purchaser, with the right to sell it as an essential incident of such ownership.

* * *

The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.

Id. This result can be justified under the circumstances of the Adams, Keeler and Hobbie cases, for to find infringement would permit patentees, through their private business arrangements, to interfere quite considerably with the free flow of commerce within the country, and with the public convenience. As the Keeler court asked:

If, as is often the case, the patentee has divided the territory of the United States into 20 or more "specified parts," must a person who has bought and paid for the patented article in one part, from the vender having an exclusive right to make and vend therein, on removing from one part of the country to another, pay to the local assignee for the privilege of using and selling his property, or else be subjected to an action for damages
that policy considerations, rather than the mechanical “can’t convey rights
greater than you have” formulation, should govern the contours of the
exhaustion doctrine.101

Three separate scenarios are useful to explain why the result in Sanofi may
be consistent with the purposes of the exhaustion doctrine, while a rule limiting
the doctrine to foreign sales made by persons owning rights in the United States
is too broad. The first entails facts similar to those in Sanofi: the United States
patentee has sold exclusive rights in the invention to X Co. (a company that is
unrelated to the patentee) in the United States, but continues to sell the patented
invention itself in other countries. Y purchases a patented article from the
patentee abroad, and imports it into the United States. While X Co. is
technically a licensee, it has purchased exclusive United States rights, and has a
legitimate expectation of an exclusive United States market. Moreover, it has
not benefited financially from its licensor’s sale abroad. Under these
circumstances it may be consistent with the purposes of the exhaustive doctrine
to protect the exclusive licensee’s market, finding that the patentee’s foreign sale
does not exhaust X Co.’s rights in connection with the article the patentee sold.
That is the result the court reached in Sanofi.

The second situation entails the opposite situation: the United States
patentee grants a license to X Co. to sell the patented article in a foreign country,
but grants X Co. no rights in the United States. The patentee continues to sell
the patented article in the United States. Y purchases the patented article from X
Co. abroad, and imports it into the United States for resale. Under the rule
broadly expressed in Sanofi, the exhaustion doctrine would not apply here,
either, because the seller, X Co., had no rights in the United States. However,
the United States right holder received the benefit of X Co.’s sale, either in the
form of a royalty payment or in the purchase price of the license. From a
theoretical standpoint, there is no reason why the exhaustion doctrine should not apply. Courts have routinely held that the exhaustion doctrine applies equally to sales by the patentee and authorized sales by its licensees.\textsuperscript{102} There is no apparent reason to deviate from that rule simply because the licensees are not authorized to sell in the United States.

In the third situation, the patentee has granted an exclusive license to X Co. in the United States and an exclusive license to Y Co. in France. The patentee, X Co. and Y Co. are all unrelated entities. Z purchases the patented article from Y Co. in France, and imports it for resale in the United States. In this case, the patentee has benefited from Y Co.'s sale, but X Co., the exclusive United States right holder, has not. Again, as in situation number one, it is not inconsistent with the underlying purposes of the exhaustion doctrine, as described by the courts, to find that the exclusive United States rights holder's rights are not exhausted by Y Co.'s sale.

The ultimate question, then, should not be whether the foreign seller enjoys rights in the United States, but whether the plaintiff enjoys exclusive rights in the United States and benefited, directly or indirectly, from the foreign sale. One might characterize the statement that "the seller must have rights in the United States" as dicta, since it goes well beyond what was needed to resolve the issues before the courts that made it. In any event, in the absence of a case decision specifically applying that rule to the facts set forth in the second hypothetical situation, the proposition that the doctrine of exhaustion would not apply to the facts in that situation is open to question.

One unresolved, but important question remains: how does the doctrine of exhaustion apply when the United States patent right holder and the foreign seller are separate but, related corporate entities? Can sale by the latter exhaust the rights of the former? For example, assume that a multinational business entity owning patents in a number of different countries assigns exclusive rights in each country to a different corporate subsidiary. Should sale of a patented article by one subsidiary, for example, in Germany, be deemed to exhaust the rights of a separate corporate subsidiary that is the exclusive licensee of the multinational entity's United States patent rights?

There is significant precedent for considering such related corporate entities (such as entities in a brother-sister or parent-subsidiary relationship) as a single entity for purposes of applying the doctrine of exhaustion. For example, that has become the general rule in applying the doctrine of exhaustion in trademark

\textsuperscript{102} See supra note 31 and accompanying text.
infringement claims involving parallel imports.\textsuperscript{103} There is also some precedent for this approach in the United States patent cases. For example, in \textit{Sanofi}, the Court treated a sale abroad by the French subsidiary of a subsidiary of the United States patent owner as a sale by the United States patentee itself, and found that the sale gave rise to exhaustion of the patentee’s United States patent rights.\textsuperscript{104}

\begin{flushright}
\begin{footnotesize}
103. \textit{See, e.g.,} K-Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988) (determining that the United States Customs Service acted reasonably in construing Tariff Act § 526, 19 U.S.C. § 1526, to prohibit parallel imports when the foreign manufacturer placing a mark on imported goods and the United States trademark registrant are unrelated corporate entities, but not to prohibit the imports when “the foreign and domestic trademark ... owners are parent and subsidiary companies or are otherwise subject to common ownership or control...”); \textit{Weil Ceramics and Glass, Inc. v. Dash}, 878 F.2d 659 (3d Cir.), \textit{cert. denied}, 493 U.S. 853 (1989) (holding Lanham Act §§ 32 and 42 do not prohibit import or domestic sale of imported goods bearing a United States registered trademark when the imported goods are the same as those sold domestically by the United States mark registrant and the foreign corporation that placed the mark on the imported goods is related to the United States corporate mark registrant). In \textit{Weil}, the defendant, Jalyn, had purchased “Lladro” porcelain manufactured by Lladro, S.A. in Spain, and imported it into the United States for resale in competition with Weil, the United States registrant of the Lladro mark. \textit{Id.} Weil was the wholly owned subsidiary of Lladro Exportadora, S.A., a Spanish corporation which was a sister corporation of the foreign manufacturer. \textit{Id.} In finding that Jalyn’s acts did not constitute trademark infringement, the court reasoned:

\begin{quote}
\text{[E]ven if Weil loses some share of its United States market to Jalyn, it nonetheless benefits from the profits it received as part of the corporate entity from which Jalyn purchased the goods abroad. Moreover, if that corporate entity decides that the profit margin from the sale of the goods to Jalyn abroad is not as significant as would be the profit margin from a United States market in which Jalyn did not compete, it has an obvious self-help mechanism; it can cease the sale to Jalyn abroad and thereby eliminate effectively its United States competition with Weil. We do not read the Lanham Act, however, to protect a foreign manufacturer--that either owns or is owned by a domestic trademark holder--from competition in the sale of its product in the United States by a domestic importer that it has supplied.}
\end{quote}

\textit{Id.} at 668.

104. \textit{But c.f.} \textit{Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.}, 222 U.S.P.Q. 143 (D. Kan. 1983). In a case related to the New Jersey decision discussed in text, the Kansas District Court notes:

\begin{quote}
The defendants would have us hold that acquiring the patented product from the subsidiary of the patent holder in the normal course of business is sufficient to grant an implied license. We cannot accept such an argument. First, we have not been presented
\end{quote}
\end{footnotesize}
\end{flushright}
Finally, at least one court has treated related corporate entities as a unit for purposes of the exhaustion doctrine in the copyright context, as well. 105

One might also argue that even if the separate legal status of related corporate entities is recognized for purposes of the exhaustion doctrine, the entities may be viewed as consenting to one another’s sales of the patented article. Ultimately, the question of whether to treat such multi-entity international business structures as single entities for purposes of the doctrine of exhaustion, or to imply their consent to sales, must turn on one’s assessment of whether application of the doctrine of exhaustion in such cases is consistent with the underlying purposes of the doctrine of exhaustion, and the policy issues to be discussed in Section V, infra. One could certainly argue that it is consistent with the underlying purposes, since sales proceeds going to one subsidiary benefit the entire international business entity. Moreover, companies under common ownership and control should be able to engage in the kinds of self-help discussed in the following sections to protect themselves from injuries that might otherwise be inflicted by parallel imports. 106

C. Authority for the Proposition that the United States Employs a Territorial Exhaustion Rule

Advocates of the theory that the United States employs a territorial exhaustion rule, so that no foreign sales exhaust the United States patentee’s

with sufficient evidence to disregard the corporate separateness of Sempra-Chimie and Sanofi. Second, were we to hold as defendants suggest, we would throw the current licensing system into a state of chaos. Anytime someone acquired a patented product from a seller in privity with the patentee, they would have an implied license.

Id. at 148-49.

The Japanese Supreme Court recently held that marketing activities in foreign countries by “an affiliated company, a subsidiary or a person with the same standing as the patentee” should be attributed to the Japanese patentee for purposes of applying the doctrine of exhaustion in parallel import cases. BBS Kraftfahrzeugtechnik AG v. Rashimekkusu Japan Co. Ltd & JPP Auto Prods. Co., Ltd., Case No. H6-(Ne)-3272, Japanese Supreme Court (1997), reported by Yoshio Ohara in 29 INTERNAT. REV. INDUS. PROP. & COPYRIGHT 331, 333 (1998). The European Union appears to follow a similar rule. See Pilny & Eagle, The Significance of Intellectual Property at the Community Level vis-a-vis Non-E. U. Trading Nations, 20 EUR. INTELL. PROP. REV. 4, 5 (1998).

106. See Weil Ceramics, 878 F.2d 659.
rights, generally cite two cases: Boesch v. Graff and Griffin v. Keystone Mushroom Farm, Inc. As will be discussed below, the Supreme Court’s decision in the Boesch case simply does not support the proposition. The support the Griffin decision provides is weak because of internal flaws in the court’s opinion.

In Boesch, the defendants purchased lamp burners, covered by the plaintiff’s United States patent in Germany, from a seller who was authorized to sell in Germany free from liability under the corresponding German patent by virtue of a “prior user” law. The seller was not related to the United States patentee and derived no rights from him or from any related entity. Although the sale to the defendants was lawful in Germany, the Supreme Court found that it did not exhaust the United States patentee’s rights. The Court stated:

The right which [the German seller] had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent. The sale of articles in the United States under a United States patent cannot be controlled by foreign laws.

Some commentators have cited this language as authority for the proposition that foreign sales do not affect the rights of a United States patentee, but that is an over broad reading of the opinion. The Court was merely saying that a German law, excepting certain third-party sales of patented goods from liability under a German patent, does not itself remove the goods from the reach of the United States patent if they are later resold in the United States without the United States patentee’s authorization. German law cannot itself authorize sales in the United States, or bind United States courts applying a United States patent, to a finding that sales made in Germany by a third party are attributable to the United States patentee. It is United States law that determines whether a sale abroad exhausts a United States patentee’s rights, not the law of another country.

That is not the same as saying that United States law ignores all foreign sales by United States patentees or their licensees. Boesch construed United States

108. Id. at 703.
109. See, e.g., Wegner, supra note 14, at 4; Tessenshon & Yamamoto, supra note 22, at 741; Yusuf & von Hase, supra note 3, at 124; Laurenson & Kolegraff, supra note 26, at 25; Barfield & Groombridge, supra note 22, at 197-98.
law to provide that sales by parties who are unrelated to the United States patentee and derive no rights from the United States patentee do not exhaust the United States patentee’s rights, even if the sales were authorized under foreign law. That is because the United States patentee received no benefit from such sales. The opinion does not address the effect of foreign sales by the United States patentee or its licensees. In the Keeler case the Supreme Court itself explained its earlier decision in the Boesch case, emphasizing that very point:

[T]he [Boesch] court held that the sale of articles in the United States under a United States patent cannot be controlled by foreign laws. In this case neither the patentee nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States.110

In Griffin v. Keystone Mushroom Farm, Inc., the plaintiff owned United States and Italian patents in a composting device.111 It had granted an exclusive license to sell the device to a different (apparently unrelated) entity in each country.112 The defendant bought three of the devices from the Italian exclusive licensee, imported them to the United States without the authorization of the

110. Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 665 (1895). See also Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp., 266 F. 71, 77 (2d Cir. 1920) (distinguishing Boesch on the ground that there had been “no participation whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which is alleged to infringe”); Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc., 565 F. Supp. 931, 937-38 (D.N.J. 1983). In Sanofi the court stated: Boesch is distinguishable from this case. In Boesch, it was not the patentee who made the sale abroad. In fact, it was not even a licensee of the patentee who made the sale. Rather, the seller was one who had a right to sell by operation of the patent laws of Germany, which provided that patents do not affect persons who, at the time of the patent application, were already making use of the invention. Under the circumstances of Boesch, the patentee neither received compensation for the use of his invention, nor consented to its importation into this country. Id. at 937-38.

111. 453 F. Supp. 1283 (E.D. Pa. 1978). This case is also frequently cited as authority for the proposition that the United States adopts a territorial exhaustion doctrine. See, e.g. Wegner, supra note 14, at 10; Tessenshon & Yamamoto, supra note 22, at 741; Laurenson & Kolegraff, supra note 26, at 26.

United States exclusive licensee, used one, and sold the other two. The patentee sued for infringement of its United States patent and the district court held that it could prevail. The court construed the Supreme Court’s decision in Boesch to hold that the doctrine of exhaustion never applies to sale of a patented article abroad, regardless of who made the sale or the circumstances surrounding the sale. It deemed it irrelevant that the plaintiff/patentee had received a royalty arising from the sale in Italy, reasoning that a patentee should be entitled to separate compensation in each country a patented article enters after its original sale. To hold otherwise, the court reasoned, would be to give extraterritorial effect to foreign patent law.

The Griffin decision is open to criticism on several grounds. First, the court fails to explain why a finding for the defendant would give extraterritorial effect to the Italian patent law. A decision that the defendant’s parallel import did not infringe the United States patent would rest on application of United States patent law—specifically the case decisions establishing and construing the scope of the United States exhaustion doctrine. While the United States law may attach significance to an event occurring in a foreign country—a sale of an article incorporating the patented invention—that is no reason to say that the patent law of the foreign country is dictating the United States patentee’s rights. It is the United States law that determines whether, or how, the foreign act affects the United States patentee’s United States patent rights. In a recent case

113. Id.
114. Id.
115. Id.
116. Id.
117. Id.
118. A number of issues in patent law turn on events that occur in foreign countries, yet it is not seriously suggested that these instances entail giving foreign patent or other laws extraterritorial effect in the United States. For example, Patent Act § 102(a) provides that a United States patent may be denied if the same invention was patented or the subject of a printed publication in a foreign country prior to the United States applicant’s invention date. 35 U.S.C. § 102(a) (1994). Section 102(b) provides that a United States patent may be denied if the same invention was patented or the subject of a printed publication in a foreign country more than a year before the United States patent application filing date. 35 U.S.C. § 102(b). Section 102(d) denies a United States patent if the United States applicant filed for a patent abroad more than a year prior to filing in the United States, and the foreign patent was granted prior to the United States filing date. 35 U.S.C. § 102(d). At one point, the Griffin court seems to recognize the weakness of its argument:

It may be that the limited nature of the effect that would be given Italian patent law, i.e.,
involving the parallel import of copyrighted goods, the Supreme Court rejected such an argument out of hand. 119

Second, the court construed the Boesch decision far too broadly, in a manner that reaches well beyond the facts before the Supreme Court, and is contrary to other courts' construction of the opinion. 120 It might also be noted that the only other opinion, involving parallel imports, the Griffin court cited for authority is the Second Circuit's decision in Daimler Mfg. Co. v. Conklin. 121 In that case, the Second Circuit held that the domestic use of an imported car would infringe the United States patent in the car, but made a point of noting that the car had not been sold abroad by the United States patentee. 122 The Daimler Court set forth the proposition that a "purchaser abroad cannot get any greater right than the patentee has from whom he buys," and noted that the foreign patentee had no right to use the patented article in the United States. 123 Thus, the Daimler decision does not stand for the proposition that the doctrine of exhaustion never applies to sales made abroad. The Griffin court did not attempt to distinguish, and indeed did not even acknowledge, two other Second Circuit decisions--the Curtiss and Dickerson decisions--which expressly state that the doctrine of exhaustion may apply against a United States patentee who made an unrestricted as a legitimate source of rights and compensation rendering plaintiff's infringement case an attempt at a double recovery, brings it outside the rationale for the broadly stated rule of 'no extraterritorial effect.' The defendant has not so argued, however, and its claim that it is not attempting to attribute extraterritorial effect to the plaintiff's Italian patents, Reply Brief at 4, is erroneous.

120. See infra note 133. As noted earlier, the Boesch defendant had purchased abroad from a German seller who was unrelated to the United States patentee and derived no rights from him. The sale did not constitute an infringement of the corresponding German patent, due to an exception to liability recognized under German patent law, but not under United States patent law. The Supreme Court found the German exception irrelevant to the question of whether resale of the patented articles in the United States would infringe the plaintiff's United States patent. Since the United States patentee had received no benefit from the German sale, the Court held that the United States doctrine of exhaustion was inapplicable.
121. 170 F. 70 (2d Cir. 1909).
122. Id.
123. Id. at 72. The court cited Featherstone v. Ormonde Cycle Co., 53 F. 110 (S.D.N.Y. 1892), for the proposition. Featherstone is discussed supra note 90.
sale, or authorized another to make an unrestricted sale, of a patented article abroad. One wonders whether the *Griffin* court was even made aware of this contrary precedent.

Finally, the *Griffin* court pointed to "certain practical problems" in finding that a foreign sale by a United States patentee, or its licensee, exhausted rights under the United States patent. First, the court would have to determine whether "the plaintiff's rights and the scope of the patented art are the same under the Italian [and United States] patent laws". The court suggested that it would need to find "that the United States and foreign patent monopolies were 'virtually identical or, at least, very similar' prior to finding exhaustion." The court considered it "unwise to involve ourselves in the niceties of Italian patent law." In a footnote, the court added that it would also need to compare the terms under which the composting machines were licensed in the two countries, in order to ensure that the plaintiff got as much benefit from the Italian license as it did from the United States license.

Other courts have not found it necessary to construe foreign patents in determining whether a United States patentee's sales under the foreign patents exhaust its rights in the United States. Indeed, United States patent law does not seem to require that the United States patentee have a patent in the foreign country in which it made the first sale of the article. Nor have courts found it necessary, in either a parallel import, or strictly domestic application of the exhaustion doctrine, to examine whether the United States patentee got as good a price under the first sale of the article at issue as it might have gotten under other circumstances. The key is that the United States patentee voluntarily made, or authorized, the first sale of the article embodying the patented invention abroad.

Presumably patentees, like all other business people, can be counted on to make or authorize only those sales that they deem to be beneficial. The United States patent law does not undertake to second-guess the patentee's judgment concerning the benefit to be gained from the sale. Nor does it guarantee that the patentee will always get the same price or royalty for the patented good, so that

125. *Id.*
126. *Id.*
127. *Id.* at 1287 n.2.
128. *See, e.g.*, *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 938 (D.N.J. 1983) (dealing with sales in a country where the invention was not patented); *See also* *Dickerson v. Tingling*, 84 F. 192 (8th Cir. 1897) (focusing on the enforceability of a contractual restriction, but not finding the absence of patent protection in the country of sale to be of importance).
if it must accept a lower level of benefit in one sale than in others, that sale “doesn’t count” for purposes of the exhaustion doctrine.129 Such a rule would be unworkable in the business world, for it would leave purchasers of patented articles without any meaningful guidance regarding their rights in the articles they purchased. A blanket rule that applies the doctrine of exhaustion to all sales made or authorized by the patentee is essential to provide the certainty needed to facilitate business transactions in patented goods. Patentees who wish to restrict further resales of patented goods have the option of negotiating contractual restraints.

Since the plaintiff patentee in *Griffin* had received the benefit (presumably, through royalty payments) of the first sale of the composting machines in Italy, it would have been more consistent with prior case precedent, as well as with the underlying justifications of the United States exhaustion doctrine, to deny the patentee a cause of action.130 Even if one accepts the *Sanofi* court’s broad limitation of the doctrine to sales made by persons having rights to sell in the United States, as well, the *Griffin* court found for the wrong plaintiff. The exclusive United States licensee, rather than the patentee, should have had the cause of action under the *Sanofi* rationale.131

Regardless of one’s evaluation of the reasoning in *Griffin*, its construction of *Boesch* is at odds with both the Second Circuit’s and the Supreme Court’s subsequent construction of the same language in that opinion. Moreover, its decision that the doctrine of exhaustion applies only to domestic sales is inconsistent with virtually all other prior decisions on that issue, which it fails to distinguish or even acknowledge.132 Under these circumstances, the district court’s decision in *Griffin* cannot be afforded much weight.

**IV. The Impact of the Uruguay Round Agreements Act**

In 1994, Congress amended the United States’ Patent Act to provide patentees an express right of importation, which became effective January 1, 2000.

129. The *Griffin* court may have been responding to policy arguments that have been made by advocates of rights against parallel imports which is addressed at note 155, *infra*, and accompanying text.
130. See *supra* notes 111-127 and accompanying text.
131. See *supra* notes 94-98 and accompanying text.
132. See *supra* notes 107-110 and accompanying text.
1996.133 Congress added the importation right in order to bring the United States into compliance with Article 28 of the GATT Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods (hereafter, "TRIPs").134 The question arises whether this new express statutory importation right will be tempered by the doctrine of exhaustion, long established in the case law with regard to the patentee's rights of sale and use, or whether Congress intended the new importation right to give patentees an absolute right to prohibit all unauthorized importation of goods embodying the patented invention.135 The Uruguay Round Agreement


   Every patent shall contain a short title of the invention and grant to the patentee, his heirs or assigns, 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.

35 U.S.C. § 154(a)(1) (1994). Section 271(a), as amended, provides: [e]xcept 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 therefore, infringes the patent. 35 U.S.C. § 271(a).

134. See TRIPs, supra note 22. Under TRIPs Article 28, a product patent must provide the exclusive rights "to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing . . . that product . . . ." Id.

135. Patentees have long enjoyed the opportunity to prohibit the importation of infringing articles through resort to the International Trade Commission. 19 U.S.C. § 1337 (1994). See also supra notes and accompanying text. This § 1337 right against importation, however, has been tempered by the doctrine of exhaustion. See discussion supra Section III. The International Trade Commission has only excluded imported articles that will infringe a patent under the existing case law. If a patentee's rights in imported articles are exhausted under the existing case law, the article's subsequent use or sale in the United States will not infringe. See Duvali, Unfair Competition and the ITC A-481, n.1 (1996); Terry L. Clark, The Future of Patent-Based Investigations Under Section 337 After the Omnibus Trade and Competitiveness Act of 1988, 38 Am. U.L. Rev. 1149, 1157, 1159 (1989).

At least one set of authors has assumed, without further analysis, that the importation amendment provides "full statutory backing for United States patent holders to block parallel imports." Barfield & Groombridge, supra note 22, at 198.
amendments themselves make no reference to the doctrine of exhaustion, or to any other limitation on the scope of the new importation right. Thus, in determining the applicability of the doctrine of exhaustion to the new statutory importation right, resort must be had to the legislative history of the amendments, and to rules of statutory construction.

The TRIPs Agreement itself expressly disclaims any position on the effect of the doctrine of exhaustion on patentees’ importation rights.136 Thus, TRIPs

136. A footnote to TRIPs Article 28 elaborates that the right of importation “is subject to the provisions of Article 6.” Article 6, in turn, provides that for the purposes of dispute settlement under the TRIPs Agreement, “nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.” Thus, while the TRIPs Agreement requires adhering nations to provide a right of importation, it deliberately avoids directly addressing the applicability of the doctrine of exhaustion to temper that right.

This is because the nations negotiating the TRIPs Agreement were unable to reach agreement about the applicability of the doctrine of exhaustion to goods sold internationally. While the United States’ Clinton Administration and some other developed nations took the position that intellectual property owners should be able to assert their intellectual property rights to prevent parallel imports in some or all instances, many developing countries advocated a rule of international exhaustion. See Herman C. Jehoram, Prohibition of Parallel Imports Through Intellectual Property Rights, 30 INTERNAT. REV. INDUS. PROP. & COPYRIGHT 495, 506-07 (1999); Ana M. Pacon, What Will TRIPs Do For Developing Countries?, in FROM GATT TO TRIPS--THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 329, 337 (Friedrich-Karl Beier & Gerhard Schricker, eds. 1996); Rothnie, supra note 13, at 314; Watal, TRIPs and the 1999 WTO Millennium Round, 3 J. WORLD INTELL. PROP. 3, 17-18 (2000).


Others have argued that a policy of territorial exhaustion is prohibited under the GATT and TRIPs. See Abbott, supra note 13, at 632 (discussing a number of approaches to this issue,
would not appear to require Congress to enact an absolute right against importation in order to bring the United States into compliance. While the reports that Congress drafted itself do not refer to the doctrine of exhaustion, which accompanied the TRIPs implementing legislation under the House and Senate’s special “fast track” procedural rules, does. The Statement of Administrative Action notes that the TRIPs Agreement “requires few changes in United States law and regulations and does not affect United States law or practice relating to parallel importation of products protected by intellectual property rights.” Further into its report, the Statement lists the changes to existing law deemed “required or appropriate” to implement TRIPs, and notes, “[o]ther areas of United States Intellectual property law are unaffected by the Agreement on TRIPs. For including arguments based on Article XI:1 of GATT 1994, GATT Art. III, GATT Art. XI and XX(d)). Professor Abbott argues that, all things being equal, GATT and TRIPs favor international exhaustion standing alone. However, he also subscribes to the proposition that TRIPs Art. 6 was intended as an “agreement to disagree” that puts off action on this subject until further considered by the TRIPs Council. See also S. K. Verma, Exhaustion of Intellectual Property Rights and Free Trade—Article 6 of the TRIPs Agreement, 29 Internat. Rev. Indus. Prop. & Copyright 534, 553-558 (1998) (relying on GATT Art. III(4) and GATT Art. XI(1), and responding to arguments to the contrary).
example, the Agreement does not require any change in current United States law or practice with respect to parallel importation of goods that are the subject of intellectual property rights.\textsuperscript{142}

The quoted language does not specifically address the new importation right for patentees, and does not expressly say that the Uruguay Round Agreements Act (as opposed to TRIPs) has no effect on the existing law regarding parallel imports. Moreover, one could note that the existing United States law regarding parallel imports of patented goods addresses the legality of defendants’ use and sale of imported patented goods. Prior to the Act, importation, by itself, did not infringe a patent,\textsuperscript{143} so there was no occasion for the case law to address the applicability of the doctrine to the act of importation itself. A statement that existing law (regarding use and sale) will be unaffected does not necessarily mean that the existing rule regarding exhaustion of rights will be extended to an express new right of importation.

Such arguments seem too technical to be taken seriously, however. The purpose of the Uruguay Round Agreements Act was to make those amendments necessary to implement the TRIPs Agreement. Because of the restrictions on debate and amendments entailed in the procedural rules for fast track legislation,\textsuperscript{144} it is unlikely that Congress intended to do anything more than was strictly necessary to accomplish that purpose. Since TRIPs did not require that the importation right be applied free of the doctrine of exhaustion, it seems unlikely that Congress would undertake to make it so, since this would shift the existing balance of rights among the parties in parallel import situations, and the legislative history suggests a strong intent to leave the parallel import situation at the status quo.\textsuperscript{145} Moreover, it would be incongruous to assume that Congress intended to make the act of importing parallel imports an infringement, when using or selling the goods once they reached the United States would not be. The clear implication of the quoted language from the Statement of Administrative Action is that the doctrine of exhaustion, as defined in the case

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{142} \textit{MESSAGE FROM THE PRESIDENT, supra note 139, at 990-91, 1994 U.S.C.C.A.N.S. at 4287.}
\item \textsuperscript{143} Patentees did (and still do) have a right to prohibit importation of infringing goods through the auspices of the International Trade Commission and Tariff Act § 337. \textit{See} notes 135 and 148.
\item \textsuperscript{144} \textit{See supra note 15.}
\item \textsuperscript{145} A court’s task is to “interpret the words of [a statute] in light of the purposes Congress sought to serve.” \textit{Chapman v. Houston Welfare Rights Org.}, 441 U.S. 600, 608 (1979). Here, Congress’ purpose in enacting the Uruguay Round Agreements Act was merely to amend existing United States law sufficiently to bring it into compliance with TRIPs.
\end{enumerate}
\end{footnotesize}
law, will extend to the new importation right, as well as to the pre-existing use and sale rights. Because of the particular nature of the fast track implementation procedure, the Statement of Administrative Action should carry significant weight in interpreting the Uruguay Round Agreements Act amendments. 146

While the quoted language from the Statement of Administrative Action seems to support a finding that the new statutory importation right will be tempered by the modified doctrine of international exhaustion, as tailored to date by the courts, there is other language in the Statement that could be used to construct an argument to the contrary. The Statement asserts that the amendment “adds to the [patentee’s] current rights . . . the right to preclude others from . . . importing a product covered by a United States patent.” 147 One could argue that if the new importation right is interpreted to be subject to the doctrine of exhaustion, it adds rather little to the rights that United States patentees already enjoyed.

Tariff Act § 337 has long enabled United States patent owners to prevent importation of infringing goods through resort to the International Trade Commission. 148 While the International Trade Commission is not authorized to award damages, patentees have been able to sue importers for damages through a cause of action for inducing the infringement of those who use or sell the imported articles in the United States. 149 Both the International Trade

146. Congress approved the Administrative Statement when it implemented the Uruguay Round Agreements Act. Uruguay Round Agreements Act, Pub. L. No. 103-465 § 101(a), 108 Stat. 4809, 4814 (1994). Section 102(d) of the Act provides that “[t]he statement of administrative action approved by the Congress under section 101(a) shall be regarded as an authoritative expression by the United States concerning the interpretation and application of the Uruguay Round Agreements and this Act in any judicial proceeding in which a question arises concerning such interpretation or application.” Pub. L. No. 103-465, § 102(d), 108 Stat. at 4819.


148. 19 U.S.C. § 1337 (1994). Section 337 authorizes the International Trade Commission to prohibit the importation of articles that “infringe a valid and enforceable United States patent” or “are made, produced, processed or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent” by excluding their entry into the country or by means of a cease and desist order.

149. 35 U.S.C. § 271(b) (1994). A cause of action for inducement entails a showing that the defendant actively, intentionally assisted another to infringe, with knowledge that infringement was likely to occur. 4 DONALD S. CHISUM, PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT § 17.04 (1991). Thus, any importer who was aware that the goods it imported infringed would be likely to be liable for inducing the subsequent infringement of
Commission cause of action and the cause of action for inducement have been tempered by the doctrine of exhaustion.\textsuperscript{150} If the new importation right added by the Uruguay Round Agreements Act is likewise tempered by the doctrine of exhaustion, then one might argue that patentees' rights have not been augmented much by addition of an express statutory importation right. As a practical matter, the only substantive right patentees will have gained is a cause of action for damages (as opposed to an exclusionary or cease and desist order) against importers who do not qualify for protection from the doctrine of exhaustion, who do not themselves use or sell the goods in the United States (for purposes of a direct infringement claim), and who lack the requisite knowledge and intent for purposes of an inducement claim. That group of potential new defendants is likely to be a small one. If, on the other hand, the new importation right is not subject to the doctrine of exhaustion, the new importation right will have added quite significantly to the existing rights of patentees.

In support of this argument, one might invoke the rule of statutory construction that “[w]hen Congress acts to amend a statute, we presume that it intends its amendment to have real and substantial effect,”\textsuperscript{151} and argue that construing the new importation right to be subject to the doctrine of exhaustion would greatly undercut the significance of Congress' actions. If Congress had intended essentially to maintain the status quo, it could have determined that persons who took possession of the imported goods and used or sold them in the United States.

It should also be noted that Congress had already provided process patent owners a cause of action for infringement against persons who import products made abroad by their patented process. 35 U.S.C. § 271(g) (1994). This right was added by the Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418 §§ 9001-9007, 102 Stat. 1107, 1563-67 (1988).

150. The International Trade Commission applies domestic patent law, as developed in the courts, in determining whether imported goods are infringing, and thus must be excluded from the country. See supra note 147. Thus, section 337 does not prohibit importation of goods initially sold abroad without condition by or under the authorization of the United States patentee. Since sale or use of the goods in the United States would not infringe the United States patentee's rights, the goods should not be deemed "infringing" for purposes of exclusion under section 337. See supra note 148.

One may only be liable for inducement under Patent Act § 271(b) if his actions assist another to infringe. Deepsouth Packing Co., Inc. v. Laitram Corp., 406 U.S. 518, 526 (1972). Thus, if use or sale of imported goods does not infringe because of the doctrine of exhaustion, the importer should not be deemed liable for acts inducing or assisting the use or sale.

United States law already complied with the TRIPs requirement that patentees enjoy a right against importation. In light of the Statement of Administrative Action's assertion that the amendment "adds to the [patentee's] current rights . . . the right to preclude others from . . . importing a product covered by a United States patent," the amendment should be construed not as essentially stating the existing rule, but as creating a significant new substantive right.

Given that the new importation right does provide some new rights to patentees, however narrow, this argument would be unlikely to carry the day. Nonetheless, in the case of ambiguities in statutory language, it is appropriate to consider the consequences of alternative interpretations, and determine which results would be more reasonable or desirable in light of the overall purposes of the Patent Act. Thus, the following Section will discuss some of the key

152. There is certainly precedent for such an approach in Congress' adoption of legislation to implement international intellectual property treaties. For example, when Congress ratified the Berne Convention, it initially determined that it would not be necessary to add express moral rights of integrity and attribution to the Copyright Act, notwithstanding Article 6 of the Berne Convention mandating their provision, because a collection of existing federal and state tort and unfair competition doctrines were sufficient to protect the interests at stake. Berne Convention Implementation Act of 1988, H.R. REP. No. 609, 100th Cong., 2d Sess. 33-34 (1988).

153. Indeed, the Supreme Court rejected a very similar argument recently in Quality King Distribrs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998), concerning the applicability of the doctrine of exhaustion to the express right of importation in Copyright Act § 602(a). There the plaintiffs argued that if Copyright Act § 602(a) were construed to be subject to the doctrine of exhaustion (which is codified in Copyright Act § 109(a)), then "both the section 602(a) right itself and its exceptions would be superfluous." Id. at 145. Prior to the enactment of section 602(a), the Copyright Act already prohibited the importation of "piratical" or unauthorized copies of copyrighted works, and that provision was retained in section 602(b). Thus, unless the Court construed section 602(a) to cover non-piratical ("lawfully made") copies sold by the copyright owner, it would add nothing to copyright owners' existing rights. Id. at 146. The Court rejected the argument, finding that even if subject to the doctrine of exhaustion, section 602(a) provided copyright owners with some new, albeit rather narrow rights: a private cause of action against importers of goods that were not subject to the doctrine (before, enforcement of copyright owners' importation rights had been vested in the Customs Service); rights against non-owner importers, such as bailees, licensees or consignees whose possession was lawful; and rights against copies that were "lawfully made" under the law of another country, but not with the United States copyright owner's authorization. Id. at 147.

policy considerations arising from the parallel import of patented articles, to
determine whether they support an interpretation of the new importation right
free of the doctrine of exhaustion.

V. THE CASE AGAINST THE PRESENT RULE

Can a compelling case be made to move to a rule of territorial exhaustion,
which would enhance United States patentees' ability to prohibit parallel import
of their products? There is a notable lack of empirical data through which to
gauge the actual impact of parallel imports on industrial development,
international trade and technology transfer. However, there has been some
lively debate in the literature over the policy implications of parallel imports
(most notably in the field of trademarks, though addressing copyrights and
patents to some extent) and their likely effect on industry and trade. Some
commentators have argued that parallel imports undermine both domestic and
international industrial development, and that the underlying purposes of
intellectual property rights would be more effectively served through application
of a territorial exhaustion rule. Indeed, the Clinton Administration has
advocated prohibitions of parallel imports in a number of international trade and
intellectual property treaty negotiations, in seeming disregard of the present state
of United States law.155

This final Section will first review explanations of why parallel imports

155. See Herman C. Jehoram, Prohibition of Parallel Imports Through Intellectual Property
Rights, 30 INT. REV. INDUS. PROP. & COPYRIGHT L. 495 (1999) (describing stated United States
position on parallel imports in various contexts); Wegner, supra note 14, at 43. Ironically, when
the Japanese Supreme Court recently adopted a modified international exhaustion rule in
connection with the parallel import of patented goods, which was surprisingly similar to the rule
already existing in the United States, the Clinton Administration suggested that it would consider
trade sanctions in retaliation. See Abbott, supra note 13, at 634; Jehoram, supra, at 510. See also
a case involving parallel import of goods with copyrighted labels, the Supreme Court notes that
"the Executive Branch of Government has entered into at least five international trade agreements
that are apparently intended to protect domestic copyright owners from the unauthorized
importation of copies of their works sold in those five countries," notwithstanding the existence of
a Third Circuit decision holding that parallel import of goods sold abroad by the United States
copyright owner does not infringe the United States copyright).
occur,\textsuperscript{156} and then review and evaluate the primary arguments that have been, or might be, made in favor of a territorial exhaustion rule for patents.\textsuperscript{157} These arguments can be divided into three topic areas: (1) promotion of the underlying purposes of patent law; (2) effect of parallel imports on domestic competition and public welfare; and (3) global considerations. The article will conclude that on the present record, there is no compelling case for a move to a territorial exhaustion rule, and that adoption of such a rule would be an impediment to general world movement in the direction of free trade.

\textit{A. Why Parallel Imports Occur}

A number of explanations have been offered for why parallel imports occur, and they are by no means mutually exclusive. It appears that parallel imports arise, in part, in response to intellectual property owners' practice of international price discrimination, charging whatever the market will bear in a particular country.\textsuperscript{158} Since the United States is a relatively affluent market, patentees may be able to charge higher prices here than they can in less affluent countries. This creates opportunities for third parties to purchase quantities of the patented article abroad, ship the articles to the United States and resell them in competition with the United States patentee. Even after paying the costs of transport, the parallel importer may be able to charge a lower price to United States consumers than the United States patentee does and make a significant

\textsuperscript{156} There have been few studies of the cause of parallel importing, and the literature that addresses the issue tends to focus on parallel importing of trademarked goods (sometimes called "gray market" goods), rather than patented goods. However, much (albeit not all) of the reasoning regarding the cause of trademark parallel imports seems logically to apply to explain parallel imports of patented goods. Thus, this article will draw to some extent on discussions that address parallel imports of trademarked and copyrighted goods, as well as on the relatively few discussions that specifically address parallel imports of patented goods.

\textsuperscript{157} As noted above, a large portion of the literature addresses the use of trademark and copyright law to block parallel imports. The underlying purposes of trademark law, in particular, differ from those of patent law, and this may render some of the arguments made in the trademark context inapplicable to the patent context. However, some of the considerations arising in the trademark context, as well as the copyright context, have some bearing on the patent exhaustion debate, and thus may be addressed in the discussion that follows.

\textsuperscript{158} See \textit{Rothnie, supra} note 22, at 567-579; \textit{Stack, supra} note 22, at 682; see also John Hilke, \textit{Free Trading or Free-Riding: An Examination of the Theories and Available Empirical Evidence on Gray Market Imports}, 32 \textit{World Competition} 75, 78 (1988).
It is probable that most decisions to engage in international price discrimination are made independently by the business/intellectual property owner involved, which is generally a business having some degree of United States market power. However, in some cases, the decision may result from collusion by competing United States business entities within a particular industry that are seeking to raise their margins across the board. They may accomplish higher margins by agreeing to raise prices and simultaneously undertaking to limit intrabrand competition by restricting parallel imports.

However, the price differentials, that attract parallel importers, are not all attributable to price discrimination. In some cases they may reflect higher costs that an intellectual property owner incurs in putting the protected product on the market. For example, a patentee may incur higher costs of labor or expensive regulatory requirements in the United States that it does not incur abroad, or it may pursue a more expensive marketing strategy in the United States than it does abroad. Parallel importers who purchase the patented good abroad for resale in the United States may free ride on some of the patentee’s greater United States expenditures—particularly its advertising and marketing expenditures, which facilitate consumer demand for the patented article.

Price differentials may also be attributable to changes in international monetary exchange rates. Finally, it has been suggested that intellectual

159. See Hilke, _supra_ note 158, at 80-81.
160. As Hilke explains:

Manufacturers’ output constraints, strategic output and pricing considerations, barriers to entry, and long-run marketing considerations may make foreign suppliers reluctant to change their United States prices in lock step with changes in exchange rates. To the extent that foreign suppliers base their decisions on these longer-run considerations, their pricing decisions may differ from those of independent middlemen. The available evidence on trade reactions to changes in exchange rates suggests that lags are extremely common....

Where suppliers either individually or collectively do not respond to exchange rate changes with prompt price adjustments, sufficient price differences may emerge to encourage [parallel imports]. Hilke, _supra_ note 158, at 81-82. _See also_ Barfield & Groombridge, _supra_ note 12, at 923 (“[P]rices might vary due to fluctuations in foreign currency exchange markets. An extensive literature documents that parallel imports surge when a country’s exchange rate appreciates because import prices do not decrease in the same proportion as the appreciation of the other country’s currency.”); _Seth E. Lipner, The Legal and Economic Aspects of Gray Market_
property owners themselves may sometimes orchestrate or encourage parallel import shipments to perpetuate their own ends. For example, the United States intellectual property owner may facilitate parallel imports as a means of improving the bottom line of the foreign subsidiary that sells to the parallel importers.\footnote{161} Or it might quietly orchestrate parallel imports as a means of disciplining distributors, who are increasing their margins by refusing to pass reductions in their cost along to consumers,\footnote{162} or who are engaged in industry-wide collusion.\footnote{163}

While there is little empirical data to demonstrate which of these spurs to parallel importing is the most prevalent,\footnote{164} it seems likely that all of them play a role at one time or another.\footnote{165}

\footnote{161. See lipner, supra note 160, at 4-5.}
\footnote{162. Hilke, supra note 158, at 79-80. As Hilke explains, manufacturers may find parallel imports to be a useful, non-public way to discipline their retailers, "particularly where contractual obligations or legal restrictions prevent the manufacturer from explicitly establishing additional distributors, imposing maximum price limitations, or establishing volume requirements." Id. at 80.}
\footnote{163. As Hilke explains, excessive retail or wholesale margins resulting from collusion will reduce overall demand for the product, leading the manufacturer to attempt to undermine the retailer or wholesaler collusion through means of parallel imports. Hilke, supra note 158, at 80-81.}
\footnote{164. For a discussion of the few studies that have been done, see rothnie, supra note 22, at 567-78; Abbott, Second Report (Preliminary) to the Committee on International Trade Law of the International Associate on the Subject of the Exhaustion of Intellectual Property Rights and Parallel Importation, 7-10 (Aug. 10, 1999) (unpublished paper) (a copy is on file with this author).}
\footnote{165. See rothnie, supra note 22, at 571 (noting that "a large role for currency exchange rate movements is clear; as also for attempts to practice some form of price discrimination. Certainly, there are strong grounds for the conclusion that parallel imports may arise for any, or a combination, of several reasons."); Hilke, supra note 158, at 80-91. The author concludes, in context of parallel imports of trademarked goods, that the available evidence points away from free riding on United States trademark owners' investments as a primary cause of parallel importing. Id. Rather, the hypothesis that parallel imports result from exchange rate adjustments is generally more consistent with the evidence in most industries. Id. The author also notes the likelihood that trademark owners also orchestrate parallel imports as a means of disciplining distributors. Id.}
B. Arguments for a Rule of Territorial Exhaustion

1. Promotion of the Underlying Purposes of Patent Law

a. The Purpose of the Patent Law

One of the arguments that has been made for a territorial rule of patent exhaustion is that the purpose of patent law is to give the patentee the benefit of monopoly rights in selling the patented article. Thus, the doctrine of exhaustion permits a patentee to exercise patent rights once with regard to each patented article that is sold. Once this has occurred, the doctrine applies to prevent a second exercise of patent rights in the same article.

Accordingly, when a United States patentee sells a patented article in the United States, that sale constitutes an exercise of the patent right, and triggers exhaustion. However, if the patentee sells the article outside of the United States, the sale does not constitute an exercise of the United States patent right because the United States patent does not convey rights outside of the territory of the United States. Thus, even though the United States patentee got the benefit of the foreign sale, it did not exercise its United States patent in making the sale, and its rights under the patent are not exhausted. If subsequent purchasers later bring the article to the United States, the patentee can prevent them from doing so, or extract a royalty in return for permission, because, in doing so it is exercising its rights under the United States patent for the first time. Under this line of reasoning, the doctrine of exhaustion focuses on the "exercise" of patent rights, rather than on the exchange of title in the article being sold in return for compensation.

It follows that if the patentee owns parallel patents in the same invention in a number of countries, each nation's patent represents a separate bundle of rights that must be exercised once before the doctrine of exhaustion can apply. The patentee may sell a patented article in one country and then assert its patents in other countries to exact a separate tribute in each country through which subsequent purchasers move the article, or to completely prohibit any international movement of the article.166 The patentee's monopoly rights, in a given article, are multiplied by the number of countries where it has obtained a patent.

166. This general argument is noted in Coggio & Antler, supra note 14, at 483, 488-89; Rothnie, supra note 13, at 326; ROTHNIE, supra note 22, at 563.
If one takes this argument on its face, it follows that a territorial exhaustion doctrine is more compatible with the underlying purpose of the patent law. However, there are at least two criticisms that might be raised with regard to the argument. First, on a more technical level, the "exercise of rights under the patent" concept is flawed because it appears to assume that the patent gives the patentee an affirmative right to sell the invention in the United States, which can be exercised once and then exhausted. However, the United States patent law does not grant patentees an affirmative right to sell their patented inventions, but only a right to prevent others from doing so. Thus, characterizing a patentee's sale in the United States (as contrasted with a sale outside of the United States) as an "exercise" of the patent right is questionable at the outset, and provides a shaky foundation for the rest of the theory.

A second criticism can be directed to the argument's characterization of the patent law's purpose. The district court in *Griffin v. Keystone Mushroom Farm* appears to have adopted the assumption that the purpose of patent law is to ensure that patentees enjoy monopoly rights in connection with all sales, but there is little in the earlier case precedent to suggest such a precise purpose.  

167. Patent Act § 154(a) provides:

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.


168. 453 F. Supp. 1283 (E.D. Pa. 1978). The decision is discussed in some detail at supra note 111 and accompanying text. There is a great deal of judicial language suggesting that a sale (as opposed to an exercise of patent rights) exhausts the patentee's rights, and that the rights that are exhausted are in the article itself. See, e.g., United States v. Univis Lens Co., 316 U.S. 241, 250-52 (1942). The Court stated:

The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying the invention. His monopoly remains so long as he retains ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article... The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers.

*Id.* See also *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) ("When the machine
Rather, the Supreme Court decisions that have developed and justified the doctrine of exhaustion suggest that the patent laws serve a more general, flexible purpose: to provide an incentive to invent by giving inventors the means of profiting from their inventions, while ensuring that inventors' rights do not exceed what is necessary to fulfill that purpose and, thus, interfere unnecessarily with free competition.\textsuperscript{169} The patent law does not undertake to ensure that patentees extract the greatest possible benefit from their inventions—only a generally sufficient benefit.\textsuperscript{170} It is true that the law adopts a form of United States monopoly right as the means to that end, but it does not necessarily follow that the law insists upon receipt of a price enhanced by the United States patent monopoly in connection with every sale the patentee makes, regardless of where that sale occurred. The extent of the patentee's ability to insist upon such a price logically turns on the extent to which it is necessary in order to provide an incentive to invent. Entitling the patentee to rely on the United States monopoly right in the case of goods it sells abroad (through adoption of a territorial exhaustion rule) carries its own countervailing cost—among other things, the cost of interfering with the alienability of goods already in the stream of commerce. Thus, this opportunity to interfere should not be extended unless it is necessary to provide the desired incentive.

The appropriate approach to determining whether the United States' existing modified international exhaustion doctrine is consistent with the purposes of the patent law, therefore, is to ask whether patentees need to control subsequent importation and sale of patented articles they sell, or authorize to be sold abroad, in order to have an incentive to invent. If parallel imports interfere too greatly with their ability to benefit from their inventions, then a change in the rule may be warranted.

\begin{itemize}
\item \textbf{b. The Effect of Parallel Imports on Accomplishment of the Purpose of Patent Law}
\end{itemize}

It seems self-evident that patentees do benefit from their foreign sales, or presumably they would not make them. They generally have the right to choose whether or not to sell, and may decline to sell if they deem the available terms to 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.

\textsuperscript{169} \textit{See supra note} 28-32 \textit{and accompanying text.}

\textsuperscript{170} \textit{See supra note} 33 \textit{and accompanying text.}
be disadvantageous, either in isolation or in the context of their overall international sales strategy. However, advocates of territorial exhaustion have advanced two reasons why the benefit is insufficient: first, the benefit from foreign sales may be of a lesser magnitude than the benefit from United States sales; and second, importation of patented goods sold abroad may undermine the benefit of patentee’s domestic sales. These arguments will be examined in turn below.

i. The Relative Degree of Benefit from Foreign and Domestic Sales

Some advocates of territorial exhaustion have suggested that the differing conditions under which foreign sales may be made justify a finding that those sales do not count, across the board, for purposes of the United States exhaustion doctrine. They note that the country of first sale may not provide patent protection for the particular kind of invention at issue, or if it provides patents, it may provide a lower level of protection or, as a practical matter, make enforcement difficult or impossible. Or, the country of first sale may impose price controls on the invention, or subject patented inventions to compulsory licensing. All of these circumstances may make it harder for the United States patentee to obtain as high a price in the foreign sale as it does in United States sales, meaning that it may not benefit as much from foreign sales as it does from domestic sales.

This line of argument suggests that the possibility of lower benefit abroad, in itself, justifies recognizing a second right to benefit from the article, if subsequent owners attempt to bring it within the reach of United States patent law: because the patentee cannot be certain of reaping as high a price in foreign sales as in United States sales, the purpose of the patent law to benefit the patentee is not satisfied in foreign sales.

In response to this argument, one might initially note that some foreign sales may provide an equal or greater overall benefit to the United States patentee than its United States sales do, particularly if costs of placing products in the market abroad tend to be lower, as is sometimes asserted. In such cases there would be little justification in finding the doctrine of exhaustion inapplicable. However, a rule that made exhaustion turn on a case-by-case evaluation of the relative level of benefit gained in the first sale of patented articles would be impractical,

171. See, e.g., Wegner, supra note 14, at 24, 30; Bale, supra note 12 at 643; Rothnie, supra note 13, at 331.
imposing an unmanageable level of uncertainty in the market place.\textsuperscript{172}

In any event, an argument that the potential for lower benefit abroad justifies elimination of foreign sales from the exhaustion doctrine finds little support in case precedent or in logic. United States patent law has never undertaken to guarantee any particular level of return on patented articles. It primarily seeks to make it more feasible for the patentee to exploit the invention by enabling it to prevent others from free riding on its research and development investment. There may be no market at all for the patented invention. The Patent Act does not intervene to provide one. The price the patentee is able to charge for the patented article may vary from one geographic location to another within the United States, and from one year to another, as other products become available that the public might prefer. The doctrine of exhaustion does not restrict itself to the sales that bring the highest price. Nor does the law enable the patentee to come back to purchasers and demand further compensation if they have found uses for the patented article (such as using it for a different purpose, or reselling it in a different market) that provide them with a greater value than the patentee anticipated when he set the purchase price.\textsuperscript{173}

The key is that the patentee chose to make the initial sale. If a sale is not sufficiently beneficial, or undercuts his financial position in other sales, the patentee may refrain from making it. The law is not intended to ensure that the patentee is able to squeeze every possible penny out of the invention.\textsuperscript{174} There are numerous limitations on his right that are meant to protect the interests of the public.\textsuperscript{175} Thus, as a general matter, the fact that the patentee may not obtain as great a price abroad\textsuperscript{176} as in the United States should not in itself lead to a

\textsuperscript{172}. See supra note and accompanying text.
\textsuperscript{173}. See Wilbur-Ellis Co. v. Kuther, 377 U.S. 422 (1964). In that case, the Supreme Court found that a purchaser of a patented machine did not infringe the patent by altering the machine to serve a more valuable use than was anticipated by the patentee. \textit{id}. For further discussion of this issue see Stern, supra note 3, at 122.
\textsuperscript{174}. See supra note 170 and accompanying text.
\textsuperscript{175}. See supra note 6 and accompanying text. Apart from the exhaustion doctrine, which seeks to ensure that goods move freely in the marketplace, the Patent Act limits the duration of patent protection. Antitrust law and the patent misuse doctrine limit lucrative uses the patentee might make of the patent. Moreover, the patent itself may be refused or invalidated if the patentee failed to make adequate disclosure of the invention, 35 U.S.C. § 112, or fails to satisfy other statutory criteria. See, e.g., 35 U.S.C. §§ 102, 103 (1994).
\textsuperscript{176}. As noted earlier, a failure to obtain as high a price as in the United States is not necessarily a
finding that the doctrine of exhaustion is inapplicable to those sales, as long as the patentee decided to go forward with the sale.\textsuperscript{177}

Foreign courts have rejected the suggestion that a finding of exhaustion should depend upon the availability and quality of patent protection in the country of first sale.\textsuperscript{178} Moreover, even if one considers the lack or inadequacy failure to obtain as great benefit from the sale, since costs of manufacture and sale abroad may be lower than in the United States, as well.

\textsuperscript{177} As Professor Abbott points out, the market environments of the various World Trade Organization members differ considerably. However, the differences provide no basis under the GATT for imposing quotas or other protectionist measures to prohibit import of goods produced and sold in lower cost regions. See Abbott, supra note 13, at 622-23.

\textsuperscript{178} In the European Union, which follows a rule of international exhaustion within the territory of the Union, the European Court of Justice ruled that the doctrine of exhaustion applied to pharmaceutical products sold with the patentee's consent in member nations that did not afford patent protection for such goods. Case 187/80, Merck & Co. Inc. v. Stephar, 1981 E.C.R. 2063. In Merck, the plaintiff held patents for its drug in all the E.U. members except Luxembourg and Italy, where the drug was excluded from patent protection. Id. It marketed the product in Italy, the defendant purchased it there and shipped it to the Netherlands for resale. Id. Merck argued that the doctrine of exhaustion should not shield the defendant from an infringement claim because, due to the unavailability of a patent in Italy, it had been unable to collect the full reward for its creative effort in the first sale. Id. The court rejected the argument, stating:

That right of first placing a product on the market enables the inventor, by allowing him a monopoly in exploiting his product, to obtain the reward for his creative effort without, however, guaranteeing that he will obtain such a reward in all circumstances.

It is for the proprietor of the patent to decide, in the light of all the circumstances, under what conditions he will market his product, including the possibility of marketing it in a Member State where the law does not provide patent protection for the product in question. If he decides to do so he must then accept the consequences of his choice as regards the free movement of the product within the Common Market, which is a fundamental principle forming part of the legal and economic circumstances which must be taken into account by the proprietor of the patent in determining the manner in which his exclusive right will be exercised.

\textit{ld.} at 2081-2082. See Yusuf & von Hase, supra note 3, at 120-22; Rothnie, supra note 13, at 316-19. The Court of Justice recently reaffirmed this reasoning. Joined Cases C-267/95 and C-268/95, Merck & Co., Inc. v. Primecrown Ltd. & Beecham Group plc v. Eupharm of Worthing Ltd., 1996 E.C.R. 16285. Of course, the European Union's circumstances may be distinguishable to some extent, since the economic development of its member nations is more uniform than that of the
of foreign patent protection to be relevant in determining whether a foreign sale exhausts the United States patentee's rights, inconsistencies in the world's patent laws are quickly diminishing. The TRIPs Agreement made tremendous strides in harmonizing the world's patent laws, thus reducing the concern that patents may be unavailable, weaker, or unenforceable for United States inventions in other countries. While it is true that some countries may defer

world as a whole. See generally Abbott, supra note 13, at 619-21.

The Japanese Supreme Court recently adopted a modified international exhaustion approach for parallel imports of patented articles that is similar in many respects to the United States' approach, and in the course of doing so, stated that it should not matter whether a parallel patent existed in the country in which the parallel import was initially sold. BBS Kraftfahrzeugtechnik AG v. Rashimekkusu Japan Co., Ltd. and JAP Auto Prods. Co., Ltd., supra note 23. In that particular case, the plaintiff did in fact have a parallel patent in Germany, where the product was first sold.

See supra note 22.

See Yusuf & von Hase, supra note 3, at 128; Abbott, supra note 13, at 619.

TRIPs mandates broad subject matter protection, bringing classes of inventions, such as agricultural chemicals and pharmaceuticals, that had been excluded from patent protection in a number of developing countries, within worldwide patent protection. TRIPs Article 27 provides:

1. Subject to the provisions of paragraphs 2 and 3, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application....

2. Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect ordre public or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law.

3. Members may also exclude from patentability:
   (a) diagnostic, therapeutic and surgical methods for the treatment of humans or animals;
   (b) plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective sui generis system or by any combination thereof. * * *

TRIPs also mandates the provision of a broad, uniform range of rights. TRIPs Article 28 provides:

1. A patent shall confer on its owner the following exclusive rights:
full compliance with the TRIPs provisions until 2006, or even longer in special circumstances, it is clear that within the next decade, the world’s patent laws and enforcement mechanisms will be considerably harmonized. Even if that goal is not fully accomplished at this point in time, it hardly makes sense to change United States law to address a problem that is rapidly dissipating.

As noted earlier, advocates of a territorial exhaustion rule have sometimes cited the prospects of compulsory licensing abroad as a justification for excluding parallel imports. Articles sold abroad pursuant to compulsory licenses could logically be excluded from the exhaustion doctrine because their sale was compelled by law, and whatever royalty the patentee received was set by a foreign governmental authority, rather than by the patentee in voluntary negotiations. It has been suggested that patented articles sold through compulsory licenses are already exempt from exhaustion, but there is no specific United States case or statutory authority to that effect.

(a) where the subject matter of a patent is a product, to prevent third parties not having the owner’s consent from the acts of: making, using, offering for sale, selling or importing for these purposes that product;
(b) where the subject matter of a patent is a process to prevent third parties not having the owner’s consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.

2. Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.

Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, 33 I.L.M. 81 (1994). Finally, TRIPs mandates provision of the means meaningfully to enforce those rights, and spells out in unprecedented detail what those means are. See TRIPs, supra note 22, Art. 41-64.

182. See supra note 164 and accompanying text.
183. See, e.g., Straus, supra note 136, at 195; Venna, supra note 13, at 562. Presumably, this is because the patentee is not able freely to negotiate the royalty paid by the compulsory licensee. The royalty is generally set by the government authority that grants the compulsory license. See generally TRIPs, supra note 22, Art. 31. The European Court of Justice has found that a patentee’s rights in goods sold pursuant to a compulsory license are not exhausted. See Case 19/84, Phannon v. Hoechst, 1985 E.C.R. 2281; Joined Cases C-267/95 & C-268/95, Merck & Co., Inc. v. Primecreek Ltd. & Beecham Group plc v. Europharm of Worthing Ltd., 1996 E.C.R. I-6285, I-6387.
184. Copyrighted articles sold pursuant to United States compulsory licenses are subject to
The actual effect of foreign compulsory licensing provisions is far from clear. First, there is little evidence to establish how frequently compulsory licenses are granted. Moreover, to the extent that they are granted, the TRIPs Agreement, Article 31, now regulates their granting in a manner that may reduce their potential severity. However, even if advocates of a territorial rule were to provide evidence that compulsory licenses are sufficiently prevalent and detrimental to justify action (which they have not done to date), the justified action would be to exclude articles sold pursuant to compulsory licenses from the doctrine of exhaustion, not to exclude all articles sold abroad from the doctrine.

With regard to the suggestion that foreign price controls compel a territorial exhaustion rule, one might respond that sales in countries imposing price controls are voluntary sales, and so are not strictly comparable to sales pursuant to compulsory licenses. Moreover, the issue of price controls generally arises only in connection with one category in the broad range of United States patented inventions--pharmaceutical products--and only in a limited number of countries. Thus, even if special considerations would lead the United States to


185. It has been suggested that few compulsory licenses have ever been granted in developing countries, and that a significant increase in granting compulsory licenses is unlikely. See Watal, supra note 136, at 20-21.

186. Article 31 provides that compulsory licenses "shall be authorized predominantly for the supply of the domestic market" of the granting nation. TRIPs, supra note 22, Art. 31(f). It also requires that the patentee be paid "adequate remuneration" in light of the economic value of the authorization, Id., Art. 31(h), and provides procedural safeguards. See id., Art. 31(b) (notice); 31(i) & (j) (judicial review). For a discussion of ongoing concerns regarding compulsory licenses, see Watal, supra note 136, at 20-21.

187. It may be that while compulsory licenses are not frequently granted, the threat of compulsory licenses leads patentees to charge lower prices in some countries in order to avoid being subjected to them. However, again, such an argument is speculation in the absence of some reliable evidence that this is actually the case.

188. The European Court of Justice has held that the doctrine of exhaustion will apply to goods sold with a patentee's consent within the European Union, subject to government price controls. Joined Cases C-267/95 & C-268/95, Merck & Co., Inc. v. Primecrown Ltd. & Beecham Group plc v. Europharm of Worthing Ltd., 1996 E.C.R. I-6285, I-6388-89.
take account of price controls in fashioning its doctrine of exhaustion, it
would not be necessary to change the general rule of exhaustion that applies to
the wide-ranging majority of patented goods that are not subject to price
controls.

**ii. The Effect of Parallel Imports on the Domestic Market**

In addition to suggesting that the possibility of lower prices, in itself, should
disqualify foreign sales from the doctrine of exhaustion, advocates of a territorial
rule have noted that if foreign-sold goods are permitted to be resold in the
United States, the patentee may be forced by the competition to reduce its
domestic sales price, leading to less benefit from domestic sales. Thus, a rule
of territorial exhaustion is necessary to avoid having parallel imports subject
patentees to domestic price competition, undercutting the benefit of the United
States patent in domestic sales.

One's response to this argument may depend in part on one's evaluation of
the cause of parallel imports. As noted above, several causes have been cited,
but there is little evidence to indicate what portion of parallel imports is

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189. It has been suggested that the United States should avoid adopting an international
exhaustion rule, because that would deter United States pharmaceutical companies from selling
their drugs in countries that engage in price controls, depriving individuals of therapeutic
treatments that they might need. See generally Wegner, supra note 14, at 30-31; Bale, supra note
12; Barfield & Groombridge, supra note 22. However, there may be less drastic ways to deal with
this concern. For example, there are means of self-help that United States pharmaceutical patentees
might pursue to avoid parallel import of their drugs from price-controlling nations. In his recently
published *First Report (Final) to the Committee on International Trade Law of the International
Law Association on the Subject of Parallel Importation*, Professor Abbott suggests that United
States patentees produce or sell only enough of their patented drug in the price control nation to
satisfy the local market. If a shortage of the drug arises there due to wholesalers diverting the
supply to exporters, and the shortage is contrary to public health policy, then the government of the
price control nation may have to "reconsider the structure of its health care market," perhaps to
restrict exports or eliminate wholesale buyers from the system. Abbott, supra note 13, at 623, 635-
36.

190. See Abbott, supra, note 13, at 623, 635-36 (suggesting incorporation of an international
exhaustion rule into the TRIPs Agreement, along with a possible exception or limitation for articles
subject to government price controls, which can be viewed as a form of export subsidy).


192. See supra note 12 and accompanying text.
attributable to each of the suggested causes. To the extent that the higher United States prices that attract parallel imports result from price discrimination against United States consumers, or price collusion in the industry, one may be less inclined to credit the argument than if they result from higher United States costs. In the former case, parallel imports are beneficial to the United States public in neutralizing the discrimination and anticompetitive behavior.\(^{193}\) If the price disparities result from higher United States costs, one might wish to examine the nature of the costs. For example, if the higher costs are primarily attributable to more intensive advertising or promotion strategies in the United States than are employed abroad, or other voluntary business practices, then an alternative might be to encourage United States patentees to rethink their business strategies, at least if parallel imports otherwise benefit the public.\(^{194}\)

Thus, one answer to the argument that parallel imports undercut the domestic value of United States patents is simply that there is presently little reliable evidence to indicate what prompts parallel imports or how they affect domestic sales. There is evidence of increased investment in research and development, and of a significant increase in the number of patent applications filed by United States businesses in recent years.\(^{195}\) Thus, the United States' present modified international exhaustion rule does not appear to have had a negative impact. To the extent that patentees advocate a change of the existing exhaustion doctrine, they should bear the burden of demonstrating a genuine need, which outweighs the potential loss of public benefit from parallel imports. Another answer is that patentees are not without means under the United States' modified international exhaustion doctrine to protect themselves against potentially detrimental effects of parallel imports.

The United States' modified international exhaustion doctrine appears to permit patentees to prohibit importation of goods sold abroad through means of contractual provisions and label notice on the patented articles. Violation of the prohibition can be enforced as patent infringement against defendants who had notice of it.\(^{196}\) It has been suggested that this measure may not be effective in all cases. For example, a defendant may have had inadequate notice because the

\(^{193}\) Moreover, if a significant portion of parallel imports results from the efforts of United States patentees to serve their own ends, then that may also suggest that no change in the doctrine of exhaustion is needed, at least to protect the patentees.

\(^{194}\) The potential benefit of parallel imports to the public will be discussed in the next section.

\(^{195}\) See Barfield & Groombridge, supra note 22, at 207-208.

\(^{196}\) See supra notes 71-79 and accompanying text.
restrictive label was removed or packaged over, or the laws of the country of original sale may prohibit contractual limitations on exportation. However, in many cases, contractual restrictions may provide the means to prevent parallel imports, if the patentee finds them sufficiently detrimental to justify the effort.

And there are additional means of self-help available to patentees seeking to avoid parallel imports. For example, the patentee may decide not to sell in foreign markets where the risk of parallel imports is great, or to limit its sales there. Or the patentee may vertically integrate in order to better control its chain of distribution, making it harder for parallel importers to buy large quantities of the patented article abroad at wholesale prices. Or the patentee might reduce price disparities in the various nations in which it sells, thus reducing the margin that can be earned by parallel traders, and the incentive to engage in parallel trading. United States courts have emphasized the availability of self-help measures in judging the effect of parallel imports on intellectual property owners' rights.

Given the lack of reliable evidence that parallel imports really do undercut the effectiveness of United States patents to serve as an incentive to create, and the existing measures that patentees may take to control or prevent parallel imports, the case for abandoning the United States' modified international exhaustion doctrine as inconsistent with the underlying purposes of patent law is a weak one.

197. See Tessensohn & Yamamoto, supra note 22, at 735-36.
198. See Chard & Mellor, supra note 12, at 72. There may also be some issues regarding the enforceability of label notice restrictions. See supra note 35.
199. See Chard & Mellor, supra note 12, at 81; Yusuf & von Hase, supra note 3, at 122. Or the patentee may limit sales to the minimum required to satisfy the local market. See Abbott, supra note 13, at 623.
200. See Chard & Mellor, supra note 12, at 72, 81.
201. Id.
203. It should also be borne in mind that moving to a territorial rule may give multinational corporations an unnecessary competitive advantage over strictly domestic companies. This is because the company engaged in multinational sales may obtain two opportunities to control and benefit from patented articles it sold abroad, while a company who sells domestically has only one such opportunity. As Yusuf and von Hase explain: "Such discrimination between domestic and imported products is inconsistent with Article II(4) of the General Agreement [on Tariffs and
PARALLEL IMPORTS OF PATENTED GOODS

2. The Effect of Parallel Imports on Competition and General Public Welfare

Some advocates of the territorial rule of exhaustion point out that dividing the international marketplace into exclusive geographic territories is an efficient business practice which encourages authorized distributor/licensees to invest in promoting the patented product and to provide services related to the product, such as pre-sale quality control, warranties, and after-sale repair, within their exclusive market area. Distributor/licensees may be unwilling to make such investments if their investments are subject to free riding by parallel importers, and they are forced to cut prices in order to engage in intrabrand competition. Thus, to promote distributor/licensee investment, the rule both in the United States and worldwide should be one of territorial, rather than international, exhaustion.

It has also been suggested that a territorial rule better serves the interests of the United States public. If parallel importing is permitted in the United States, domestic prices may go down--at least temporarily--but the overall public welfare will be decreased in the long term because there will be fewer product-related services, a less stable supply of goods, and generally less marketplace competition. Advocates of a territorial rule add that restricting intrabrand trade, which obliges contracting parties to grant imported products a treatment no less favorable than that accorded to like products of national origin in respect of all laws and regulations affecting their internal sale, purchase, distribution or use.” Yusuf & von Hase, supra note 3, at 128 (emphasis in original).

204. See, e.g., Chard & Mellor, supra note 12, at 73-79; Barfield & Groombridge, supra note 12, at 921-22; Bradley, supra note 14.

205. See, e.g., Chard & Mellor, supra note 12, at 73-75; Tessensohn & Yamamoto, supra note 22, at 731-34.

206. See, e.g., ROTHNIE, supra note 22, at 564-65; Chard & Mellor, supra note 12, at 73-74.

207. See Chard & Mellor, supra note 12, at 77-79 (“Parallel imports may reduce efficiency to the detriment of the consumer by denying them things they are willing to pay for (namely, consistent quality and pre-sales and after-sales services), by raising the costs of supplying consumers (disruption of investment planning) and by reducing the level of innovation”); Barfield & Groombridge, supra note 12, at 925-26 (“there is strong reason to believe that consumers would have fewer choices of goods or services in the long run in a world where parallel imports were allowed.”); Bradley, supra note 14, at 3. Bradley writes:

The eventual effects of permitting parallel importation and making exclusive market
competition may have the effect of enhancing interbrand competition, leading to a net increase in marketplace competition, to the public's benefit.208

Several responses might be made to these arguments in support of a territorial exhaustion rule. First, one might question whether they are appropriate for consideration in the context of patent protection, as opposed to trademark and unfair competition protection. The patent laws are generally understood to protect an inventor's investment in research and development against free riders. Trademark and unfair competition laws are designed to protect and promote investment in the marketing process. Thus, considerations of free riding on marketing investments would seem best addressed in determining the scope of the doctrine of exhaustion in trademark law, rather than...
Second, a number of Supreme Court decisions make it clear that free riding is not inherently undesirable, and may be highly beneficial to the public, as long as it does not undermine the incentive to offer the product or service that is the subject of the free riding. Thus, the existence of some free riding by parallel importers is not, in itself, a reason to prohibit parallel importing. For purposes of the doctrine of exhaustion in patent law, the question is whether the effect of the free riding is so severe as to undermine the ability of the patent laws to provide an effective incentive to invent. But, once again, there is little empirical data to establish the extent or impact of parallel importer free riding on authorized distributor/licensees' marketing investments. It might be noted that there have been very few litigated patent infringement claims against parallel importers in the United States, which may suggest that United States patentees do not find parallel importing to be particularly problematic. Given the general disagreement about the legal permissibility of parallel importing under the patent laws, and the lack of a definitive ruling from either the Supreme Court or the Court of Appeals for the Federal Circuit, one might expect to have seen more litigation if it were.

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209. Many of the commentators who have addressed this issue have done so in the context of "gray market" goods under trademark law. See, e.g., Staaf, supra note 184; Hilke, supra note 133. However, the United States has not adopted a territorial rule in the trademark context, see supra note and accompanying text. This may have contributed to the tendency to raise the issue in debate concerning the doctrine of exhaustion in the copyright and patent arenas. See, e.g., Barfield & Groombridge, supra note 22 (copyright); Bradley, supra note 14 (patents); Chard & Mellor, supra note 12 (discussing intellectual property rights generally); ROTHNIE, supra note 22 (discussing trademark, copyright and patent law).

One means patentees have available to protect marketing investments is to sell their patented products abroad under different trademarks.

210. See supra note 8.

211. See supra notes and accompanying text.

212. In the trademark context, Hilke undertook to determine whether the available empirical data generally supported the claim that gray market imports were primarily the result of gray marketeers' free riding on the promotional and service efforts of authorized distributors. He concluded that even though a theoretical case could be made that the opportunity to free ride on authorized distributors' marketing investments motivates gray marketing, the available evidence was "inconsistent with the strong form of [a] hypothesis that links all gray market activity to free-riding." Thus, while there might be specific instances of free riding by gray marketeers, a general
Third, parallel imports may provide benefits that counteract the possible detriment caused by free riding on marketing investments. It appears that at least some parallel importing is spurred by price discrimination against United States consumers.\textsuperscript{213} Parallel imports can play an important role in neutralizing that discrimination,\textsuperscript{214} and undercutting any retailer or wholesaler collusion that may have precipitated it.\textsuperscript{215} Moreover, even in the absence of price discrimination, as such, parallel imports may provide beneficial price competition that may lead to lower prices for consumers and prompt patentees and their licensees to find ways to manufacture and distribute patented goods more efficiently. And, to the extent that parallel importers sell patented articles stripped of pre or after-sales services, they may provide consumers with valuable options.

Lacking information about the extent to which parallel imports result from price discrimination and collusion, the extent to which they result from free

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\textsuperscript{213} See Hilke, supra note 158, at 90; Rothnie, supra note 22, at 571; Malueg & Schwartz, supra note 211, at 172-74.

\textsuperscript{214} See Abbott, supra note 13, at 622 ("Parallel imports will serve to assure that an adequate level of price competition is maintained in international markets. Price competition is essential to the effective operation of comparative advantage, and to achieving efficiency gains throughout the international trading system."); Robert J. Staaf, The Law and Economics of the International Gray Market: Quality Assurance, Free-Riding, and Passing Off, 4 Intell. Prop. J. 191, 234 (1989) ("Parallel competition decreases United States prices. Any restriction on parallel imports will result in increased prices and thus a decrease in United States consumer welfare.").

\textsuperscript{215} See generally Hilke, supra note 158, at 80-81; Chard & Mellor, supra note 12, at 76, 78-79.
riding, and the effect of the free riding, it is difficult to determine which side of the argument is stronger. To the extent that there is simultaneously collusion and price discrimination and free riding sufficient to undermine incentive, then parallel imports are simultaneously detrimental and beneficial. Abuses are possible, both on the part of patentees, and on the part of parallel importers.

While the more thoughtful commentators have tended to acknowledge this, they have disagreed over how the burden of preventing abuses should be apportioned. Professors Chard and Mellor, conclude that "the overall balance of the effects of parallel trading is probably adverse," and advocate territorial exhaustion, with the proviso that antitrust law should be used to deal:

[W]ith those relatively infrequent situations where the use of intellectual property rights to prevent parallel importation has detrimental economic effects. It can defer such abuses of intellectual property rights while allowing those rights to be used to prevent parallel importation in the majority of situations where this is likely to be economically beneficial to the country.

Dr. Rothnie concludes that "parallel imports may be desirable in some situations while not in others." His resolution is to adopt a territorial principle, but to make "careful use of presumptions or rebuttable rules" under the antitrust law, to permit parallel importers in a given case to show that an intellectual property right owner is acting anti-competitively by using

216. Other possible causes of parallel imports--fluctuating currency exchange rates and patentee-condoned imports to discipline distributors--have not figured as prominently in the debate about the merits of parallel importing. Obviously, patentee-condoned imports to discipline distributor abuses may benefit consumers. Hilke views passing the benefit of fluctuating exchange rates to consumers as a positive effect of parallel imports, too, presumably because they force greater flexibility of response to consumer interests and promote greater distributional efficiency. See Hilke, supra note 158, at 81-82, 86; Rothnie, supra note 22, at 587 n.31. However, Rothnie voices reservations on this issue. He notes that "sound and effective business operation will not result in immediate pass through of currency exchange movements. Effective marketing may require strategic planning and commitment to orders many months in advance. Sound business practice will often warrant hedging against currency movements. In either case, price changes caused by currency movements will not be passed on to the consumer in the short term." Id. at 587.


218. Id. at 80.

219. Rothnie, supra note 22, at 590.
infringement proceedings to block the parallel imports. 220 Rothnie does not specify what the presumptions or rebuttable rules should be, suggesting that they should depend upon the "perceived characteristics of the national market," for example, whether the market is generally perceived to be open and highly competitive or not. If the infringement plaintiff has significant market power in the relevant market, Rothnie suggests that the rebuttable presumption should be against allowing parallel imports to be blocked. 221 Otherwise, presumably, the burden of proof that blocking the parallel imports is anticompetitive in a given case would be on the parallel importer. 222

The difficulties of identifying the relevant market, identifying how much market power exists and how much should be deemed excessive in any given case make antitrust litigation highly complex and expensive. Imposing the risk and cost of such litigation as the purchase price of liability-free parallel importation, even with the benefit of Dr. Rothnie's presumptions, is likely to deter most prospective parallel importers; notwithstanding the possible merits of their position. Given the long existence of the present modified doctrine of international exhaustion in the United States, the lack of empirical evidence or

220. Id. at 594.
221. Id. at 596.
222. In Continental T.V. v. GTE Sylvania, Inc., 433 U.S. 36 (1977), the United States Supreme Court ruled that antitrust challenges to non-price vertical restraints, specifically geographic restrictions on sales, should be judged by a rule of reason analysis, requiring the challenger to demonstrate that the restraint in fact has the effect of reducing competition. Id. The Court distinguished intrabrand competition (competition between competing sellers of the same manufacturer's product) and interbrand competition (competition between competing sellers of different manufacturers' products), and held that a court should balance reductions in one against improvements in the other in order to evaluate the net effect of the patentee's restriction. Id. While a geographic restriction on sales will reduce intrabrand competition, it may have the effect of strengthening interbrand competition, by encouraging distributors, wholesalers or retailers to invest in point-of-sale advertising and pre and post-sale services. Of course, if the patentee is demonstrated to have excessive market power, the negative effect of restricting intrabrand competition may outweigh any positive effect on interbrand competition. However, in the absence of excessive market power, the enhancement of interbrand competition may win the day. Presumably, in evaluating the net effect of a restraint, courts should take into account whether the product at issue is one that requires significant advertising and servicing, as this may vary significantly from one patented product to another. For a useful discussion of these issues and the existing case law in the field of trademark gray marketing, see Seth E. Lipner, The Legal and Economic Aspects of Gray Market Goods 76-97 (1990).
litigation to suggest that this rule poses a significant threat to the effectiveness of patents, and the potential benefits arising from parallel imports, the current way in which the burdens are divided would seem to be more appropriate and efficient: apply a modified international exhaustion theory, placing the burden on patentees to protect their exclusive geographic territories and avoid potentially harmful parallel importer free riding by engaging in reasonable self-help measures, such as contractual restraints and label restrictions on the products themselves.

3. Global Considerations

A final argument that has been raised in favor of adopting a territorial exhaustion rule focuses on the United State’s and other developed countries’ international obligations and overall world welfare. The argument is that a worldwide rule of territorial exhaustion is in the best interests of developing countries, because it will encourage technology transfer and the making available of innovative products at affordable prices within those countries.

223. See supra note and accompanying text. It might be noted that to the extent that parallel importers free ride on marketing investments, much of that free riding can be avoided by use of different trademarks in different countries. See Hilke, supra note 158, at 78 for further discussion of self-help measures.

224. Dr. Rothnie may opt against this approach in part because of his apparent perception that contractual measures are not enforceable against third parties to the contract of first sale, as parallel importers frequently are. See Rothnie, supra note 13, at 331. However, this concern fails to take into account the United States case law suggesting that any third party who has notice of a patentee’s restriction on import or resale will be bound by it. See supra notes and accompanying text.

In his First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation, Professor Abbott acknowledges that vertical territorial allocation of markets may be beneficial, but finds that this benefit can be achieved by contract, without the necessity of laws generally prohibiting parallel imports. He notes that the availability of parallel imports plays an important role in ensuring that an adequate level of price competition is maintained in international markets. Abbott, supra note 13, at 622. See also Hilke, supra note 158, at 91 (finding insufficient evidence to support a prohibition of gray market goods).

225. An additional “international obligation” argument that has been raised asserts that Article 4 of the Paris Convention mandates a rule of territorial exhaustion. Article 4 provides, in relevant
In an article published in 1994, Malueg and Schwartz engaged in mathematical modeling to reach the conclusion that a rule of law that prohibits parallel importation will lead to greater global economic welfare than a rule that leaves parallel imports unrestricted. They reasoned that parallel imports undercut the ability of intellectual property owners to engage in price discrimination. If faced with the prospect of parallel importation, intellectual property owners will take steps to protect their higher prices in developed part:

1. Patents applied for in the various countries of the 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.

2. The foregoing provision is to be understood in an unrestricted sense, in particular, in the sense that patents applied for during the period of priority are independent, both as regards the grounds for nullity and forfeiture, and as regards their normal duration.


The general effect of [Article 4bis] is that the protection granted by a patent in one contracting country is not affected in any way whatsoever by the exercise of a parallel protection existing abroad. The consent given by the patentee to a licensee abroad to make and sell the subject matter of the foreign patent cannot legally be assumed or presumed to be also a consent with respect to his protection rights in another country.

Stephen P. Ladas, Exclusive Territorial Licenses Under Parallel Patents, 3 INTERNAT. REV. INDUS. PROP. & COPYRIGHT L. 335, 346 (1972). See also Straus, supra note 136, at 194. This argument has been generally discredited, most recently by the Japanese Supreme Court. See BBS Kraftfahrzeugtechnik AG v. Rashimekkusu Japan Co., Ltd. & JAP Auto Prod. Co. Ltd., supra note 23, at 332-33. Article 4 is meant to prevent Paris Convention members from making the grant, validity or duration of a patent dependent upon the grant, validity or duration of a patent for the same invention in another country, such as the applicant’s home country. It does not generally prohibit member nations from finding, as a matter of domestic law, that acts occurring abroad influence domestic patent rights. For example, it is common for nations to find that publication or grant of a patent abroad undermines the novelty or non-obviousness (inventive step) of an invention that is the subject of a domestic patent or patent application. See, e.g., 2. J.W. BAXTER, WORLD PATENT LAW & PRACTICE, Cl. 4 (1999). Likewise, member nations are free to determine that a patentee’s sale abroad exhausts its right in a particular patented article. See Christopher Heath, Parallel Imports and International Trade, 28 INTERNAT. REV. INDUS. PROP. & COPYRIGHT L. 623, 627-28 (1997).

226. Malueg & Schwartz, supra note 22.
countries--by either raising prices in developing countries to make parallel importing unprofitable, or ceasing to supply developing countries altogether. Thus, they concluded, while a rule that allows patentees to enforce a system of price discrimination may be detrimental to consumers in developed countries, where prices are higher, it is ultimately beneficial to developing countries, leading to a net overall increase in world welfare.

Others have stressed, in a similar vein, that a rule permitting parallel imports will lead not only to a reduction in exports of patented goods to developing countries, but also to a general reduction in technology transfer to developing countries, as patentees decline to engage in manufacturing operations, or to license manufacturing operations in those countries for fear that the manufactured goods will find their way back to developed countries as parallel imports.

In his First Report (Final) to the Committee on International Trade Law of the International Law Association On the Subject of Parallel Importation, Professor Abbott notes the limited nature of the Malueg and Schwartz inquiry, and argues that its findings are inadequate to support a rule to restrict parallel imports. First, "Malueg and Schwartz do not consider the impact of an international price discrimination system on developing country producers and consumers acting outside the field of the monopolist's product." More importantly, "they do not consider the broader effects of an international price discrimination system on the international allocation of resources." Professor Abbott reasons that the absence of price competition from parallel imports will lead to inefficient allocation of resources in developed countries. In developing countries, the lower prices imposed on licensed manufacturers will limit profitability and thus future capital investment in industrial development, resulting in developing countries continuing to rely on exports from developed countries. Professor Abbott adds that if predictions of underserved

227. See Malueg & Schwartz, supra note 22, at 190-93.
231. Id. at 620.
232. Id.
233. Id. at 621.
developing country markets were to prove true in a world of parallel imports, developing countries might justifiably resort to compulsory licensing to supply their citizens with needed patented products.234

With regard to the argument that parallel imports will lead to a refusal to transfer technology to developing country manufacturers, it is useful to consider that a patentee’s licensing and plant building decisions are likely to turn on more than just the potential for parallel imports. For example, lower production costs, availability of raw materials, proximity to intended markets, and other economic and political factors may carry considerable weight in a multinational patentee’s decision to license production in a developing country or set up a manufacturing subsidiary there.235 Moreover, in many cases, contractual restrictions may suffice to alleviate the concerns of patentees, leading them to move forward with exportation and technology transfer, even in the absence of a worldwide rule of territorial exhaustion.

It is interesting to note that the governments of many developing countries have taken a strong stand in favor of international exhaustion, suggesting that they themselves do not subscribe to the Malueg & Schwartz reasoning.236 Their view is that their own local markets may benefit from the lower prices of parallel imports.237 Moreover, they have expressed concern that a rule of territorial exhaustion will be used as a non-tariff barrier to exclude lower-priced, patented goods lawfully produced in developing countries from developed country markets, impeding the ability of their developing world industries to compete in

234. Abbott, supra note 13, at 621. It bears noting that we do not presently see much evidence of the results that the Malueg & Schwartz study predict, even though the world lacks a uniform territorial exhaustion rule to prevent parallel imports. As noted earlier, the United States has not adhered to a rule of territorial exhaustion, and Japan has recently adopted a rule of modified international exhaustion that is very similar to that of the United States. See supra note 178. A number of developing countries have adopted an international exhaustion rule. See infra note 236.


236. See Abbott, supra note 13, at 620; Verma, supra note 13, at 562; Chard & Mellor, supra note 12, at 69; Ans M. Pacon, What Will TRIPs Do for Developing Countries?, in FROM GATT TO TRIPs—THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS, 329, 337 (Friedrich-Karl Beier & Gerhard Schricker, eds., 1996); Watal, supra note 136, at 18.

237. See Marco C.E.I. Bronckers, The Impact of TRIPs: Intellectual Property Protection in Developing Countries, 31 COMMON MKT. L. REV. 1245, 1266 (1994); Pacon, supra note 236, at 337. Both of these authors express doubt that parallel imports will provide the desired lower prices.
the world marketplace.\textsuperscript{238}

Thus, again, the case for a move to a territorial exhaustion rule lacks convincing force. An additional, and very important, consideration weighing against adoption of a territorial exhaustion rule is that such a rule would erect significant barriers to the free movement of goods across international borders, contrary to the spirit of the General Agreement on Tariffs and Trade and the World Trade Organization.\textsuperscript{239} The trend would seem very much in the direction of reducing, rather than increasing, such barriers.\textsuperscript{240}

\begin{itemize}
\item \textsuperscript{238}. See Abbott, supra note 13, at 620; Chard & Mellor, supra note 12, at 69. See also Yusuf \& von Hase, supra note 3, at 130.
\item \textsuperscript{239}. See Abbott, supra note 13, at 611-12:
\begin{quote}
The rules of the World Trade Organization (WTO) proceed from one very basic idea: that the elimination of barriers to the movement of goods and services across and within national boundaries is beneficial to global economic welfare because this encourages specialization and efficiency in production and distribution, and results in an increased output of goods and services. . . . Flowing from this basic idea is an extraordinarily complex set of formal and informal rules designed to reduce and eliminate tariff and non-tariff barriers to trade in goods and services. \textit{Id.}
\end{quote}

In his First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation, Professor Abbott provides a useful discussion of how a rule of territorial exhaustion could conflict with the specific provisions of the WTO and TRIPS Agreement, and addresses arguments that have been made to the contrary. \textit{See id.} at 632-35. See also Abbott, Second Report (Preliminary), supra note 22, at 12-18. For arguments to the contrary, see Barfield \& Groombridge, supra note 22, at 91-93.

\textit{See also} Verma, supra note 13, at 552-58 (describing the purposes of GATT and TRIPS and explaining how a rule of territorial exhaustion would conflict with various provisions of these Agreements); Yusuf \& von Hase, supra note 3, at 116 (article argues "that a territorial regime of exhaustion is no longer justifiable in view of the increasing globalization of the world economy, the efforts for greater liberalization of international trade, and the drive towards the establishment of internationally uniform standards of intellectual property protection and their incorporation into a GATT-based international trading system"); Bronckers, supra note 237, at 1268 (arguing that the GATT "does not lend itself to a limitation of the "worldwide exhaustion" principle."). For arguments to the contrary, see Stack, supra note 22, at 685.
\item \textsuperscript{240}. \textit{See, e.g.}, Herman C. Jehoram, \textit{Prohibition of Parallel Imports Through Intellectual Property Rights}, 30 \textit{INTERNAT. REV. INDUS. PROP. \& COPYRIGHT} 495, 508-11 (1999) (reviewing a number of recent developments which, taken together, suggest general world movement toward a rule of
VI. CONCLUSION

Notwithstanding assumptions and arguments to the contrary in some of the literature, a close examination of United States case precedent demonstrates that this country has tended to apply the doctrine of exhaustion to patentees’ sales both inside and outside of the country, though in both cases it permits patentees to contract to avoid the effects of the doctrine. Absent a ruling to the contrary, from either the Supreme Court or the Court of Appeals for the Federal Circuit, this rule, which authorizes parallel importing in the absence of enforceable contractual restrictions, should be deemed the prevailing rule in the United States. The legislative history of the Uruguay Round Agreements Act suggests that Congress intended to maintain the status quo with regard to parallel imports, so that the Act’s provision of an express importation right for patentees did not alter the general legality of parallel importing.

The policy arguments that have been made in support of a contrary rule are theoretically unsound in some instances. Moreover, claims that parallel imports interfere with the effectiveness of patents to provide an incentive to invent, and undercut competition tends to be highly speculative, unsupported by empirical evidence. They do not convincingly overcome countervailing arguments suggesting that parallel imports may have beneficial effects for the public. While it is impossible at this point to measure the overall impact of parallel imports on public welfare, the case to change the existing rule to prohibit parallel imports has not been made. Given that patentees have a number of self-help measures available to them to avoid or mitigate any detrimental effects that might arise from parallel imports, and given the general world trend in the direction of free movement of goods in international trade, there seems little justification to change the United States’ doctrine of exhaustion to prohibit parallel imports of patented goods.

international exhaustion and predicting that, “in the long run international exhaustion will prevail for all intellectual property rights”).
THE RIGHT OF PUBLICITY: PREVENTING AN IDENTITY CRISIS

by Steven M. Fleischer

An individual's identity is a valuable commodity. Celebrities are often paid millions of dollars to endorse a product or to loan their name to a venture. The right of publicity is an extremely important cause of action because it allows an individual to protect his identity from unauthorized exploitation. Specifically, the right of publicity forbids the use of an individual's name, image, likeness, voice, or signature without permission for some unprotected, usually commercial, purpose. In some states, the doctrine is applied more expansively—an individual may be able to recover if another party evokes his image or uses something associated with him without permission. The right of publicity is particularly important considering that other forms of intellectual property may be inadequate to safeguard a person's identity. Based on the essential role of the right of publicity, courts must be careful to uphold the doctrine when confronted with preemption challenges.

The right of publicity is a relatively new cause of action rooted in the

1. See Frankel & Vargas, The Battle Over Tiger Woods-Right of Publicity Laws, WORLD NEWS SATURDAY, Feb. 20, 1999 (noting that celebrities such as Michael Jordan and Tiger Woods are paid millions of dollars for the use of their identities).
3. See, e.g., CAL. CIV. CODE § 3344 (West 1997) (making it unlawful to “knowingly use another’s name, voice signature, photograph, or likeness...” for commercial purposes without permission); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 (1995) (prohibiting the use of “name, likeness, or other indicia of identity for purposes of trade...” without permission).
4. See infra note 82 (analyzing White v. Samsung, 989 F.2d 1512 (9th Cir. 1993), in which Samsung violated Vanna White's right of publicity by evoking her image in the public's mind).
5. See infra note 81 (discussing Motschenbacher v. R.J. Reynolds Tobacco Co., 498 F.2d 821 (9th Cir. 1974), in which race car driver Lothar Motschenbacher was permitted to recover for the defendant's use of his distinctive race car in an advertisement because the car had become associated with Motschenbacher in popular culture).
6. See infra notes 100-175 and accompanying text (arguing that federal intellectual property regimes are insufficient to effectively protect identity).
invasion of privacy torts. The invasion of privacy torts, however, proved ineffective in guarding against the exploitation of an individual's persona, so the right of publicity developed as an independent cause of action. State law governs the right of publicity and currently twenty-seven states recognize the doctrine either statutorily or as a common law right. Because state law controls, there will be variations with respect to the extent of coverage and the requisite elements necessary to maintain a cause of action. Some states still base the right of publicity on a privacy rationale, while the majority of states that recognize the right consider it to be based in property. In certain states, the right is transferable and descendible, while other states consider it to be a personal right that is limited to the person and terminates at death. Despite these inconsistencies, the essence of the cause of action is the same—the right of publicity permits a person to control the commercial use of his identity. There are several justifications offered for the doctrine: a party should be entitled to protect his identity so that he may profit from the value he has created; the right fosters creativity by providing a financial incentive for an individual to succeed and to create value in his identity knowing that he may reap the benefits of his efforts; and, the doctrine protects against unjust enrichment and deceptive trade practices which are traditionally disfavored by

8. See Richard S. Robinson, Preemption, the Right of Publicity, and a New Federal Statute, 16 Cardozo Arts & Ent. L.J. 183 (1998) (claiming that the right of publicity was a reaction to the problems that arose when a party tried to use the right of privacy to protect the pecuniary interests associated with identity).
11. See Restatement (Third) of Unfair Competition § 46 cmt. b (1995); McCarthy, supra note 2, at 134 (noting that New York still considers the right to be based in privacy, but the right is essentially a property right and should be recognized as such).
12. See McCarthy, supra note 2, at 132 (illustrating that not all of the states that recognize a right of publicity consider it to be descendible); MJ & Partners Restaurant Ltd. v. Zadikoff, 10 F. Supp. 2d 922, 930-31 (N.D. Ill. 1998) (mentioning that dissension exists as to whether the right of publicity may be transferred).
13. See supra note 2.
The right of publicity developed from the invasion of privacy torts, specifically, invasion of privacy based on the misappropriation of identity.16 To appreciate the doctrine fully, it is important to understand the right of privacy. The right of privacy was born nearly a century ago in a *Harvard Law Review* article written by Samuel D. Warren and Louis Brandeis.17 The Justices' argued
that citizens had a right "to be left alone" and were entitled to legal protection to enforce this right. Courts and legislatures began to embrace this legal concept and to recognize a right of privacy. The doctrine soon developed into four distinct causes of action: unreasonable intrusion upon the seclusion of another, public disclosure of private facts, false light portrayals, and the misappropriation of an individual's name or likeness. While the right of publicity specifically evolved from the appropriation prong of the invasion of privacy torts, it is a distinct cause of action intended to vindicate different interests. Appropriation sought to compensate an individual for the emotional distress he suffered from witnessing the unauthorized use of his identity. The right of publicity, however, attempts to redress the economic harms that accompany the unauthorized exploitation of a party's persona. For the first fifty years following the recognition of the right of privacy, until the recognition of the right of publicity, there was no direct protection for the commercial value associated with an individual's identity. Rather, recovery was based on the attendant emotional distress resulting from the unauthorized use of identity.

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18. See id.
20. See Keeton et al., supra note 17, at 851-68 (surveying each branch of the invasion of privacy torts).
21. See McCarthy, supra note 2, at 134 (asserting that privacy rights are personal rights intended to protect against mental and emotional damages while the right of publicity is a property right meant to protect the economic value associated with identity).
23. See id.
24. See Prosser, supra note 22, at 804-07 (noting that the unauthorized use of identity and emotional injury were required to succeed in a suit for invasion of privacy based on appropriation of identity). See also Fisher v. Murray M. Rosenberg, Inc., 23 N.Y.S.2d 677 (N.Y. Sup. Ct. 1940). Alex Fisher was a famous dancer in New York in the 1930's. See id. at 678. The defendant used her photo in a shoe advertisement without permission. See id. At the time, New York did recognize a right of privacy, but it did not recognize a right of publicity outside of the
Finally, in the 1950's, courts and scholars began to recognize the right of publicity as an independent property-based cause of action that could be used to guard the economic aspects of an individual's identity.\(^{25}\) Rather than compensating an individual for the emotional distress he suffered based on the unauthorized use of his likeness, the right of publicity evolved to compensate a party for the financial loss he endured from the impermissible use of his identity.\(^{26}\) As the doctrine departed from its privacy origins and evolved into its own cause of action, courts eliminated the need to demonstrate emotional injury resulting from the defendant's actions as a prerequisite to recovery.\(^{27}\) Even in those states where the right of publicity is still based in privacy, the cause of action is used to protect the economic aspect of one's identity, rather than the emotional elements.\(^{28}\) It is in this capacity that the doctrine is essential—an individual needs a cause of action to protect the pecuniary interests associated with his identity.\(^{29}\) Without such protection, one party would be free to exploit another party's identity without liability, especially in those situations where alternative sources of intellectual property protection are inadequate to safeguard identity.

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\(^{25}\) See infra notes 30-83 and accompanying text (tracing the evolution of the right of publicity and illustrating the manner in which courts have embraced the doctrine).

\(^{26}\) See Restatement (Third) of Unfair Competition § 46 cmt. d (1995) ("The right of publicity protects the commercial value of a person's identity[ ]"); Cardtoons, L.C. v. Major League Baseball Players Ass'n, 95 F.3d 959, 967 (10th Cir. 1996) (setting forth that the right of publicity protects against economic rather than emotional injuries).

\(^{27}\) See, e.g., Robinson, supra note 8, at 188-89 (stressing that the right of publicity does not require a showing of emotional distress unlike the appropriation prong of the privacy torts); Haelan Lab. Inc. v. Topps Chewing Gum, Inc., 202 F.2d 866, 868 (2d Cir. 1953) (holding that emotional injury is not a prerequisite to recover for a right of publicity violation).

\(^{28}\) In New York, the right of publicity is still based in privacy law. See McCarthy, supra note 2, at 134. However, the right of publicity in New York is clearly applied to permit recovery for economic harms. See, e.g., Allen v. National Video, Inc., 610 F. Supp. 612, 621 (S.D.N.Y. 1985).

\(^{29}\) See Grady, supra note 2, at 98, 105-12 (noting that the right of publicity allows a party to protect his identity and the doctrine benefits individuals and society).
To appreciate the importance of the right of publicity, it is necessary to understand its history, its boundaries, and the current state of the doctrine. *Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc.* is the seminal case in right of publicity jurisprudence. For the first time, a court recognized the right of publicity as an independent cause of action, separate and distinct from the invasion of privacy torts. Haelan, a chewing-gum manufacturer, had exclusive contracts with several baseball players to use their pictures in connection with the sales of its product. Topps, a rival chewing-gum manufacturer, entered into contracts with several of the same players and obtained authorization to use their photographs to sell gum. Topps used its agent, Players Enterprise, Inc., to obtain some of the contracts, while other contracts were obtained independently by Russell Publishing Co. and then assigned to Topps. With respect to the Players’ contracts, the court ruled in favor of Haelan based on tortious interference with contract because Players was acting as Topps’ agent.

With respect to the Russell contracts, the defendant argued that there could be no liability because an individual has no legal interest in the use of his identity outside of the right of privacy, which is a personal, non-assignable right intended to avoid emotional injury resulting from the unauthorized use of one’s identity.

The court rejected the defendant’s argument. Rather, it held that an individual has a cognizable interest in the use of his identity, and this interest could be violated irrespective of any attendant emotional injury.

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30. 202 F.2d 866 (2d Cir. 1953).
31.  See *id.* at 868 (noting that an individual has an identifiable interest in the use of his identity, and this interest can be violated independent of any emotional injury).
32.  See *id.* at 867-68.
33.  See *id.*
34.  See *id.*
35.  See *id.*
36.  See *id.*
37.  See *id.* at 868-69.
38.  See *id.* at 868 (“[A] man has a right in the publicity value of his photograph, i.e., the right to grant the exclusive privilege of publishing his picture . . . . This right might be called a ‘right of publicity.’”).
39.  See *id.* at 868 (“For it is common knowledge that many prominent persons . . . far from having their feelings bruised through public exposure of their likenesses, would feel sorely deprived if they no longer received money for authorizing advertisements, popularizing their countenances, displayed in newspapers, magazines, buses, trains, and subways.”).
used the term "right of publicity" to refer to an individual's right to prevent the unauthorized commercial exploitation of his identity.\textsuperscript{40} To reach the holding the court recognized the right of publicity as a distinct cause of action independent of the invasion of privacy torts.\textsuperscript{41} A plaintiff no longer needed to prove emotional injury to recover for the unauthorized commercial exploitation of his identity.\textsuperscript{42} \textit{Haelan} was a prudent decision. It would be unfair to permit one party to exploit another party's identity and to avoid liability simply because the plaintiff did not suffer emotionally. A party is entitled to protect and to benefit from the economic value associated with his identity. After \textit{Haelan}, it was clear that the right of publicity was an independent, viable cause of action, and accordingly, an individual could recover for the unauthorized use of his identity irrespective of any emotional harm.

Subsequent to \textit{Haelan}, courts began to recognize the right of publicity, and it became an established cause of action in other jurisdictions.\textsuperscript{43} Several cases trace the evolution of the right of publicity and help to define its boundaries and to demonstrate its necessity. One essential case to the evolution of the doctrine is \textit{Zacchini v. Scripps-Howard Broadcasting Co.}\textsuperscript{44} \textit{Zacchini} advances the right of publicity because the Supreme Court recognized the doctrine for the first time.\textsuperscript{45} \textit{Zacchini} also bolsters the right of publicity because the Court defined the doctrine expansively and upheld the right against a First Amendment challenge.\textsuperscript{46} The petitioner, Hugo Zacchini, performed a human cannonball act at a local carnival.\textsuperscript{47} A freelance reporter filmed Zacchini's entire fifteen-second act for respondent broadcasting company, who then showed the entire act on its newscast later that day.\textsuperscript{48} Zacchini filed suit alleging a violation of his state law right of publicity.\textsuperscript{49} Respondent asserted a First Amendment defense to justify its actions.\textsuperscript{50} Specifically, respondent claimed that it used petitioner's

\begin{itemize}
  \item \textsuperscript{40} See \textit{id.} at 868.
  \item \textsuperscript{41} See \textit{id.}
  \item \textsuperscript{42} See \textit{id.}
  \item \textsuperscript{43} See infra notes 44-84 and accompanying text.
  \item \textsuperscript{44} 433 U.S. 562 (1977).
  \item \textsuperscript{45} See \textit{id.} at 575-76.
  \item \textsuperscript{46} See \textit{id.}
  \item \textsuperscript{47} See \textit{id.} at 563.
  \item \textsuperscript{48} See \textit{id.} at 563-64.
  \item \textsuperscript{49} See \textit{Zacchini}, 433 U.S. at 564-65.
  \item \textsuperscript{50} See \textit{id.} at 574-76, 578.
\end{itemize}
act for a newsworthy purpose, so it was entitled to a great deal of First Amendment protection, and petitioner’s right of publicity must accordingly defer to the First Amendment. 51

The Court held that the right of publicity is a viable cause of action, which respondent violated in this case, and that the First Amendment would not exempt the respondent from liability. 52 Zacchini is an exceptionally important case to the development of the right of publicity for several reasons. Initially, the Supreme Court’s recognition of the doctrine validated it as a cause of action. 53 In addition, the Court held that the right could trump the First Amendment in appropriate situations, thereby elevating the doctrine even further. 54 Also, by permitting the right to encompass an entertainer’s act, the Court defined the doctrine expansively, lending further value to the right. 55 Zacchini is interesting for another reason—it demonstrates the need for a right of publicity because other forms of intellectual property would have failed to protect the petitioner. 56 Without a right of publicity, respondent would have been able to use Zacchini’s entire act without permission or compensation and Zacchini would have been unable to recover. Zacchini lends a great deal of support to the right of publicity and demonstrates the need for this cause of action.

Martin Luther King, Jr. Center for Social Change v. American Heritage Products, Inc. 57 is another prominent case in the development of the right of publicity in that a court again recognized the right of publicity as an independent cause of action distinct from the right of privacy. 58 Specifically, the Georgia Supreme Court held that the right of publicity is a valid cause of action

51. See id.
52. See id. at 578-79 (acknowledging that entertainment and news are entitled to First Amendment protection, but the First Amendment would not justify the right of publicity violation in the present case).
53. See id. at 575-76 (discussing the right of publicity as a cause of action and the justifications for the doctrine).
54. See id. at 574-75 (noting that the First Amendment may be a defense to a right of publicity claim but it would be unsuccessful in a case such as this in which the respondent utilized petitioner’s entire act without permission).
55. See Zacchini, 433 U.S. at 575 (“The broadcast of a film of petitioner’s entire act poses a substantial threat to the economic value of that performance...[m]uch of its economic value lies in the ‘right of exclusive control over the publicity given to his performance.’”).
56. See infra notes 90-175 and accompanying text.
57. 296 S.E.2d 697 (Ga. 1982).
58. See id. at 703.
independent from the right of privacy, and because it is independent from privacy law, the right is descendible.\textsuperscript{59} In \textit{King}, the defendant manufactured and sold plastic busts of Dr. King together with a booklet discussing King’s life and work.\textsuperscript{60} The defendants did not have permission from the Center or the estate of Dr. King to enter into this venture.\textsuperscript{61} The Center, Coretta Scott King, and Motown Records, the assignee of the copyright in King’s speeches, filed suit alleging a violation of King’s right of publicity.\textsuperscript{62} The court clearly held that the right of publicity is a valid cause of action in Georgia, and is a right distinct from the right of privacy.\textsuperscript{63} The court further recognized that the right is descendible in Georgia.\textsuperscript{64} In its recognition of an independent right of publicity, the court further validated and strengthened the doctrine. Also, by permitting the right to be descendible, the court vastly increased its value in that the right may continue to be exploited after a party’s death.\textsuperscript{65}

\textsuperscript{59} See \textit{id.} at 705 ("[T]he right of publicity survives the death of its owner and is inheritable and devisable.").
\textsuperscript{60} See \textit{id.} at 698.
\textsuperscript{61} See \textit{id.} at 698-99.
\textsuperscript{62} See \textit{id.}
\textsuperscript{63} See \textit{id.} at 703 ("We conclude that while private citizens have the right of privacy, public figures have a similar right of publicity, and that the measure of damages to a public figure for violation of his or her right of publicity is the value of the appropriation to the user.") (citations omitted).
\textsuperscript{64} See \textit{id.} at 705.
\textsuperscript{65} It is important to note that the right of publicity is not descendible in every jurisdiction that recognizes the right. See McCarthy, \textit{supra} note 2, at 132 (noting that while twenty-seven states recognize a right of publicity only fourteen states recognize a post-mortem right of publicity). In New York, any type of protection is limited to a living person. See Pirone v. MacMillan, 894 F.2d 579 (2d Cir. 1990) (refusing to allow Babe Ruth’s heirs to recover for the unauthorized commercial use of his name). In California the right of publicity originally was not descendible. See Lugosi v. Universal Pictures, 603 P.2d 425 (Cal. 1979). Subsequent to \textit{Lugosi}, the California legislature enacted a limited descendible publication right. See \textit{CAL. CIV. CODE} § 990 (West Supp. 1999). The right only applies to the “name, voice, signature, photograph, and likeness” of the deceased person. See \textit{id}. However, the right only lasts for fifty years after the person’s death, and the publicity rights only apply to commercial advertising and marketing and do not apply to news and entertainment products. See \textit{id}.

In other states, the right is fully descendible but only for a limited period after the individual dies. \textit{See KY. REV. STAT. ANN.} § 391.170(2) (Banks-Baldwin 1994) (rights survive 50 years after
Midler v. Ford Motor Co. illustrates the willingness of courts to embrace the right of publicity and one court’s expansive application of the doctrine. In Midler, Young & Rubicam, Ford’s advertising agency, approached Midler to sing in a Ford commercial as part of its “yuppie” campaign. Midler refused the offer. Ford hired one of Midler’s former backup singers to perform in the commercial. The singer, Ula Hedwig, was told to imitate Midler and to replicate her sound and style as closely as possible. Ford did not use Midler’s name or picture in the commercial, and it had permission from the copyright holder to use the song. The court held that Midler’s voice was protected under common law as a part of her identity, and pirating her voice violated her common law right of publicity. Specifically, the court held “when a distinctive voice of a professional singer is widely known and is deliberately imitated in order to sell a product, the sellers have appropriated what is not theirs and have committed a tort in California.” Midler is a dramatic holding—the plaintiff was able to recover based on the defendant’s use of a sound-alike. Permitting recovery without the actual use of the plaintiff’s voice advanced the status of the doctrine immeasurably. Midler is also important because the court acknowledged the need for a right of publicity. Specifically, the court noted that federal intellectual property protection and other state laws would have been inadequate to protect Midler against the use of a sound-alike. Midler furthered the right of publicity and illustrated its necessity.

Other cases utilizing the right of publicity help to define its contours and boundaries, and they illustrate the need for this protection. The doctrine has been used to protect a plaintiff’s name, nickname or professional name, and

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66. 849 F.2d 460 (9th Cir. 1988).
67. See id. at 461.
68. See id.
69. See id.
70. See id.
71. See id. at 462.
72. See id. at 463 (“To impersonate her voice is to pirate her identity.”).
73. See id.
74. See id. at 462-63 (arguing that copyright, unfair competition, and state statutes would be inadequate to protect the plaintiff against the defendant’s use of a sound-alike).

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group name from unauthorized commercial exploitation. The right of publicity has also been applied to guard against the unauthorized use of photographs, drawings, and voice. In some jurisdictions the doctrine has

its product without permission. See id. at 459. While the case was decided under a privacy rubric, the court recognized that protection does exist in New Jersey to prevent the unauthorized use of one's identity. See id. at 461-62. Using the golfers' names without permission was an impermissible use of their identities in violation of this protection. See id. Accordingly, the plaintiffs were entitled to recover. See id.

76. See Hirsch v. S.C. Johnson & Son, Inc., 280 N.W.2d 129 (Wis. 1979). The plaintiff, Elroy Hirsch, was a famous football player whose nickname was "Crazylegs." See id. at 385-86. The defendant used the name "Crazylegs" on a shaving gel for women. See id. at 382. The court held that the nickname Crazylegs was entitled to protection under the right of publicity because it identified Hirsch. See id. at 397-99. The defendant's use of this protected name without permission to promote its product constituted a violation of Hirsch's right of publicity. See id.

See also McFarland v. Miller, 14 F.3d 912 (3d Cir. 1994). The plaintiff, George McFarland, was an actor best known for his role as "Spanky McFarland" on the Our Gang series of movies and television programs. See id. at 914. Defendant opened a restaurant in New Jersey called Spanky McFarland that displayed Our Gang memorabilia and featured menu items named after characters from the Our Gang series. See id. at 916. Plaintiff sued for a violation of his common law right of publicity. See id. The court indicated that the right of publicity in New Jersey could be construed to protect the plaintiff's professional name. See id. at 921-23. It is important to note that McFarland died during the pendency of the trial. See id. at 914. The court held that the right of publicity is a descendible property right in New Jersey, and accordingly, the case could proceed. See id. at 917-18.

77. See Winterland Concessions Co. v. Sileo, 528 F. Supp. 1201 (N.D. Ill. 1981) (holding that the "... unauthorized and unprivileged printing on shirts of the names, trademarks and/or likenesses of ... entertainers and groups ... is a violation of rights of publicity ...").

78. See Titan Sports, Inc. v. Comics World Corp., 870 F.2d 85, 88-89 (2d Cir. 1989) (indicating that magazine publisher who sold magazines with large photos of Titan's wrestlers folded and stapled inside may have violated statutory protection against the commercialization of an individual's personality without his consent).

79. See Ali v. Playgirl, Inc., 447 F. Supp. 723 (S.D.N.Y. 1978). In Ali, Playgirl magazine published a drawing of a nude black boxer sitting in a boxing ring clearly intended to depict Muhammad Ali. See id. at 725. Ali asserted a violation of his statutory and common law right of publicity. See id. The court held that the drawing clearly identified Ali and violated his publicity rights despite the caption under the picture that read "Mystery Man." See id. at 726-27. Because of the potential injury to Ali and the value associated with his identity, the court ordered a
been applied expansively and has been utilized to protect against the unauthorized use of those things that are associated with the celebrity81 or those things that merely evoke his image.82 These cases demonstrate the development preliminary injunction enjoining further distribution of the magazine. See id. at 729-30.

80. See supra notes 65-73 and accompanying text (discussing Midler v. Ford Motor Co., 849 F.2d 460 (9th Cir. 1988), in which the court applied the right of publicity to protect a singer's voice from unauthorized exploitation); Waits v. Frito-Lay, 978 F.2d 1093 (9th Cir. 1992) (utilizing the right of publicity to protect against defendant's use of a sound-alike in its commercials).

81. See Motschenbacher v. R.J. Reynolds Tobacco Co., 498 F.2d 821 (9th Cir. 1974). Motschenbacher is an example of a case in which the plaintiff prevailed on a right of publicity claim based on the defendant's use of something associated with the plaintiff as opposed to appropriating some tangible aspect of the plaintiff's identity. Plaintiff, Lothar Motschenbacher, was a famous race car driver known for his distinctive car. See id. at 822. The defendant used a slightly altered replica of plaintiff's car in its cigarette advertisements. See id. Motschenbacher sued for a violation of his right of publicity. See id. The court ruled that defendant violated the plaintiff's publicity rights because the plaintiff was identifiable in the advertisement. See id. at 827. The court correctly noted that the defendant did not use the plaintiff's name or image. See id. However, the use of the car caused the plaintiff to be identifiable in the advertisement because the car was associated with him, and by identifying the plaintiff in the advertisement without permission for commercial purposes, the defendant violated his publicity rights. See id.

82. See White v. Samsung Elec. Am., Inc., 971 F.2d 1395 (9th Cir. 1992). White is arguably the most notable and most controversial right of publicity case. Samsung developed a series of advertisements to promote its products. See id. at 1396. The ads were intended to convey the longevity of Samsung products. See id. One particular advertisement depicted a robot in a blond wig, evening gown, and jewelry standing in front of a Wheel of Fortune board. See id. The caption under the ad read “Longest-running game show. 2012 A.D.” See id. White, the individual responsible for turning letters on The Wheel of Fortune, filed suit alleging a violation of her statutory and common law rights of publicity. See id. White's statutory claim failed based on the lack of similarity between herself and the robot used in the advertisement. See id. at 1397. However, White did succeed with respect to her common law claim. See id. at 1398-99. Specifically, Samsung violated her statutory right of publicity in that it utilized her identity by evoking her image, without her permission, for a commercial purpose. See id. at 1397-99. The court opined that there is no set “laundry list” of specific methods to misappropriate a party's identity, and that the defendant's actions in the present case constituted misappropriation. See id. at 1398. White represented a drastic expansion of the right of publicity. Samsung violated the right of publicity without using any of White's concrete attributes — merely evoking her image in the public's eye resulted in a violation of her rights.

The White majority evoked a scathing dissent from Judge Kozinski in the denial of the
and expansion of the right of publicity since its privacy law beginnings. These cases also illustrate the need for a right of publicity in that other forms of intellectual property protection would be inadequate to safeguard the plaintiffs in these situations.\textsuperscript{83} Without adequate protection for an individual’s identity, it may negate the desire to succeed, discourage creativity, and permit unjust enrichment and deceptive trade practices, which are traditionally disfavored in the legal system.\textsuperscript{84}

The right of publicity has truly evolved in the past century moving from a subspecies of the invasion of privacy torts, intended to guard against emotional injuries, to an independent, property-based cause of action that protects the

petition for rehearing. \textit{See} \textit{White v. Samsung}, 989 F.2d 1512 (9th Cir. 1993) (en banc denied). Judge Kozinski argued that the majority inappropriately expanded the right of publicity. \textit{See id.} at 1513-14 (Kozinski, J., dissenting). Specifically, he accused the majority of “overprotecting intellectual property” and removing too much from the public domain. \textit{See id.} The result of this behavior, in Judge Kozinski’s opinion, would be to “stifle[] the very creative forces [intellectual property] is supposed to nurture.” \textit{See id.} at 1513 (Kozinski, J., dissenting). Judge Kozinski noted the absurdity of a right of publicity violation for merely evoking a celebrity’s image, and he asserted that this application of the right of publicity would conflict with the Copyright Act, Copyright Clause, and the First Amendment. \textit{See id.} at 1514 (Kozinski, J., dissenting). Overall, he deemed this application of the doctrine “bad law.” \textit{See id.}

\textit{See also} \textit{Wendt v. Host Int’l}, Inc., 125 F.3d 806 (9th Cir. 1997). Paramount Pictures, the producer of the television show \textit{Cheers}, licensed Host International to operate airport bars featuring life-size robots named Hank and Blue who were intended to represent Norm Peterson and Cliff Claven, characters from \textit{Cheers}. \textit{See id.} at 809. George Wendt and John Ratzenberger, who portrayed Norm and Cliff respectively, sued for a violation of their common law and statutory rights of publicity. \textit{See id.} at 809-11. The plaintiffs were able to maintain a cause of action for a violation of their statutory and common-law rights of publicity. \textit{See id.} at 809-12. The Ninth Circuit followed its reasoning in \textit{White} and noted that the plaintiffs could maintain their cause of action because the robots evoked the image of the celebrities. \textit{See id.}

83. \textit{See infra} notes 100-175 and accompanying text.

84. \textit{See} \textit{Zacchini v. Scripps-Howard Broad. Co.}, 433 U.S. 562, 573 (1977) (noting that the purpose of the right of publicity is the state’s interest in encouraging an individual to entertain and permitting an individual to reap the benefits of his efforts); \textit{Ali v. Pahygirl, Inc.}, 447 F. Supp. 723, 728-29 (S.D.N.Y. 1978) (analogizing the right of publicity to “a commercial entity’s right to profit from the ‘goodwill’ it has built up in its name” and arguing that the right of publicity is necessary to prevent a party from unjustly enriching himself with the value an individual has built up in his identity).
economic value associated with a party's identity.\textsuperscript{85} The right of publicity is currently recognized in twenty-seven states either statutorily\textsuperscript{86} or as a common law right.\textsuperscript{87} As the previous cases illustrate, the doctrine is essential— it permits a party to protect his identity, and the economic value associated with it, from unauthorized exploitation and harm.\textsuperscript{88} Recently, there have been efforts to expand the scope of the doctrine.\textsuperscript{89} These efforts to expand the doctrine are vital, considering the crucial function of the doctrine and the fact that other forms of intellectual property protection may be inadequate to safeguard an individual's identity, thereby leaving the right of publicity as the only viable avenue for redress.\textsuperscript{90} Considering the doctrine's importance, successful preemption challenges should be limited.

II. THE RIGHT OF PUBLICITY, FEDERAL INTELLECTUAL PROPERTY LAW, AND PREEMPTION

As previously discussed, identity is an important property right that is entitled to protection.\textsuperscript{91} If an individual has successfully created value in his

\begin{itemize}
\item \textsuperscript{85} See supra note 16-84 and accompanying text.
\item \textsuperscript{86} See, e.g., FLA. STAT. ANN. \textsection 540.08 (West 1997); KY. REV. STAT. ANN. \textsection 391.170 (Banks-Baldwin 1994); R.I. GEN. LAWS \textsection 9-1-28 (1998).
\item \textsuperscript{87} See McCarthy, supra note 9, at \textsection 6.1[B] (listing the seventeen states that recognize a common law right of publicity).
\item \textsuperscript{88} See supra notes 30-84 and accompanying text.
\item \textsuperscript{89} There have been several recent efforts to promote the doctrine. The recently enacted Restatement Third of the Law of Unfair Competition supports the right of publicity. See Restatement (Third) of Unfair Competition \textsection 46-49 (1995). Specifically, the Restatement states "[O]ne who appropriates the commercial value of a person's identity by using without consent the person's name, likeness, or other indicia of identity for purposes of trade is subject to liability . . . ." Id. The Restatement also specifically authorizes injunctive relief in appropriate situations for right of publicity violations. See id. at \textsection 48. The Restatement, and its interpretation of the right of publicity, champion the doctrine and suggest its vigorous application.

Further support for the doctrine has been found in the legal community. See Robinson, supra note 8, at 201-06 (arguing for the federalization of the right of publicity); McCarthy, supra note 2, at 129 (arguing for an expansion of the right of publicity and the aggressive application of the doctrine in commercial settings).
\item \textsuperscript{90} See infra notes 100-175 and accompanying text.
\item \textsuperscript{91} See Roberta Rosenthal Kwall, The Right of Publicity vs. the First Amendment: A Property and Liability Rule Analysis, 70 IND. L.J. 47, 69-86 (emphasizing the need for a right of publicity in
person, then he should be entitled to reap the benefits of his labor and to prevent other parties from unjustly enriching themselves at his expense.\footnote{See Grady, supra note 2, at 108-11 (listing the labor theory and a desire to prevent unjust enrichment as justifications for the right of publicity).} In this context, the right of publicity is essential because it provides protection for the economic value associated with one’s identity.\footnote{See id. (noting that the right of publicity, which permits a party to control the commercial use of his identity, is an important cause of action); Robinson, supra note 8, at 201-06 (mentioning that the right of publicity allows a party to protect his identity and arguing for the federalization of this right because of its importance).} It is particularly important in certain situations because alternative forms of intellectual property protection such as copyright, trademark, and unfair competition may be inadequate to protect a party’s identity from unauthorized exploitation, leaving the right of publicity as the only basis for relief.\footnote{See infra notes 100-175 and accompanying text.} While other forms of intellectual property protection may safeguard identity in certain situations,\footnote{See, e.g., Waits v. Frito-Lay, Inc., 978 F.2d 1093 (9th Cir. 1992) (awarding damages for the unauthorized use of voice under the Lanham Act); Allen v. National Video, Inc., 610 F. Supp. 612, 621 (S.D.N.Y. 1985) (protecting identity with the Lanham Act).} these regimes are not intended to protect identity and do not always apply.\footnote{See McCarthy, supra note 2, at 135 (emphasizing that identity can be exploited without violating the Lanham Act); Midler v. Ford Motor Co., 849 F.2d 460 (9th Cir. 1988) (stating that copyright law will not protect voice as an entity).} It is prudent to have a cause of action that directly protects a party’s identity from unauthorized exploitation.\footnote{See Robinson, supra note 8, at 189-92 (discussing the differences between the right of publicity and federal copyright and trademark law and noting that the federal laws will not apply in many situations in which the right of publicity would apply); Keller & Bernstein, The Right of Publicity: Towards a Federal Statute?, 532 PLI/Pat 413, 433-34 (1998) (arguing that it is easier to recover for the exploitation of identity using the right of publicity as opposed to federal trademark law).} The protection afforded by the right of publicity encourages creativity, permits a party to reap the benefits of his efforts, and prevents unjust enrichment and deceptive trade practices.\footnote{See Grady, supra note 2, at 108-12 (articulating several justifications for the right of publicity including the prevention of unjust enrichment, a need to encourage creativity, and the desire to permit a party to benefit from his labor).} In light of these important goals,
and because the right of publicity may be the only form of protection for an individual’s identity, the doctrine should be protected, and courts and legislatures must avoid neutralizing the right when confronted with preemption challenges.99

A. Federal Intellectual Property Regimes

Under the current copyright act, copyright seeks to protect “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”100 Succinctly stated, to qualify for copyright protection, something must be a fixed, original work of authorship.101 Copyright and the right of publicity do share some similarities, and copyright may protect certain aspects of an individual’s identity in limited situations.102 However, copyright will frequently be inadequate to safeguard an individual’s identity because many aspects of a party’s identity will fail to qualify for copyright protection.103 For example, if an individual is photographed or records his voice, copyright protection will extend to the specific picture or recording, but it will not protect the underlying likeness or voice as an independent entity.104 Because copyright will be ineffective to protect identity in many situations, and because identity should be entitled to protection, the right of publicity, which does adequately safeguard

99. See Sean Elliott, Dancing Promotions, Dodging Preemption, and Defending Personas: Why Preempting the Right of Publicity Deprives Talent the Publicity Protection They Deserve, 73 NOTRE DAME L. REV. 1625 (1998) (explaining why federal copyright law is inadequate to protect identity and arguing that the right of publicity is necessary for this purpose and should not be preempted).


101. See id.

102. See Robinson, supra note 8, at 189-90 (discussing the similarities between federal copyright law and the right of publicity).

103. See id. Robinson proposes that certain aspects of an individual’s identity are often unfixed, and accordingly, copyright would fail to protect them. See id. However, the right of publicity would afford protection to these unfixed aspects of a party’s identity. See id. Robinson also notes that the human persona, which is protected by the right of publicity, often cannot be deemed the writing of an author, and thus, will be outside the scope of copyright protection. See id. Clearly, copyright does not provide adequate protection for an individual’s identity.

104. See RESTATEMENT (THIRD) UNFAIR COMPETITION § 46 cmt. i (1995).
identity, becomes a valuable cause of action.

Recent cases illustrate that federal copyright law may be ineffective in certain situations to protect identity, and thus, the need for a right of publicity, which does efficiently protect identity, becomes apparent, and, courts must protect the doctrine from erosion by preemption. In *Midler v. Ford Motor Co.*, previously discussed, the court held that Midler suffered a wrong when Ford exploited her identity by using a sound-alike in a television commercial. The court also held that copyright was inapplicable to protect Midler. Specifically, the court stated “[m]ere imitation of a recorded performance would not constitute a copyright infringement even where one performer deliberately sets out to simulate another’s performance as exactly as possible.” Following the court’s reasoning, it is clear that Midler suffered an injury from the exploitation of her identity, but copyright would not have applied to protect her in this situation. Copyright will not always be adequate to safeguard an individual’s identity, and the right of publicity, which squarely protects identity, becomes essential. Midler was forced to rely on the right of publicity to recover, and without the doctrine, she would not have been compensated for her injuries.

*Hoffman v. Capital Cities/ABC Inc.* is another instance in which federal copyright protection was insufficient to safeguard identity, and rather, the right of publicity was invoked for this purpose. In its March 1997 issue, Los Angeles Magazine published an article entitled “Grand Illusions.” The article, through the use of computer technology, featured a layout of famous actors and actresses from classic films wearing designer fashions for the spring of 1997. The name of the designer accompanied each photograph, and the article contained a shopping guide with price and store information. One picture in the article depicted Dustin Hoffman, as he appeared in the film *Tootsie*.

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105. 849 F.2d 460 (9th Cir. 1988).
106.  See supra notes 66-74 and accompanying text.
107.  See *Midler*, 849 F.2d at 463-64.
108.  See *id.* at 462.
109.  *Id.*
111.  See *id.* at 867.
112.  See *id.*
113.  See *id.*
114.  See *id.*
However, the magazine used computer-generated photography to clothe Hoffman in a Richard Tyler dress and Ralph Lauren shoes, instead of the red dress he wore in the film.\textsuperscript{115} Hoffman did not have an agreement with Richard Tyler, Ralph Lauren, or Los Angeles Magazine authorizing this illustration.\textsuperscript{116}

Hoffman sued for a violation of his common law and statutory rights of publicity under California law and succeeded on both claims.\textsuperscript{117} Hoffman prevailed because the magazine used his identity, specifically through the use of his name and likeness, without permission, for the commercial purpose of selling magazines and clothing, which resulted in injury and damage.\textsuperscript{118} More importantly, the court noted that federal copyright law would not have vindicated Hoffman's interests in the case at bar.\textsuperscript{119} Specifically, the court emphasized that Hoffman's name and likeness were not works of authorship, and therefore not entitled to copyright protection.\textsuperscript{120} Hoffman had to rely on the right of publicity to recover. Again, this case demonstrates that copyright law will often be insufficient to protect various aspects of an individual's identity, and the need for a right of publicity is clear.\textsuperscript{121} If copyright protection were the only avenue for redress, one party could exploit another party's identity without repercussions in many instances because an individual's identity often fails to qualify for copyright protection.\textsuperscript{122}

\textsuperscript{115} See id at 870.
\textsuperscript{116} See id. at 871.
\textsuperscript{117} See id. at 873. It is important to note that Hoffman also asserted successful claims under § 43 of the Lanham Act and state unfair competition laws. See id. at 874.
\textsuperscript{118} See id. at 873 (setting forth the specific elements to recover for each cause of action and the proof asserted by plaintiff to support each cause of action).
\textsuperscript{119} See id. at 875.
\textsuperscript{120} See id. at 875 ("Plaintiff's own likeness and name cannot seriously be argued to constitute a 'work of authorship' within the meaning of [the Copyright Act].").

It is important to note one attendant argument raised by the defendants. The defendants asserted that Columbia Pictures, the copyright holder of \textit{Tootsie}, was the proper party in this case. See id. at 871. With respect to copyright law, the defendant was correct. Under copyright law, Hoffman would not have a cause of action because he did not hold the copyright in the film, and his name and likeness, in which Hoffman did have and interest, were not protected by copyright. See id. If Hoffman was forced to rely on copyright, he would not have been able to recover for the defendant's use of his name and likeness.

\textsuperscript{121} See Elliott, supra note 99, at 1653-56 (arguing that federal copyright law will not adequately protect identity in all situations and that the right of publicity is necessary for this purpose).
\textsuperscript{122} See id.
Recently, Tiger Woods sued the Franklin Mint for a violation of his publicity rights after the mint produced and sold a commemorative coin with Woods's likeness without his permission.\(^{123}\) While the case was settled, and there is no opinion,\(^{124}\) this scenario demonstrates the necessity of a publicity right and the potential inadequacy of federal copyright law to protect identity. Copyright would not have protected Woods in this situation—Woods's face alone is not entitled to copyright protection,\(^{125}\) and because Woods did not create the coin, he would not be the author entitled to copyright protection.\(^{126}\) Copyright would not have shielded Woods from this outlandish, unauthorized exploitation of his identity, and the Franklin mint would have been unjustly enriched at Woods's expense. In such a situation, the need for a right of publicity that specifically protects identity from unauthorized exploitation is apparent.

It is important to mention another disadvantage that results from the use of copyright to protect identity—copyright protection expires after a specified period.\(^{127}\) If copyright were the only means to safeguard identity, an individual's persona could be freely exploited once the copyright term expired.\(^{128}\) This limitation is particularly dangerous with respect to new technologies that essentially permit a party to create an entirely new advertisement or movie using a deceased person's image.\(^{129}\) The right of publicity supplies greater protection because the right can be extended beyond

\(^{123}\) See Frankel & Vargas, supra note 1.

\(^{124}\) See id.

\(^{125}\) See Hoffman v. Capital Cities/ABC, Inc., 33 F. Supp. 2d 867, 875 (C.D. Cal. 1999) (citing 17 U.S.C. § 301 (1996) (emphasizing that an individual's face is not a "'writing' or 'work of authorship' that come[s] within the subject matter of copyright.'")).

\(^{126}\) See 17 U.S.C. § 201 (1996) (noting that copyright protection "vests initially in the author or authors of the work.").


\(^{128}\) See id. (setting forth the duration of federal copyright protection and the time at which this protection will expire).

\(^{129}\) See McCarthy, supra note 2, at 146-48. The author argues that new technologies could be employed to create a new movie starring Humphrey Bogart or Marilyn Monroe. See id. at 146. McCarthy also notes that in 1992 Diet Coke used new technologies to insert the images of Louis Armstrong, Humphrey Bogart, Cary Grant and James Cagney into its commercials. See id. at 146-47.
the term permitted by copyright protection, at least in those states in where it is descendible. Again, if someone is going to benefit from the value associated with an individual's identity, it should be the person who created this value and his heirs rather than a freewheeler. Overall, it is clear that copyright is inadequate to protect a party's identity in many situations, and a doctrine such as the right of publicity, which efficiently protects identity, is essential and should be vigorously enforced and upheld against preemption challenges.

Outside of the right of publicity, trademark and unfair competition law is the most viable alternative to protect identity. Trademark and unfair competition law has been used in many cases to prohibit or to punish the unauthorized use of a name, image, or voice. However, there are situations where trademark and unfair competition law fail to adequately safeguard identity, and the right of publicity must be utilized for this purpose. Trademark and unfair competition

130. See McCarthy, supra note 9, at § 9.4 (stating that copyright protection is limited in duration "by the command of the U.S. Constitution" and arguing that the right of publicity is not subject to similar constraints).
132. See Melville B. Nimmer, The Right of Publicity, 19 LAW & CONTEMP. PROBS. 203, 215-16 (1954) (urging in the right of publicity context that "[i]t would seem to be a first principle of Anglo-American jurisprudence, an axiom of the most fundamental nature, that every person is entitled to the fruit of his labors unless there are important countervailing public policy considerations").
133. See Elliott, supra note 99, at 1653-56 (discussing the shortcomings of federal copyright law with respect to protecting identity and the need to utilize the right of publicity for this purpose).
134. See Keller & Bernstein, supra note 97, at 419-20 (noting that the Lanham Act can readily be used to protect identity); Hamilton, supra note 10, at 211 (arguing that if the right of publicity is federalized it belongs in the Lanham Act).
136. See McCarthy, supra note 2, at 135 ("Identity can be stolen and used to attract attention to an advertisement or product without giving rise to a valid claim of false endorsement."). See also,
law often will not protect identity because the identity is not a commercial source or because the defendant’s actions do not create a likelihood of confusion. It is prudent to have a cause of action that directly and efficiently protects an individual’s identity.

A focused analysis of federal trademark and unfair competition law, and a comparison to the right of publicity illustrates the inadequacy of this intellectual property regime with respect to protecting identity and preventing its unauthorized exploitation. Section 43(a) of the Lanham Act, which is the federal trademark and unfair competition law, provides a cause of action against:

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which-

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Carson v. Here’s Johnny Portable Toilets, Inc., 698 F.2d 831 (6th Cir. 1983). Johnny Carson, the former host of NBC’s Tonight Show, appeared on stage every night as his sidekick, Ed McMahon, announced “Here’s Johnny.” See id. at 832. This phrase soon became inextricably linked with Carson in popular culture. See id. at 832-33. The defendant used the phrase “Here’s Johnny” to sell and to rent its portable toilets. See id. at 833. Carson sued for a violation of his publicity rights and for unfair competition in violation of § 43(a) of the Lanham Act. See id. The court held that defendant did not violate the Lanham Act because its use of the phrase “Here’s Johnny” did not create a likelihood of consumer confusion, mistake, or deception. See id. at 833-34. However, the defendant did violate Carson’s common law right of publicity. See id. at 836. Using the phrase “Here’s Johnny” constituted an unauthorized exploitation of Carson’s identity in violation of his publicity rights. See id. at 836-37. In Carson, the Lanham Act failed to protect identity because there was no likelihood of confusion, and rather, the plaintiff was forced to rely on the right of publicity for this purpose. See id. at 833-34, 836. Carson demonstrates that the right of publicity is the only effective protection for identity—it will apply in situations in which there is no likelihood of confusion, and a plaintiff may be injured by the use of his identity and entitled to recover even if there is no likelihood of confusion.

137. See Robinson, supra note 8, at 192 (noting that to recover under the Lanham Act identity must be a commercial source and there must be a likelihood of consumer confusion and stressing that the right of publicity does not impose these requirements).

138. See id. (suggesting that federal trademark protection has only been effective in limited situations to protect identity).

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

The goal of trademark and unfair competition law is to protect against consumer confusion, and the essential inquiry is whether or not the defendants' actions led to public confusion. Alternatively, the right of publicity seeks to protect identity and attempts to prevent, or to punish, the unauthorized exploitation of a party's persona. Trademark and unfair competition law will protect identity in those cases in which a party's identity is a commercial source; however, it fails to protect against the commercial exploitation of a party's identity when it is not a commercial source, even if injury and damage results. Trademark law also mandates previous commercial use to receive protection, and it requires a likelihood of confusion, mistake, or deception to recover. The right of publicity does not impose any of these requirements—protection is afforded to an individual's identity whether it is used in commerce or not and recovery is permitted when identity is commercially exploited without permission, irrespective of confusion or deception.

140. Id.
141. See McCarthy, supra note 2, at 135 (emphasizing that the Lanham Act attempts to eliminate public confusion).
142. See Keller & Bernstein, supra note 97, at 433-34 (stressing that the right of publicity protects identity and does not seek to prevent consumer confusion).
143. See Robinson, supra note 8, at 191 (noting that the Lanham Act will only protect identity if it is a commercial source) (citing 15 U.S.C. § 1127 (1997)).
144. See id. ("Trademark laws mandate that the trademark must have been previously used in commerce to be protected.") (citing 15 U.S.C. § 1115 (1998)).
146. See Keller & Bernstein, supra note 97, at 434 ("[T]o prove a right of publicity violation, the plaintiff need not demonstrate the existence of any public confusion as to source or sponsorship; plaintiff merely must show that the defendant has appropriated his or her distinctive identity without permission.") (citations omitted); Robinson, supra note 8, at 192 ("Proof of trademark
competition law is simply inadequate to safeguard identity and the need for a right of publicity is evident.\footnote{See McCarthy, supra note 2, at 135 (suggesting that the unauthorized exploitation of identity may violate the right of publicity but may not constitute a Lanham Act violation).} An individual’s identity is valuable and there are important policy considerations that justify its protection, even in situations where the Lanham Act will not apply because the identity is not a commercial source or because there is no likelihood of confusion or deception.

In \textit{MJ & Partners Restaurant Limited Partnership v. Zadikoff}\footnote{10 F. Supp. 2d 922 (N.D. III. 1998).} the plaintiff suffered injury, but the Lanham Act did not apply, and the plaintiff had to rely on the right of publicity for relief.\footnote{See id. at 928-31.} In September of 1990, Michael Jordan’s company, Jump, entered into an agreement with 23 Food that granted 23 Food the exclusive license to open restaurants, bearing Michael Jordan’s name, in the Chicago metropolitan region.\footnote{See id. at 924.} The agreement also assigned 23 Food a limited interest in Jordan’s right of publicity with respect to the restaurants.\footnote{See id.} Specifically, the agreement allowed 23 Food to use Jordan’s name, likeness, voice, and persona in connection with the restaurants.\footnote{See id.} MJ & Partners was a sublicensee to the agreement.\footnote{See id. at 924.} In April of 1993, the plaintiffs opened Michael Jordan’s restaurant in Chicago.\footnote{See id. at 925-26.} Soon after, defendant Zadikoff made known his intention to open Michael Jordan restaurants in Chicago.\footnote{See id.} Jordan consented to Zadikoff’s activities.\footnote{See id. at 926, 929-30.}

The plaintiffs filed suit alleging trademark infringement and a violation of the right of publicity, which they had obtained through the September 1990 agreement.\footnote{See id. at 926, 929-30.} The court held that the plaintiffs could not succeed on their trademark infringement claim and entered judgment in favor of the
The court held that plaintiffs would have to show "... a likelihood of confusion [that] would occur to a significant number of consumers ..." to succeed on the trademark claim, and that the plaintiffs failed to meet this burden. The court reasoned that Jordan was the source of the goods and services in this case, and Zadikoff's use would not create a likelihood of confusion because the restaurant would bear Jordan's name so consumers would properly identify Jordan as the source. The court did note, however, that Zadikoff's actions might constitute a right of publicity violation. The court held that the right of publicity is assignable, and the owner of the right in this case was 23 Food and MJ pursuant to the September 1990 agreement. Accordingly, Zadikoff's use of the Michael Jordan name and image without permission for commercial purposes could constitute a right of publicity violation. Zadikoff demonstrates the need for a right of publicity. Trademark will only protect identity to the extent that there is a likelihood of confusion to a significant number of consumers. However, as Zadikoff illustrates, there are many situations where injury might result from the unauthorized use of identity even though there is no likelihood of confusion. In the present case, the plaintiff had a viable cause of action, but he would have been unable to recover without the right of publicity.

The right of publicity is important in those cases in which trademark and unfair competition law does not provide protection either because the identity is...
not a commercial source, or because there is no likelihood of confusion.\textsuperscript{165} Even when trademark and unfair competition law does apply to protect identity, it is not always a comfortable fit and the law is often inappropriately applied to protect identity— trademark and unfair competition law seek to protect against consumer confusion while the right of publicity seeks to protect an individual’s identity.\textsuperscript{166} It is necessary to have a cause of action that directly protects identity in a broad range of situations.\textsuperscript{167}

Overall, the right of publicity is an important cause of action.\textsuperscript{168} An individual’s identity can have a great deal of value, and the right of publicity provides protection for a party’s identity and the attendant value.\textsuperscript{169} The doctrine is particularly important considering that other forms of intellectual property protection are often inadequate to safeguard identity from unauthorized commercial exploitation.\textsuperscript{170} Very often copyright will not protect identity because most aspects of an individual’s identity such as name or voice are not the proper subjects of copyright protection.\textsuperscript{171} Trademark and unfair competition law also fail to protect identity in many situations because aspects of a party’s identity may not be a commercial source entitled to protection, or the defendant’s use may not create a likelihood of confusion such that the

\textsuperscript{165}. See McCarthy, supra note 2, at 135 (“Identity can be stolen and used to attract attention to an advertisement or product without giving rise to a valid claim [under the Lanham Act].”)

\textsuperscript{166}. See id. (“The test of [right of publicity] infringement is ‘identifiability.’ Not confusion as to endorsement by the person [which is required in a 43(a) action] . . .”).

\textsuperscript{167}. See id. Professor McCarthy posits:

Some think that deception or false endorsement is needed for an infringement of the right of publicity. This confuses the right of publicity requirement of identifiability with the Lanham Act section 43(a) requirement that the public is confused into thinking that plaintiff endorses the product. However, the link with plaintiff to constitute infringement of the right of publicity need not rise to the level that would support a claim for false endorsement.

\textit{Id.}

\textsuperscript{168}. See Nimmer, supra note 132, at 203 (emphasizing the need for a right of publicity because of the important purposes served by the doctrine).

\textsuperscript{169}. See, e.g., Martin Luther King, Jr., Center for Soc. Change, Inc. v. American Heritage Prods., Inc., 296 S.E.2d 697, 701-03 (Ga. 1982) (acknowledging that identity has a great deal of pecuniary value and that the right of publicity provides protection for identity).

\textsuperscript{170}. See supra notes 100-175 and accompanying text.

\textsuperscript{171}. See supra notes 100-133 and accompanying text.
Lanham Act will provide relief. The right of publicity is necessary because its intended purpose is to protect identity, and it efficiently and directly protects identity in a broad range of appropriate situations. An individual should be entitled to benefit from the value he has created in his identity and to prevent others from unjust enrichment at his expense. The right of publicity is the most effective, and in some situations the only, method to protect identity and, accordingly, should be upheld in response to preemption challenges.

B. Preemption Versus the Right of Publicity

The right of publicity is a valuable tool in that it protects a party's identity. In its pursuit to protect identity, the doctrine furthers several important goals: it encourages a party to create, secure in the knowledge that he will be able to benefit from the value he creates in his identity; it permits a party to benefit from his labor by reaping the benefits of the value he has created in his name; and it prevents unjust enrichment and deceptive trade practices. Right of publicity claims are often subject to preemption challenges. Preemption is a cornerstone of the American legal system and should override the right of publicity in appropriate situations. However, the right of publicity advances valuable goals, and, because it may be the only doctrine to protect and to advance these goals, it should be upheld whenever possible in the preemption

172. See McCarthy, supra note 2, at 135 (noting that identity can be exploited without permission without violating the Lanham Act).
173. See supra notes 30-84 and accompanying text (setting forth situations in which the right of publicity was invoked to protect various aspects of identity).
174. See Nimmer, supra note 132, at 215-16 (urging that a party who has created value in his identity should be entitled to benefit from his labor).
175. See id. ("Yet because of the inadequacy of traditional legal theories ... persons who have long and laboriously nurtured the fruit of publicity values may be deprived of them, unless judicial recognition is given to what is here referred to as the right of publicity . . . .").
176. See, e.g., McCarthy, supra note 2, at 130, 140-41 (defining the right of publicity as "the right of every person to control the commercial use of his or her identity" and noting that the doctrine protects important interests).
177. See Grady, supra note 2, at 105-12.
178. See, e.g., Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n, 805 F.2d 663 (7th Cir. 1986); Waits v. Frito-Lay, Inc., 978 F.2d 1093 (9th Cir. 1992).
179. See infra notes 190-194, 207-212 and accompanying text (discussing Supreme Court decisions in which federal intellectual property laws preempted state laws).
Failure to uphold the doctrine, which could result in the elimination of the right, is dangerous because it may negate a party’s ability to effectively protect his identity against unauthorized commercial exploitation.

The Supremacy Clause of the United States Constitution mandates that federal laws preempt state laws when the state law “actually conflicts” with federal law or “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” In addition, valid acts of Congress may expressly authorize preemption. For the purposes of this discussion, state right of publicity laws will be preempted when they actually conflict with or frustrate the purposes of the Copyright Act, the Lanham Act, or the Patent Act. Because the right of publicity may be the only effective source of protection for identity, it is important to uphold the doctrine when confronted with preemption challenges. Several courts recognize that federal intellectual property statutes may coexist with state right of publicity laws and have held, in a variety of situations, that federal intellectual property statutes do not preempt the right of publicity. Other courts have adopted the alternative view and permit federal intellectual property statutes to preempt state law rights of publicity. The danger of preemption is apparent in these cases in that, without the right of publicity, the plaintiff may be unable to recover for the unauthorized exploitation of his identity.

To appreciate preemption in the right of publicity arena, it is important to

180. See Elliott, supra note 99, at 1670 (arguing that the right of publicity serves an essential function, and accordingly, preemption challenges should be minimized).
181. See U.S. CONST. art. VI., cl. 2.
187. See supra note 100-175 and accompanying text.
189. See Baltimore Orioles v. Major League Baseball Players Ass’n, 805 F.2d 663 (7th Cir. 1986) (finding that federal copyright law preempted the state law right of publicity); Motown Record Corp. v. George A. Hormel & Co., 657 F. Supp. 1236 (C.D. Cal. 1987).
understand the seminal United States Supreme Court decisions regarding preemption and intellectual property. In *Sears Roebuck & Co., Inc. v. Stiffel Co.*\(^{190}\) and *Compco Corp. v. Day-Brite Lighting, Inc.*\(^{191}\) the Court struck a blow against state intellectual property laws in favor of preemption. In *Sears* and *Compco*, an Illinois unfair competition statute forbade the copying of unpatented tube lamps based on a fear of consumer confusion caused by one company "palming off" another's goods.\(^{192}\) The Court held that the state unfair competition laws were preempted because they provided patent-like protection to goods that were not entitled to patent protection due to lack of invention.\(^{193}\) The Court argued that inventions not entitled to patent protection belong in the public domain for all to use and copy, and any state law that provides patent-like protection to these inventions and forbids the copying of these inventions should be preempted by the patent act.\(^{194}\) Thus, *Sears* and *Compco* weakened the status of state intellectual property laws.

Three subsequent cases bolstered the position of state intellectual property laws with respect to preemption by federal intellectual property laws. In *Goldstein v. California*,\(^ {195}\) the California legislature passed a statute criminalizing the unauthorized duplication of musical sound recordings at a time when federal copyright did not protect sound recordings.\(^ {196}\) The petitioner argued that the state statute should be preempted by the Copyright Act because it interfered with the goals of the Act.\(^ {197}\) The Court rejected this argument.\(^ {198}\) It held that the California statute did not interfere with the goals of the Copyright Act, and Congress had not acted in this particular area, so states were free to

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192. See *Sears*, 376 U.S. at 225-28; *Compco*, 376 U.S. at 234-37.
193. See *Sears*, 376 U.S. at 232-33 ("[B]ecause of the federal patent laws a State may not, when the article is unpatented and uncopirghted, prohibit the copying of the article itself or award damages for such copying."); *Compco*, 376 U.S. at 237 ("[W]hen an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article.").
194. See *Sears*, 376 U.S. at 232-33; *Compco*, 376 U.S. at 237-38.
196. See id. at 549. Specifically, the statute at issue forbids the "transfer . . . [of] any performance fixed on a tape or record onto other records or tapes with the intention of selling the duplicates, unless they have first received permission from those who, under state law, are the owners of the master recording." *Id* at 550.
197. See id. at 551.
198. See id. at 556-60.
provide protection. In *Kewanee Oil Co. v. Bicron Corp.*, the Court held that the Patent Act does not necessarily preempt state trade secret laws and the two forms of protection may coexist. The Court reasoned that state trade secret laws do not frustrate or interfere with the goals of the Patent Act, and in fact, trade secret laws may further the goals of the Patent Act, so preemption was unwarranted. In *Aronson v. Quick Point Pencil Co.*, the Court upheld a contract governed by state law that required a party to pay for the use of an unpatentable idea. The Court noted that upholding the contract would encourage public disclosure of ideas and inventions, which is a primary goal of the Patent Act. It also asserted that only the parties to the contract were bound by it, and the population at large was free to use the unpatentable invention. These post-*Sears/Compco* cases elevated the status of state intellectual property laws when confronted with preemption by federal intellectual property regimes.

However, in 1989, the Court decided *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, which weakened the position of state intellectual property laws. In *Bonito Boats*, the Court assessed the constitutionality of a Florida statute that protected an unpatentable “plug molding” process to prohibit the duplication of boat hulls via this process. The Court held that the Florida statute was preempted by the Patent Act. The Court set forth several reasons to justify the preemption. Initially, the state statute provided patent-like protection to a class of intellectual property that was not entitled to such protection.

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199. See id. ("No reason exists why Congress must take affirmative action either to authorize protection of all categories of writings or to free them from all restraint . . . the States have not relinquished all power to grant to authors 'the exclusive Right to their respective Writings.'").
201. See id. at 492-93.
202. See id.
203. 440 U.S. 257.
204. See id. at 263-64.
205. See id. at 262-63.
206. See id. at 264.
208. See id. at 143-44.
209. See id. at 159-60.
210. See id. (holding that the hull is "unpatented and unpatentable" and yet the Florida statute provides it with patent-like protection).
the statute curtailed creativity and removed an idea from the public domain in contravention of the goals of the Patent Act. It is important to note that the Court relied on its reasoning in Sears/Compco to reach its decision, so the effect of the post-Sears/Compco cases is uncertain. Bonito Boats is another example of a case in which state law had to defer to federal intellectual property protection.

Against this mixed backdrop of precedent, the status of state right of publicity laws in a preemption context is unclear. While the right of publicity does share similarities with both federal copyright and trademark laws, the majority of preemption challenges are levied under the Copyright Act. It is important to note that the Copyright Act has a specific section addressing preemption. Pursuant to Section 301 of the 1976 Copyright Act, federal copyright law will preempt state intellectual property law if three criteria are satisfied: 1) the state right must be equivalent to one of the exclusive rights enumerated in Section 106 of the Copyright Act; 2) the work under examination must be fixed in a tangible medium; and 3) the work under examination must fall within the subject matter protected by Sections 102-103 of the Copyright Act. Courts confronted with preemption challenges are split: Some courts uphold the right of publicity while others favor federal intellectual property protection and preempt the state law doctrine. The Supremacy Clause,
which permits preemption, must be adhered to and should be applied in proper situations. However, courts should be careful to limit preemption to appropriate situations because the right of publicity serves a unique function and may be the only option for an aggrieved party to recover for the exploitation of his identity.

To appreciate the right of publicity and the need to limit preemption challenges to appropriate situations, it is important to look at cases that have balanced the right of publicity against federal intellectual property laws. Fleet v. CBS, Inc. illustrates the ramifications of preemption, and the need to limit the preemption of right of publicity claims. Stephan Fleet and Archie Lee Simpson were actors in the movie Legend of the White Horse. White Dragon Productions originally produced the movie and sold the distribution rights to CBS. Performance Guarantees, Inc. later assumed control of the production, and failed to pay the actors the balance of their salaries. Fleet and Simpson informed CBS that they had not been paid, and accordingly, CBS did not have their permission to use their names, pictures, or likenesses to promote and to distribute the movie. Despite their protests, CBS released the film.

Fleet and Simpson brought an action alleging a violation of their statutory rights of publicity under California law. The court held that the plaintiffs’

218. See U.S. Const. art. VI., cl. 2.
219. See id.
220. See supra notes 190-194, 207-212 and accompanying text (discussing Supreme Court decisions in which federal intellectual property laws preempted state law).
221. 58 Cal. Rptr. 2d 645 (Cal. Ct. App. 1996)
222. See id. at 647.
223. See id. at 646.
224. See id. at 647.
225. See id.
226. See id. at 647.
227. See id. The appellants alleged a violation of section 3344 of the California Civil Code which:

[M]akes it unlawful to 'knowingly use[ ] another's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods or services, without such person's prior consent .

Id. (citing CAL. CIV. CODE § 3344 (West 1997)).
right of publicity claims were preempted by the Copyright Act.\textsuperscript{228} The court set forth two criterion that must be satisfied for preemption to occur under the Copyright Act: "[F]irst, the subject of the claim must be a work fixed in a tangible medium of expression and come within the subject matter or scope of copyright protection . . . and second, the right asserted under state law must be equivalent to the exclusive rights contained in [the Copyright Act]."\textsuperscript{229} The court held that once the actors' performances were captured on film "they became 'dramatic works' 'fixed in [a] tangible medium of expression'" which is "within the subject matter of copyright" such that preemption is required.\textsuperscript{230} Further, the court reasoned that the plaintiffs were trying to prevent distribution of the film, which is one of the exclusive rights under federal copyright law, so their claims again fell within the domain of copyright and should be preempted.\textsuperscript{231}

The court's reasoning in \textit{Fleet} was flawed and preemption was inappropriate.\textsuperscript{232} Fixing the actors' performances on film did not bring their identities within the realm of copyright law or cause their identities to receive copyright protection.\textsuperscript{233} Following this reasoning, any time an actor consents to be filmed his identity may be used without redress.\textsuperscript{234} If he seeks to recover under the right of publicity his claims will be preempted, and, unless he owns an interest in the copyright, he cannot recover under the Copyright Act either, leaving him defenseless.\textsuperscript{235} The plaintiffs suffered from the unauthorized use of their identities, but they were unable to recover because federal copyright law preempted their right of publicity claims, and they did not have standing to act.

\begin{itemize}
\item \textsuperscript{228} See \textit{id.} at 653.
\item \textsuperscript{229} Id. at 650 (citations omitted).
\item \textsuperscript{230} Id. at 650, 653.
\item \textsuperscript{231} See \textit{id.} at 653 ("A claim asserted to prevent nothing more than the reproduction, performance, distribution, or display of a dramatic performance captured on film is subsumed by copyright law and preempted.").
\item \textsuperscript{232} See Elliott, \textit{supra} note 99, at 1656 ("Rulings such as \textit{Fleet} which find that the right of publicity is preempted constitute a dangerous precedent.").
\item \textsuperscript{233} See \textit{id.} at 1653-56; see also Robinson, \textit{supra} note 8, at 190 ("The human persona or identity cannot be considered a 'writing' of an 'author' under the copyright clause of the Constitution.") (citations omitted); Hoffman v Capital Cities/ABC, Inc., 33 F. Supp. 2d 867, 875 (C.D. Cal. 1999) (holding that "name, face and persona" are not within the scope of copyright protection).
\item \textsuperscript{234} See Elliott, \textit{supra} note 99, at 1653-56.
\item \textsuperscript{235} See \textit{id.}
\end{itemize}
under the Copyright Act. Preemption can have serious ramifications in that it may prevent an injured party from recovering, and it is exceedingly damaging when preemption is applied inappropriately.

Several courts have recognized that state right of publicity laws may coexist with the Copyright Act and have permitted right of publicity claims to proceed despite preemption challenges. This approach appears to be the prudent alternative. In *Waits v. Frito-Lay, Inc.*, the Ninth Circuit held that the plaintiff’s right of publicity claims were not preempted by federal copyright law. Tom Waits was a professional singer known for his distinctive voice. Waits refused to do commercials based on his belief that it detracts from an artist’s integrity. Frito-Lay, the snack food company, wanted to use one of Waits's songs for a radio commercial to promote its new product. Tracy-Locke, Frito-Lay’s advertising agency, hired Stephen Carter, a singer whose voice bore a striking resemblance to Waits’s voice, to sing in the commercial.

When the commercial aired, Waits sued for a violation of his publicity rights. The defendants alleged that Waits’s right of publicity claim was preempted by federal copyright law. The court held that Waits’s claim was not preempted. Specifically, the court asserted that “a state cause of action escapes Copyright Act preemption if its subject matter ‘does not come within the subject matter of copyright . . . including works of authorship not fixed in any tangible medium of expression.’” The court proceeded to assert that voice is not within the subject matter of copyright because it is not fixed. Because

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236. See Fleet, 58 Cal. Rptr. 2d at 653.
238. 978 F.2d 1093 (9th Cir. 1992).
239. See id. at 1099.
240. See id. at 1097.
241. See id.
242. See id.
243. See id. at 1097-98.
244. See id. at 1098.
245. See id. at 1099-1100.
246. See id. at 1100 (“Waits’ voice misappropriation claim, therefore, is not preempted by federal copyright law.”).
247. See id. (citations omitted).
248. See id.
voice is not the proper subject matter of copyright, Waits’s claim for infringement of identity based on the use of voice was not preempted. The conclusion reached by the Ninth Circuit is logical. Waits’s voice as an entity is clearly not copyrightable, so his claim based on the misappropriation of his voice should not be preempted because it is not within the realm of federal copyright protection. If his claim were preempted, he could not recover for his injuries because the right of publicity would not apply and federal copyright law would not protect his voice. It is important that courts uphold the right of publicity whenever possible in response to preemption challenges because the right of publicity may be the only alternative for recovery.

One solution to the preemption problem would be to federalize the right of publicity. The right of publicity is an essential doctrine that performs a unique function, and it should be federalized. Several scholars have argued for the federalization of right of publicity laws. The benefits of federalization are obvious. If the right of publicity is federalized, it would eliminate challenges based on preemption. Further, the doctrine, which serves an important purpose, would be recognized in all states, and there would be a greater degree of uniformity among states and circuits. In addition, attorney’s fees, which are generally not available for a successful plaintiff, may be made available under a federal right of publicity statute. Whether or not the right of publicity

249. See id.
250. See id. at 1100.
251. See id. (noting that “[a] voice is not copyrightable”).
253. See Robinson, supra note 8, at 201-02 (“A federal right of public identity statute would benefit the public, the judiciary, and those who invest time, effort, and money in their personal identities.”).
255. See Robinson, supra note 8, at 204.
256. See id. at 204-05; Keller & Bernstein, supra note 97, at 445 (“A pre-emptive federal statute would provide uniformity and thus certainty for potential plaintiff and defendants alike.”).
257. See Robinson, supra note 8, at 203 (opining that a federal right of publicity statute could provide attorneys’ fees for a successful plaintiff and arguing that the threat of attorneys’ fees might
is federalized, the doctrine is necessary to efficiently protect identity, and it is entitled to a great deal of deference—preemption challenges should only succeed in limited, appropriate situations.\textsuperscript{258}

\textbf{CONCLUSION}

The right of publicity is an essential doctrine in that it provides efficient protection for an individual's identity.\textsuperscript{259} The doctrine originated as a subspecies of the invasion of privacy torts, which sought to compensate a party for the emotional injuries attendant to the unauthorized use of his persona.\textsuperscript{260} Eventually the right evolved into an independent cause of action intended to vindicate the financial injuries that resulted from the unauthorized exploitation of identity.\textsuperscript{261} The right of publicity is necessary because it effectively and directly protects identity.\textsuperscript{262} Protecting identity furthers several important goals: It benefits society because an individual will have the incentive to create and to contribute to society, it permits an individual to reap the benefits of his hard work, and it prevents unjust enrichment and deceptive trade practices which are traditionally disfavored.\textsuperscript{263} The right of publicity is particularly important because it may be the only alternative to safeguard identity.\textsuperscript{264} In many situations copyright, trademark, and unfair competition fail to protect identity,\textsuperscript{265} and accordingly, it is prudent to have a cause of action that directly and efficiently protects identity.\textsuperscript{266} Because the right of publicity serves such an

\begin{itemize}
\item \textsuperscript{258} See Grady, supra note 2, at 1669-70 (stressing the importance of the right of publicity and the need to limit preemption by the Copyright Act).
\item \textsuperscript{259} See McCarthy, supra note 2, at 130 ("The right of publicity is simply the right of every person to control the commercial use of his or her identity.").
\item \textsuperscript{260} See supra notes 16-29 and accompanying text.
\item \textsuperscript{261} See supra notes 30-84 and accompanying text.
\item \textsuperscript{262} See generally Robinson, supra note 8, at 183 (discussing the right of publicity and the variety of situations in which it has been utilized to safeguard identity).
\item \textsuperscript{263} See id.
\item \textsuperscript{264} See supra notes 100-175 and accompanying text.
\item \textsuperscript{265} See id.
\item \textsuperscript{266} See Robinson, supra note 8, at 184, 189-92 (emphasizing the importance of the right of publicity and noting that it will protect identity in situations in which federal copyright and trademark law will fail to apply).
\end{itemize}
integral function in the legal system and society, the doctrine should be entitled to a great deal of deference. Successful preemption challenges should be limited to appropriate situations. A great deal of harm could result if the doctrine is diluted or eradicated such that a party has no effective means to protect his identity and the commercial value associated with it.268

267. See Elliott, supra note 99, at 1670 (arguing for an amendment to the Copyright Act that will expressly forbid preemption of the right of publicity).
268. See Grady, supra note 2, at 108-13 (emphasizing the importance of the right of publicity and the harms that could result to individuals and society without the doctrine).
Is the Use of the Doctrine of Equivalents to Fix Mistakes a Mistake?

by Martin Adelman

The doctrine of equivalents, or more accurately speaking the subject of non-textual infringement, has been the subject of innumerable law review articles and judicial decisions, but rarely have any developed any theory for deciding when, if ever, a court should go outside the literal claim language to find infringement. Usually, the literature will talk about the need for a balance between legal certainty and fairness, or will focus on the latest decisions and analyze them for consistency with earlier ones, or compare the approach taken by one country with that of another. If one seeks to determine when a court should expand a claim beyond its literal scope, one will search in vain for good answers rooted in the structure of the patent system. Perhaps it cannot be done, but I would like to give it a try in this article. To do so, I propose to use the facts of five cases. Three are from the United States, Overhead Door Corp. v. The Chamberlain Group, Inc., Sage Products, Inc. v. Devon Industries, Inc. and Pall Corp. v. Micron Separations, Inc.; one is from Japan, Genentech, Inc. v. Sumitomo Pharmaceuticals Co.; and the fifth and final case is from the United Kingdom, Improver Corp. v. Remington Consumer Products Ltd.

Before embarking on a study of these cases, it is helpful to review some patent system basics. Essentially, there are three types of patent systems. The first, a registration system, relies solely on courts to decide on the scope of patent protection. The second relies on an administrative examination system, usually a patent office, to determine the scope of the patent. The pure examination system must have a mechanism for informing both the public and the courts empowered to enforce the patent as to just what is covered by the patent. This coverage is precisely what the patent office decided to give to the applicant by way of exclusive rights. The third is a mixed registration and examination system where the applicant can obtain a claim from the patent

1. Professor of Law and Director of the Intellectual Property Law Program at George Washington University School of Law.
3. 126 F.3d 1420, 44 U.S.P.Q.2d 1103 (Fed. Cir. 1997).
5. Osaka High Court, 1996, Case No. Heisei 6(ne) 3292. A translation by Professor Toshiko Takanaka of the University of Washington School of Law of the relevant parts of the courts opinion is available at http://www.law.washington.edu/~casrip.
6. 1990 F.S.R. 181 (Patents Ct.).
office that cannot be challenged in the infringement court, although the infringement court is free to use a registration-like system for subject matter outside of the claim language. I introduce these various systems only to caution those who would advocate important non-textual infringement law from one system to another without first looking at the nature of the systems themselves.

This article will focus on the patent system of the United States where the law gives an administrative agency, the Patent and Trademark Office ("PTO"), the task of working with an applicant to determine the appropriate scope of the patent monopoly using claims written in English. The law does not expressly permit the federal courts themselves to determine what subject matter, outside of that covered by the language of the claims worked out with the PTO, is to be considered to be within the patent monopoly. Nevertheless, the courts allow the patentee a wider coverage than that provided by the PTO under the doctrine of equivalents. This article will examine not what the courts have actually done, but what all courts functioning under a patent system similar to that of the United States should do. In order to accomplish this, it is necessary to focus first on the claiming system used by the PTO.

In nearly all examination systems there are two types of claim elements for product claims and two different types of elements for process claims. For a product claim, an element may define structure or it may define the function performed by structure. For a method claim, an element may define a step, or the function performed by the step. It is easier to distinguish a functional element from a structural element in a product claim and this article will focus on such elements. When an inventor files a patent application, the specification teaches at least one embodiment of the invention and may disclose alternative embodiments. In order to avoid having to make an inventor put numerous alternatives into the application, an application is to be understood to contain what one skilled in the art would understand from the specification. Thus, when an element of a claim is drafted in structural form it will reference structure in the specification as understood by one skilled in the art. However, one skilled in the art may know of insubstantial variations of that structure. If functional elements were not permitted in claims, an inventor would have to include, and claim, all insubstantial variations for each element known as of the filing date, if he believed that such variations were within his patent. Since functional elements are expressly permitted in United States law, and such elements cover all insubstantial variations of the disclosed element as of the issue date, a claim element that is in structural form suggests that the applicant is focusing on the claimed structure itself, a structure that must be disclosed in the specification to one skilled in the art. In essence, the applicant has a choice for each element. One may claim the element structurally, so as to emphasize that it is that element
and no other that is covered, or claim it structurally and thus inform the world that insubstantial variations known as of the issue date are covered.\(^7\)

This brings us to the next issue, that of timing. Many insubstantial variations are developed after the filing date and many could not have been reasonably foreseen as of the filing date. Therefore, when interpreting a functional element, the law must set a time for determining insubstantial variations. If the court sets the time as of the time that the alleged infringing device was developed, then the claim changes its meaning as a function of the development date. This is inconsistent with the proposition that the meaning of a claim is fixed as of its filing date or at least as of its issue date. Surely, however, whatever date is chosen to fix the meaning of a functionally defined element, there is the need for an additional doctrine to cover after-arising equivalents. Otherwise, all that an alleged infringer would need to do is to develop an immaterial variation unknown as of the filing or issue date of the patent. In any event, so long as the patent system requires claims with a fixed meaning as of a certain date, there is a need for courts to be able to extend claim scope beyond the literal language of the claim. The same analysis is applicable to structural elements. The applicant may focus on the structural elements known or reasonably foreseeable as of the issue date, but surely the applicant cannot be held to have decided to exclude after-arising equivalents that were not reasonably foreseeable. Therefore, any claiming system that purports to fix the meaning of a claim as of the filing or issue date must have a system for dealing with after-arising equivalents that were not reasonably foreseeable and hence, not claimable. It is my opinion that covering after-arising equivalents should be the central function of a judicially administered doctrine of equivalents.

The next issue is what to do about mistakes made by the inventor. Mistakes are the failure to claim embodiments that one could reasonably foresee using the claimed invention while avoiding the claims' literal language. This problem is particularly acute if the patent system permits no substantial changes in the claims after filing. Hence, the claims would have to be in substantially final form when filed. The United States is particularly generous in dealing with mistakes. It permits an applicant to correct any mistakes in his claims until the grant of a patent. It further permits a patent owner to correct mistakes through reissue. Moreover, in American patent law there is what is known as the Vogel trailer practice, a practice that permits an inventor to correct all errors without

\(^7\) The recent case law on this subject is discussed at 3 Martin J. Adelman, Patent Law Perspectives § 3.3[3], at n. 25-28 (2d ed. 1999).
experiencing any of the limitations of reissue law. In any event, United States patent law provides ample opportunity for an inventor to correct claiming errors that were reasonably foreseeable as of the issue date. Yet, there is no sound reason for permitting courts to correct such errors. When they do so, they are essentially adopting the mixed registration examination system, since the courts are in effect examining patents by applying a hypothetical claim to the accused product and then examining the hypothetical claim for validity.

_Pall Corp. v. Micron Separations, Inc._

This article provides some illustrative cases. The first case, _Pall_, involved a non-fibrous polymeric membrane. Claim 116 is representative of the product claims:

116. A hydrophilic skinless alcohol-insoluble polyamide resin membrane sheet of alcohol-insoluble hydrophobic polyamide resin having a ratio CH2:NHCO of methylene CH2 to amide NHCO groups within the range of about 5:1 to about 7:1; capable when completely immersed in water of being wetted through within no more than one second, and reverting when heated to a temperature just below the softening temperature of the membrane to a hydrophobic material which is no longer wetted by water.

The accused filter was made from a polyamide with a ratio of 4 to 1 of methylene to amide groups, Nylon 46, a range outside of the literal language of the claim. The history of the claim is important to understanding the appropriate scope of non-textual infringement.

Dr. Pall filed a parent patent application on May 15, 1978. He drafted the specification in order to try to claim as his filter material all alcohol insoluble polyamides that produced hydrophilic skinless membranes. After an interview where the breadth of the polyamide element was discussed, Dr. Pall amended his claims to define the polyamide resins by a Markush group that included all of

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11. _Id._ at 1217.
12. _Id._
14. _Id._
the resins used in the operative embodiments of the specification. Dr. Pall explained:

As indicated at the interview, Claims 1, 32, 56, 67, and 75, although not rejected on the grounds of undue breadth, are amended because, on the basis of research done since this application was filed, the applicant now considers that the process described and claimed herein is actually applicable only to polyamide resins which are polymers of hexamethylene diamine and aliphatic saturated dicarboxylic acids having from six to ten carbon atoms. As indicated at Page 22, Lines 12 to 14, the preferred polyamide resins now recited in these claims in a Markush group are polyhexamethylene adipamide (Nylon 66), poly-e-caprolactam (Nylon 6), and polyhexamethylene sebacamide (Nylon 610). These embrace the limits of the class of saturated aliphatic dicarboxylic acids having from six (adipic) to ten (sebacic) carbon atoms.

Before the PTO acted on this amendment, Dr. Paul filed a continuation-in-part application, redefining the invention by including in the claims for the first time the methylene to amide ratio range limitation. He explained that the application Serial No. 905,698 had been refiled to provide basis for a narrow subclass of polyamide resins disclosed in Serial No. 905,698 that form such skinless hydrophilic membranes. All members of this class have a ratio CH\[2\]:NHCO of methylene CH\[2\] to amide NH\[2\] groups within the range from about 5:1 to about 7:1, including polyhexamethylene adipamide (Nylon 66), poly-e-caprolactam (Nylon 6), polyhexamethylene sebacamide (Nylon 610), poly-7-aminoheptanoamide (Nylon 7), polyhexamethylene azeleamide (Nylon 69), and mixtures of two or more thereof, as well as mixtures thereof with higher polyamide homologues such as polyhexamethylene dodecanamide (Nylon 612) in portions such that the mixture has an average of CH\[2\]:NHCO ratio within the stated range. The first three polyamides, Nylon 66, Nylon 6 and Nylon 610, are preferred.

The other polyamides disclosed in Serial No. 905,698 have been found not to form hydrophilic skinless membranes. Some of them, those that have a ratio CH2:NHCO of methylene CH2 to amide NHCO groups within the range from

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15. Id. at 1310.  
16. Id.  
17. Id. at 1311.  
18. Id.  
19. Id.  
20. Id.
about 7:1 to about 12:1, form skinless liquophilic membranes. The others form
hydrophobic skinned membranes.\textsuperscript{21}

The examiner did not reject any of the continuation-in-part claims on art.\textsuperscript{22}
However, in his first office action, the examiner rejected all of the ratio range
claims.\textsuperscript{23} Dr. Pall responded:

The range of CH2:NHCO ratios within the range from about 5:1 to about 7:1 is
actually rather narrow, and it is moreover well supported in the disclosure. The
ratio of 5:1 requires there to be five CH2 to one NHCO group, and the ratio of
7:1 requires there be seven CH2 groups to one NHCO group. These limits
constrain a rather narrow range of CH2:NHCO ratios, and clearly exclude the
vast majority of polyamide resins, all of which can of course be prepared from
diamines and dicarboxylic acids or aminocarboxylic acids having virtually
infinite number of carbon atoms, in virtually infinite permutations.

The specification at the bottom of page 22 lists a number of commercially
available polyamide resins that fall within the limits of the ratio range, and these
are as follows:

\begin{align*}
\text{Nylon 6} & \quad \text{(CH2)}_5\text{CONHN} & \quad 5:1 \\
\text{Nylon 66} & \quad \text{(CH2)}_6\text{NHCO CH2}_4\text{CONHN} & \quad 5:1 \\
\text{Nylon 610} & \quad \text{(CH2)}_6\text{NHCO (CH3)}_8\text{CONHN} & \quad 7:1 \\
\text{Nylon 7} & \quad \text{(CH2)}_5\text{CONHN} & \quad 6:1 \\
\text{Nylon 69} & \quad \text{(CH2)}_6\text{NHCO (CH2)}_7\text{CONHN} & \quad 6.5:1
\end{align*}

Mixtures of these with each other or with polyamides outside the range but with
an average ratio within the limits as well as other polyamides within the range
can of course be conceived, but the above should make it clear that those listed
are virtually all of the permutations based on hexamethylene diamine, or on
aminocarboxylic acids, of which only Nylon 8 (CH 2) 6CONHN is not
specified.\textsuperscript{24}

After reviewing Dr. Pall’s response, the examiner allowed the pending

\begin{footnotes}
\item[21.] \textit{Id.}
\item[22.] \textit{Id.}
\item[23.] \textit{Id.}
\item[24.] \textit{Id. at 1311.}
\end{footnotes}
In spite of the literal language of the claims, including 116, and the fact that the examiner would only allow nylons that were enabled by the specification, the court permitted enlargement of 116 so as to reach Nylon 46 because it was not commercially available at the time of Dr. Pall's invention. Thus, given its close similarity in chemical structure and the identity of function, way, and result, the court deemed it to be an equivalent to the claimed membranes of claim 116. In essence, the court treated Nylon 46 as an after-arising equivalent even though it was known chemically since 1942 because there was no practical way for Dr. Pall to experiment with it until it became commercially available.

The court did not, however, discuss whether one skilled in the art at the time of the filing of the Pall application would have considered it obvious that Nylon 46 would function in the same way as the claimed nylons. This question should be asked because if the answer is no, then we are not talking about the same invention. Merely because Nylon 46 turns out to function in the same way as the claimed nylons to make the patented filters does not make it an equivalent, because the discovery that it works in the same way may have been in fact non-obvious, and thus, a different invention from the one claimed. With this important caveat, the approach of the Federal Circuit in *Pall* is the one that I advocate for the patent system. I will demonstrate why all other approaches are misguided.

*Genentech, Inc. v. Sumitomo Pharmaceuticals Co.*

There is an important infringement issue from the worldwide t-PA litigation, particularly in *Sumitomo Pharmaceuticals.* The issue presents a difficult question regarding foreseeability of the accused gene. The case involved patents relating to the discovery of the gene for an important human protein, t-PA. The key to the invention was that it was difficult at the time of the filing of the patent application to find the gene that coded for t-PA. Thus,
finding the human gene was the important contribution of Genentech. The gene used by Sumitomo differed from the claimed gene in that it coded for a protein, met-t-PA, that differed from t-PA by one amino acid. Specifically, there were two t-PA patents in suit in Japan. The first patent, referred to as invention A, includes three independent claims, one directed to the claimed t-PA, the second to a method of making it, and the third to a method of using it. All of them include the following critical language: “and comprises a segment of 89th to 527th amino acid as indicated in the appendix 1.” The only claim of invention B reads as follows:

[A] microorganism, yeast, and mammal cell transformed by a recombinant expression vector containing a DNA sequence encoding human tissue plasminogen activator, having a sequence of 1st to 527th amino acids listed in the attached appendix 1.

Since met-t-PA substitutes methionine for valine at position 245, any gene or organism transformed by this gene that codes for met-t-PA would not literally infringe either patent. The Osaka High Court, in deciding whether to find that the genes and products derived from them that code for met-t-PA should infringe under the Japanese doctrine of equivalents, relied on the following factual findings:

(1) Valine and methionine behave similarly in structuring three dimensional protein structure.

(2) Transformation from valine to methionine in protein amino acid sequences occurs relatively frequently. This transformation does not affect the function of the protein (trivial transformation).

(3) t-PA’s 245th position is buried in the hydrophobic region of the three dimensional structure of the protein and has no significant role in relation to biological activity.

(4) If a sequence of amino acids is identified, one skilled in the art could have manufactured a t-PA variation wherein some amino acid residues are replaced,

30. Id.
31. Id.
32. Id.
33. Id.
34. Id.
35. Id.
deleted or added by manufacturing t-PA's cDNA and changing a segment of the canonical amino acid sequence in the t-PA.

(5) The significance of Patented Inventions A and B is to express a t-PA cDNA encoding a recombinant t-PA which provides a biological activity.

(6) In the scientists' view, the significance of the first successful cloning of a t-PA c-DNA and producing a recombinant t-PA is vastly greater than subsequently repeating the cloning of t-PA by making reference to the disclosure of the first cloning procedure.

(7) Production of a different form of t-PA by making reference to the amino acid sequence of t-PA has no practical use, unless the different form of t-PA provides improved characteristics.

(8) Cloning errors occur very frequently. In most cases, such errors result from replacements of insignificant amino acid residues with similar amino acid residues which do not affect the function of the protein. When a protein resulting from a cloning error has the same function as that of the original protein, the error results from a replacement of insignificant amino acids with similar amino acids. Therefore, one skilled in the art could have known that the protein in a different form resulting from the error would have the same function as the original protein.\(^{36}\)

An important question that the court itself answered is whether the failure to obtain a claim covering met-t-PA was due to attorney error. The court said that it was not, and explained as follows:

These facts in the patent prosecution indicate that the limitation of amino acid sequence was introduced to meet the requirement provided in Article 36, because variations included in the original claims were not supported by the disclosure in the specification.

This assertion suggests that Japanese patent law would not permit claims that were broader than what was precisely disclosed. This is not the place to discuss Japanese law on enablement, but in the United States one can claim the full scope of what one has put in the possession of the public. Based on the facts set forth by the court, the PTO should have permitted Genentech to claim the t-PA gene and genes coding for t-PA like proteins. Therefore, it is unclear whether the gene for met-t-PA was an after-arising equivalent or one that was

\(^{36}\) Id.
reasonably foreseeable, and hence, should have been encompassed by the claims. This case is an example of a tough case at the margin.

Sage Products, Inc. v. Devon Industries, Inc.

We now turn to an easy case and one that is the high-point of Federal Circuit jurisprudence on the doctrine of equivalents, Sage Products,37 where the court dealt with a simple mechanical patent with inadequate claims, the apparent result of poor lawyering. Sage Products involved a patent, US Patent No. 4,779,728 ("728"), directed to a disposal container with a slot at its top to allow entry of waste materials into the container and with constrictive barriers above and below that slot to restrict access to the interior of the container.38 The only independent claim of the 728 patent reads as follows:

1. A disposal container comprising:
   a. a hollow upstanding container body,
   b. an elongated slot at the top of the container body for permitting access to the interior of the container body,
   c. barrier means disposed adjacent said slot for restricting access to the interior of said container body, at least a portion of said barrier means comprising
      i. a first constriction extending over said slot, and
      ii. a complementary second constriction extending beneath said slot, and
   d. a closure disposed adjacent said slot.39

The accused device did not literally infringe for several reasons, including the fact that the first constriction did not extend over the slot.40 The court said that it had to decide whether an internal constriction should be covered by court decision. In deciding that it should not be covered by a court decision, the court made the following remarks:

37. Sage Prods. v. Devon Indus., 126 F.3d 1420 (Fed. Cir. 1997).
38. Id. at 1422.
39. Id.
40. Id. at 1423.
The claim at issue defines a relatively simple structural device. A skilled patent drafter would foresee the limiting potential of the "over said slot" limitation. No subtlety of language or complexity of the technology, nor any subsequent change in the state of the art, such as later-developed technology, obfuscated the significance of this limitation at the time of its incorporation into the claim. If Sage desired broad patent protection for any container that performed a function similar to its claimed container, it could have sought claims with fewer structural encumbrances. Had Sage done so, then the Patent and Trademark Office (PTO) could have fulfilled its statutory role in helping to ensure that exclusive rights issue only to those who have, in fact, contributed something new, useful, and unobvious. Instead, Sage left the PTO with manifestly limited claims that it now seeks to expand through the doctrine of equivalents. However, as between the patentee who had a clear opportunity to negotiate broader claims but did not do so, and the public at large, it is the patentee who must bear the cost of its failure to seek protection for this foreseeable alteration of its claimed structure.

This court recognizes that such reasoning places a premium on forethought in patent drafting. Indeed this premium may lead to higher costs of patent prosecution. However, the alternative rule -- allowing broad play for the doctrine of equivalents to encompass foreseeable variations, not just of a claim element, but of a patent claim -- also leads to higher costs. Society at large would bear these latter costs in the form of virtual foreclosure of competitive activity within the penumbra of each issued patent claim. Because the doctrine of equivalents blurs the line of demarcation between infringing and non-infringing activity, it creates a zone of uncertainty, into which competitors tread only at their peril. Given a choice of imposing the higher costs of careful prosecution on patentees, or imposing the costs of foreclosed business activity on the public at large, this court believes the costs are properly imposed on the group best positioned to determine whether or not a particular invention warrants investment at a higher level, that is, the patentees. The court in Sage Products has it right. It represents the only Federal Circuit opinion that correctly explained when it is appropriate for a court to itself find infringement for a product or process outside the language of the claims. The Federal Circuit ordinarily simply states that equivalence is a question of fact and then decides whether to expand a claim without falling back on any sound basis for doing so. A recent example is Overhead Door v. The Chamberlin Group, Inc. The Overhead Door case is a wonderful case because the patentee

41. Id. at 1425.
knew that it erroneously left out a disclosed equivalent and filed a broadening reissue application to fix the error.

*Overhead Door v. The Chamberlin Group, Inc.*

In *Overhead Door*, the patent in suit, Re. 35,364 ("364"), covers an automatic microprocessor-controlled garage door opener that opens and closes a garage door when it receives a code stored in its memory from a portable transmitter.42 The garage door opener has two modes.43 One is a programmable mode where it is capable of recording the code sent to it by a portable transmitter.44 The other is the operational mode where it opens and closes the garage door in response to the receipt of a code from the portable transmitter that is associated with a code stored by the garage door opener.45 The garage door opener is switched from one state to the other by a two position mechanical switch.46 In order to be responsive to more than one portable transmitter, the garage door opener is able to store five different codes in its memory.47 In one embodiment, illustrated in Figure 2, the positions for storage of codes in the memory are chosen by a mechanical switch that has five mechanical positions.48 Figure 3 suggests the use of a software implement technique for choosing the memory location for storage of a code from a portable transmitter, since it shows a software pointer that chooses the memory location.49

Nevertheless, the only independent claim in the original patent, claim 1, reads as follows:

A garage door operator for a garage door comprising, a garage door operation mechanism with an output shaft connected to said garage door to open and close it, a radio receiver, a decoder connected to receive the output of said radio receiver, a microprocessor connected to receive the output of said decoder and to said garage door operation mechanism to energize it, a switch moveable

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43. *Id.*
44. *Id.*
45. *Id.*
46. *Id.*
47. *Id.*
48. *Id.*
49. *Id.*
between program and operate positions connected to said microprocessor to place said microprocessor in the operate or program mode, a memory means for storing a plurality of addresses connected to said microprocessor when said switch is in the program position, a memory selection switch connected to said microprocessor, a plurality of radio transmitters with different codes, said memory selection switch setable in a first position at a time when a first one of said radio transmitters is energized so that the code of said first transmitter will be stored in said memory means and said memory selection switch set in a second position at a time when a second one of said radio transmitters is energized so that the code of said second transmitter will be stored in said memory means, and said microprocessor placed in the operate mode when said switch is in the operate position so that either or both of said first and second radio transmitters when energized cause said microprocessor to energize said garage door operator mechanism.50

As one no doubt suspects, the accused device does not have a mechanical switch whose position determines where to store a code. Instead, it uses software to determine an empty place in memory that is capable of storing a code.51 However, it uses a different algorithm for its software than the algorithm shown in Figure 3 for choosing where to store the new code.52 Nevertheless, the inventors knew that there were ways other than using a mechanical switch to change the storage location of the registers that stored the codes, as demonstrated by the system software disclosed in Figure 3. Thus, it is not surprising that before the two-year period for filing a broadening reissue was up, the inventors sought to correct their obvious error and ultimately obtained reissue claim 5:

An operator for controlling operation of equipment comprising: a radio receiver, a decoder connected to receive the output of said radio receiver, a microprocessor connected to receive the output of said decoder and to said equipment to energize it, first switch means for selection between program and operate positions connected to said microprocessor to place said microprocessor in the operate or the program mode, a memory means for storing a plurality of addresses connected to said microprocessor when said first switch means is in the program position, a memory selection second switch means connected to said microprocessor, a plurality of radio transmitters with different codes, said memory selection second switch means being adapted to select a first position at

50. Id. at 1265.
51. Id.
52. Id.
a time when a first one of said radio transmitters is energized so that the code of said first transmitter will be stored in said memory means and said memory selection second switch means being adapted to select a second position at a time when a second one of said radio transmitters is energized so that the code of said second transmitter will be stored in said memory means, and said microprocessor placed in the operate mode when said first switch means is in the operate position so that either or both of said first and second radio transmitters, when energized cause said microprocessor to energize said equipment.53

In spite of the inventors' awareness that they did not properly claim their invention in the original patent, the Federal Circuit commented on the possibility of extending the mechanical second switch of claim 1 so as to cover the accused software implementation:

The record contains considerable evidence, including several reports and declarations by Chamberlain's expert, Dr. Rhyne, that one of ordinary skill in the art would find the Intellicode's software-driven memory selection system insubstantially different from the hardware switch of claim 1. Dr. Rhyne averred in his June 2, 1997 report: "[it is a] fundamental and well understood tenet of the computing art [that] . . . 'any software process can be transformed into an equivalent hardware process, and any hardware process can be transformed into an equivalent software process.'" . . . Dr. Rhyne stated that this "dualistic transformation," known as the "hardware/software" trade-off, effectively means that the selection of a software pointer for a microprocessor versus a hardware switch to control a microprocessor-based system is simply a matter of design choice. This record evidence shows that one of skill in the art would recognize these alternative systems as interchangeable substitutes. Drawing all reasonable inferences in favor of Chamberlain, as this court must in reviewing the summary judgment of non-infringement, this court concludes that Dr. Rhyne's statements and supporting citations to computer science literature show a genuine issue of material fact precluding summary judgment.54

There can be little doubt that the court believed that it was appropriate to fix a mistake by using the doctrine of equivalents to say that a mechanical switch is a meaningless limitation. The court therefore, and not the PTO, will decide whether the patentee should have more than it was given by the PTO, since when the application was filed, the software implement switches were old as exemplified by the disclosure itself. Yet, permitting a court to twist the notion

53. Id.
54. Id. at 1269-70.
of a mechanical switch to possibly cover a software-implemented switch is surely twisting all meaning out of language.

Claim 5 presents a different story. The court’s discussion here is sound:

In construing claim 5, the district court determined the term “memory selection second switch means” encompasses the same scope as the “memory selection switch” of claim 1. Specifically, the district court determined that “memory selection second switch means” covers only the mechanical switch of Figure 2, not the software embodiment of Figure 3. The written description of the ‘364 patent and the prosecution history, however, reveal a broader meaning of “memory selection switch means.”

As previously explained in this court’s analysis of claim 1, Figure 3 illustrates a flow diagram “describing both the operate and program modes of the invention.” The two lower-right corner dialog boxes of Figure 3 describe steps to “store code at location pointed to by the code location pointer” and “increment code location pointer[,] if pointer increments over five then load code location pointer with one. Dr. Rhyne’s expert testimony shows that one of ordinary skill in the computer science art would understand the underlined terms to describe software operations.

Although software operations do not fall within the literal scope of the “memory selection switch” in claim 1, the reissue prosecution history also discloses a broader reading for the “switch means” of claim 5. First, the patentees’ representation to the Patent and Trademark Office in its November 29, 1989 sworn declaration indicated their intent to include the algorithm of Figure 3 as a “corresponding structure” for the switch means. The patentees stated:

We believe the aforesaid Letters Patent to be wholly or partly inoperative or invalid by reason of our claiming less than we had a right to claim in the patent. More specifically, we believe the sole independent original claim [i.e., claim 1 of the ‘118 and now claim 1 of the ‘364 patent] is too narrow in three respects:

(c) The claim requires a “switch moveable” and a “memory selection switch” but should have required a —first switch means— and a —memory selection switch means—, respectively, because switch means includes electronic switches as well as mechanical switches.

While this statement weighs against construing claim 1 to include software
operations, it gives a broader reading to claim 5. This statement evinces the patentees’ use of the term “switch means” to include microprocessor operations driven by software, i.e., “electronic” switches, as opposed to a mechanical switch of Figure 2. The patentees’ use in claim 5 of the term “switch means” rather than “switch” and “being adapted to select” rather than “setable” and “set,” to describe software operations, further support a broader construction.

Later in the reissue proceedings, the patentees argued in response to an anticipation rejection:

Applicants’ method and apparatus is intended to simplify the remote control of equipment by code transmitters. . . . Such simplifications are provided by including multiple storage locations in the receiver and including a programming routine which receives and stores codes transmitted from the code transmitters of the system. . . .

This statement further supports reading “switch means” to include structure corresponding to Figure 3.

The differences in claim language, bolstered by the patentees’ statements during the reissue proceedings, cause this court to reach a broader construction for claim 5 than for claim 1. . . . The district court erred in ruling that only the mechanical switch in Figure 2 is “corresponding structure” for the claimed “switch means.” “Switch means,” when properly construed, also covers the software-based embodiment described in Figure 3.55

In other words, the patentee fixed the error and will no doubt prevail on claim 5. The only reason for asserting claim 1 is to avoid the doctrine of intervening rights. Sound law would have rejected the claim based on claim 1 and found infringement under claim 5. Why should the law on non-textual infringement also permit fixing errors? As asserted earlier, it should not. United States patent law has ample methods in place to cover equivalents that are mistakenly omitted from the original claims as shown by reissue claim 5 in Overhead Door.

Improver Corp. v Remington Consumer Products Ltd.

A more difficult question is how to decide whether the doctrine of equivalents should cover all after-arising equivalents or only those that would obviously function in the same way. A last case addresses this issue. It is one of a series of cases involving infringement of a European patent corresponding to

55. Overhead Door, 194 F.3d at 1272-73.
US patent 4,524,772 ("772") covering a motorized depilatory known as the Epilady. It essentially uses a coiled spring attached at both ends to a motor. The motor drives one end of the spring clockwise and the other end counterclockwise and the rotating curved spring pulls out hair. The Epilady was a great commercial success. The accused device, sold under the name Smooth and Silky, is the subject of United States patent No. 4,726,375 ("375"). It essentially substitutes a plastic (rubber) tube with grooves for the spring. It was specifically designed to improve on the Epilady design. The independent claim of the European patent corresponding to the 772 reads as follows:

An electrically powered depilatory device comprising: a hand held portable housing (2); motor means (4, 4') disposed in said housing; and a helical spring (24) comprising a plurality of adjacent windings arranged to be driven by said motor means in rotational sliding motion relative to skin bearing hair to be removed, said helical spring (24) including an arcuate hair engaging portion arranged to define a convex side whereat the windings are spread apart and a concave side corresponding thereto whereat the windings are pressed together, the rotational motion of the helical spring (24) producing continuous motion of the windings from a spread apart orientation at the convex side to a pressed together orientation on the concave side and for the engagement and plucking of hair from the skin of the subject, whereby the surface velocities of the windings relative to the skin greatly exceed the surface velocity of the housing relative thereto.\(^{56}\)

The Improver court, using British non-textual infringement law, had to decide whether the substitution was obvious. One issue before the court was what was meant by the obviousness test used in British law. Did it simply ask whether the new combination was obvious over the old? If we assume that the 375 patent was valid, the answer would have to be in the negative. Alternatively, did obviousness mean that what is alleged to be an equivalent is treated as already known, but what is not known is whether that after-arising equivalent would have been an obvious equivalent as of the filing date. The court, speaking through Sir Leonard Hoffmann (now Lord Hoffmann), answered that it was the latter:

Mr. Young interpreted this question to mean that the variant must be one which would have suggested itself to the skilled man as an obvious alternative to the thing denoted by the literal meaning. In this case, he said, the term "helical spring" did not suggest a rubber rod as an obvious alternative. On the

\(^{56}\) See Improver Corp. v Remington Consumer Prods. Ltd., 1990 F.S.R. 181 (Patents Ct.)
contrary, it was an inventive step. He relied upon the evidence of Dr Laming who said that mention of a helical spring would not have made him think of a rubber rod and that the choice of the latter was innovative.

I do not think that this is what Lord Diplock meant by the question and I think that Mr Young has been misled by Lord Diplock's use of the word "obvious" into thinking that he must have been intending to refer to the rule that an obvious improvement is not an inventive step. In my view the question supposes that the skilled man is told of both the invention and the variant and asked whether the variant would obviously work in the same way. An affirmative answer would not be inconsistent with the variant being an inventive step. For example, the choice of some material for the bendy rod which was a priori improbable (eg on account of its expense) but had been discovered to give some additional advantage (eg painless extraction) might be a variant which obviously worked in the same way as the invention and yet be an inventive step. Nor would it matter that the material in question, being improbable, would not have suggested itself to the skilled man as an obvious alternative. Questions such as these may be relevant to the question of construction (Lord Diplock's third question) but not at this stage of the inquiry. Dr Laming and Dr Sharp, the eminent engineer called as an expert by the plaintiff, agreed that it would have been obvious to the skilled man that the attributes which enabled the helical spring to function in the way described in the specification were that it was capable of rotating, capable of transmitting torque along its length to resist the forces involved in plucking hairs, bendy (to form an arc) and slitty (to entrap hairs by the opening and closing effect of rotation). They also agreed that it would have been obvious that any rod which had these qualities in sufficient degree and did not have other defects such as overheating or falling to bits would in principle work in the same way and that the rubber rod plainly belonged to that class. On this evidence the second question must in my judgment be answered yes. I express no view on whether the rubber rod was also an inventive step.

* * *

On the other hand, the evidence shows that although the rubber rod could be used in a device which would function in the way described in claim 1 of the patent in suit, it would work only in a limited number of embodiments. In particular, it could not be used in the loop formation described as the preferred embodiment.57

57. Id.
This test is an appropriate method for limiting equivalents to those that would obviously work in the same way as of the filing date. Thus, if one skilled in the art would have believed, as of the filing date of the Epilady patent, that the rubber rod of the Smooth and Silky unit would not function in the same way as the spring, then it represents a different invention even if it should turn out that it does in fact operate in the same way. However, one should study the United States patents for both the Epilady and the Smooth and Silky units and try and decide for oneself as to whether the latter should be viewed as an infringement of the claim discussed above.

CONCLUSION

Limiting the doctrine of non-textual infringement to obvious after-arising equivalents will eliminate the need for many of the limitations currently used by the courts, such as prosecution history estoppel and prior art rejections. Obviously, one cannot disclaim during prosecution that which has not been invented based on prior art, since by definition we are talking about after-arising equivalents. Moreover, this approach is consistent with the Supreme Court's focus on the time of infringement as the time for measuring equivalency. The Court was well aware that this permitted the inclusion of after-arising equivalents. Finally, this approach is consistent with the Court's admonition not to squeeze all meaning out of a claim element under the doctrine of equivalents, since after-arising equivalents are those that are not reasonably foreseeable.58

TRADE DRESS PROTECTION: THE ISSUE OF DISTINCTIVENESS AND POTENTIAL CONFLICTS

by Jeffery M. Samuels

INTRODUCTION

Trade dress broadly can be defined as the overall appearance or image of goods or services. Over the years, courts have generally divided trade dress into two distinct categories: (1) product packaging (e.g., the labeling associated with a product); and (2) product design or configuration (e.g., the shape of a COCA-COLA bottle).

To succeed in an action for trade dress infringement under the Lanham Act, the plaintiff must establish several elements. First, that the trade dress is distinctive. The plaintiff establishes distinctiveness either by showing that the trade dress is inherently distinctive or that it has acquired distinctiveness, which is also referred to as secondary meaning. Second, that, as a result of the defendant’s use of its trade dress, a likelihood of confusion exists. Finally, the trade dress in issue must be found nonfunctional. Pursuant to recently enacted legislation, where the trade dress is not registered, the party seeking protection has the burden of establishing non-functionality; otherwise, where the trade dress is the subject of a federal trademark registration, the burden rests on the defendant to prove that the trade dress is functional.

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2. Id.
3. Actions for trade dress infringement under the Lanham Act may be brought either under § 32 of the Act, 15 U.S.C. § 1114 (2000), where the trade dress is the subject of a federal trademark registration, or under § 43(a), 15 U.S.C. § 1125(a) (2000), where the trade dress is unregistered. In either case, however, the elements that must be established to prevail are the same.
4. See Pub. L. No. 106-43, § 5, 113 Stat. 218 (1999), which added a new subsection (3) to § 43(a) of the Lanham Act to provide as follows: “In a civil action for trade dress infringement under this Act for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that the matter sought to be protected is not functional.” Id.
Protection for trade dress raises a number of issues, many of which revolve around distinctiveness. These include: (1) How may distinctiveness be established, particularly with respect to product designs or configurations?; and (2) Should the same standards apply in determining distinctiveness of all types of trade dress or should different standards apply to packaging cases as opposed to product design or configuration cases? Moreover, protection for trade dress, particularly for product designs, implicates questions as to possible conflicts with federal patent law or the Constitution. This article will discuss each of these issues.

INHERENT DISTINCTIVENESS

The standard to be applied in determining whether product designs are inherently distinctive is currently being reviewed by the Supreme Court of the United States in *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.* The precise issue before the Court is: "What must be shown to establish that a product's design is inherently distinctive for purposes of Lanham Act trade-dress protection?" To date, the federal courts of appeals have identified and applied several different tests in determining whether or not trade dress is inherently distinctive.

Earlier Supreme Court precedent may provide some guidance as to the outcome of the *Wal-Mart* case. In 1992, the Supreme Court held, in *Two Pesos, Inc. v. Taco Cabana, Inc.*, that the overall décor of a Mexican restaurant could be protected under trade dress law. The specific issue decided in *Two Pesos* was whether trade dress that was inherently distinctive (the jury had so determined) could be protectable without a showing of secondary meaning. The Supreme Court, applying a well-established principle of trademark law, ruled that if trade dress is inherently distinctive, it is protectable without proof of

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5. See __ U.S. __, 120 S. Ct. 308 (1999); see also *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, No. 99-150, 2000 U.S. LEXIS 2197, at *21 (March 22, 2000). On March 22, 2000 the Supreme Court held that "a product's design is distinctive, and therefore protectible, only upon a showing of secondary meaning. The judgment of the Second Circuit is reversed, and the case is remanded for further proceedings consistent with this opinion."
7. Id.
8. Id.
The Court treated trade dress as a unitary concept; that is, it made no distinction between product packaging and product design trade dress.

In *Two Pesos*, the Court also made comments generally supportive of the application of the so-called *Abercrombie* classification scheme. Under *Abercrombie*, trademarks are classified as arbitrary, suggestive, descriptive or generic based on the relationship of the mark to the goods and/or services on, or in connection with, which the mark is used. Where there is no relationship between the mark and the goods/services, the mark is arbitrary. If an average consumer would have to exercise some imagination or thought to reach a conclusion as to the nature of the goods, the mark is suggestive. If the mark immediately brings to mind some quality or characteristic of the product, it is merely descriptive. And, finally, if the term represents the product itself, it is generic. Arbitrary and suggestive marks are considered inherently distinctive and are protectable under the Lanham Act without proof of secondary meaning. Merely descriptive marks are not protectable absent proof of secondary meaning. Generic terms are never subject to protection.

Several years after deciding *Two Pesos*, the Supreme Court, in *Qualitex v. Jacobson Co.*, held that a single color could be subject of trademark protection, provided it was both nonfunctional and distinctive. The Court strongly hinted, however, that color would be protectable only if secondary meaning could be established. Interestingly, the manner in which the issue to be decided in the *Wal-Mart* case is stated implies that a product's design can be inherently distinctive and, thus, protectable without proof of secondary meaning.

Following *Two Pesos*, the various federal courts of appeals struggled with the task of determining the appropriate test to be applied in determining whether trade dress is or is not inherently distinctive.

The first post-*Two Pesos* court of appeals decision on the issue of inherent distinctiveness of trade dress was the Third Circuit's opinion in *Duraco Products v. Joy Plastic Enterprises*. The case involved plastic planters shaped

9. *Id.*
11. *Id.*
12. *Id.* at 9-11.
14. *Id.*
15. 40 F.3d 1431 (3d Cir. 1994).
like Grecian urns. The Third Circuit held that, with respect to product design cases, the *Abercrombie* analysis was inapplicable.\(^\text{16}\) Instead, the court articulated a new, three-part test for determining whether a product design is inherently distinctive. According to the Third Circuit, to be inherently distinctive, a product design must be unusual and memorable, conceptually separable from the product, and likely to serve as a designator of origin.\(^\text{17}\) In rejecting the *Abercrombie* analysis, the *Duraco* court reasoned that, in a product configuration case, where the mark and the goods are one and the same, there is no relationship between the mark and the goods and, thus, no basis for determining whether the mark is arbitrary, suggestive, merely descriptive, or generic.\(^\text{18}\)

Soon after *Duraco* was decided, the Eighth Circuit, in *Stuart Hall Co. v. Ampad Corp.*,\(^\text{19}\) specifically declined to follow the Third Circuit’s lead. The Eighth Circuit pointed to the Supreme Court’s decision in *Two Pesos* and its approving reference to *Abercrombie*. According to the Eighth Circuit, the *Abercrombie* analysis applies to all trade dress cases.\(^\text{20}\)

The Second Circuit next weighed in with a series of decisions, most notably *Knitwaves Inc. v. Lollytogs Ltd.*\(^\text{21}\) and *Landscape Forms, Inc. v. Columbia Cascade Co.*\(^\text{22}\) The Second Circuit concluded in these cases that a product design is inherently distinctive if it is likely to serve primarily as a designator of origin of the product. The court also noted that a company’s subjective intent would be relevant evidence with respect to whether a design is inherently distinctive. Other Second Circuit cases\(^\text{23}\) have made clear that product packaging is subject to a different standard than product design, for purposes of determining whether it is inherently distinctive, and that the *Abercrombie*

\(^{16}\) *Id.*  
\(^{17}\) *Id.*  
\(^{18}\) *Id.*  
\(^{19}\) 51 F.3d 780 (8th Cir. 1995).  
\(^{20}\) *Id.* at 788 (“The Third Circuit suggests that, because Abercrombie examines the relationship between the trade dress and the product, it cannot apply to product configuration because the trade dress then is the product.... We do not perceive this problem with Abercrombie because a product’s trade dress is not the entire product itself, but specific features of the product; ... .”)  
\(^{21}\) 71 F.3d 996 (2d Cir. 1995).  
\(^{22}\) 113 F.3d 373 (2d Cir. 1997).  
\(^{23}\) *See, e.g., Fundamental Too, Ltd. v. Gemmy Indus. Corp.*, 111 F.3d 993 (2d Cir. 1997); *Paddington Corp. v. Attiki Importers & Distribrs., Inc.*, 996 F.2d 577 (2d Cir. 1993).
classification scheme only applies to packaging cases.\textsuperscript{24} The Fourth Circuit, in \textit{Ashley Furniture Industries v. SanGiacomo N.A.},\textsuperscript{25} held that \textit{Abercrombie} provides the "appropriate basic framework for deciding inherent distinctiveness in product configuration cases."\textsuperscript{26} The court noted, however, that any difficulties in applying \textit{Abercrombie} to product design can often be mitigated by reliance on the so-called "Seabrook" factors, which were first enunciated over twenty years ago by the former U.S. Court of Customs and Patents Appeals in \textit{Seabrook Food, Inc. v. Bar-Well Foods, Ltd.}\textsuperscript{27} \textit{Seabrook} identified a number of objective factors to evaluate in determining whether or not trade dress is inherently distinctive. These factors include: (1) whether the design is a common basic one; 2) whether it is unique or unusual in a particular field; and (3) whether the design is a mere refinement of the commonly adopted and well-known form of ornamentation for the particular class of goods.\textsuperscript{28} The First Circuit, in \textit{1.P. Lund Trading ApS v. Kohler Co.},\textsuperscript{29} also endorsed the \textit{Seabrook} analysis while rejecting a strict application of the \textit{Abercrombie} test in all contexts, "particularly where product design is concerned."\textsuperscript{30}

\textbf{WAL-MART LITIGATION}

The \textit{Wal-Mart} case currently before the Supreme Court involves a line of spring/summer seersucker children's clothes. The particular design elements in issue include the use of seersucker fabric, large bold appliques, large collars with appliques generally integrated into the collar and the pockets of the garment, the absence of printed images, black outlines, alphanumeric characters, three-dimensional features, such as bibs or fringe, and full one-piece, conservative bodies. There was no claim of secondary meaning. The sole issue in the \textit{Wal-Mart} case is whether the particular clothing design is inherently distinctive.

The case was tried to a jury, which ruled in favor of Samara, the designer of the clothing, on its claim for relief under Section 43(a) of the Lanham Act. The

\begin{itemize}
\item\textsuperscript{24} \textit{Id.}
\item\textsuperscript{25} 187 F.3d 363 (4th Cir. 1999).
\item\textsuperscript{26} \textit{Id.} at 371.
\item\textsuperscript{27} \textit{See} 568 F.2d 1342 (C.C.P.A. 1977).
\item\textsuperscript{28} \textit{Id.}
\item\textsuperscript{29} \textit{See} 163 F.3d 27 (1st Cir. 1998).
\item\textsuperscript{30} \textit{Id.} at 40.
\end{itemize}
defendant, Wal-Mart, moved for judgment as a matter of law. The district court denied the motion, finding sufficient evidence to support the jury's verdict. In support of the jury's verdict, the district court pointed to the efforts made by Samara over the years to develop the "Samara look," Samara's consistent use of the trade dress, its advertising and sales success, and evidence of direct copying by Wal-Mart. In other words, the court relied on evidence traditionally used to support a claim of acquired distinctiveness, which was not even in issue in the case.

A divided Second Circuit affirmed. The majority found that the use of consistent design elements over a number of years was supportive of the jury's verdict. The court also pointed out that the design represented the core of Samara's business, as well as the lifeblood of the company. The court differentiated this case from its earlier clothing design case, Knitwaves, which involved a fall motif for a sweater, because, in Knitwaves, the design was a new one, whereas Samara's design was used for a number of years. In addition, there was no evidence of intent by Knitwaves to establish its design as its core product. A rather vigorous dissent by Senior Judge Newman took the position that the design elements of Samara's clothing design were too general to constitute a protectable look and that, even if the elements were specific enough to be eligible for protection, there was no consistent look, since the line varied over the years. Judge Newman concluded by noting that the high bar to trade dress protection raised in Landscape and Knitwaves had been justifiably lowered in this case.

THE APPROPRIATE TEST

What should be the test to determine whether product design is inherently

32. See id.
33. Id.
34. See Samara Bros., Inc. v. Walmart Stores, Inc., 165 F.3d 120 (2d Cir. 1997).
35. Id.
36. Id.
37. Id.
38. Id.
39. Id. at 120 (Newman, J. dissenting).
40. Id.
distinctive? In my opinion, Seabrook provides the most appropriate test. Indeed, this is the test endorsed by the United States in its amicus brief before the Supreme Court in Wal-Mart. As noted by the government in its brief, Seabrook asks straightforward, practical, design-oriented questions.

Each of the other tests enunciated by the circuit courts is vulnerable to criticism. With respect to the Third Circuit's Duraco test, the second inquiry, dealing with conceptual separability, adds little to the distinctiveness inquiry. As noted by the United States, "any design element that is not 'conceptually separable' from the product itself would, by definition, be a 'functional' aspect of the product." Thus, this inquiry "confounds the questions of distinctiveness and functionality." The third prong of the Duraco test, which asks whether the design in issue is likely to serve as an indication of source or origin, does not appear very helpful either. This inquiry focuses on the ultimate issue, rather than providing an analytical tool for deciding the issue. This infirmity is shared by the Second Circuit's Knitwaves test, which also focuses on whether the design in issue is primarily likely to serve as an indication of origin. Also, the Second Circuit, by directing attention or focus on a company's subjective intent, appears to give weight to a factor that is irrelevant from the standpoint of trademark protection. Whether a company intends for its design to serve as a

41. See Brief for the United States As Amicus Curiae Supporting Petitioner at 8, Wal-Mart Stores, Inc. v. Samara Bros., Inc., No. 99-150, 2000 U.S. LEXIS 2197, at *21 (March 22, 2000) ("While particular circumstances may require additional or reformulated inquiries, experience indicates that Seabrook provides a concrete, relatively predictable, and therefore administrable approach to analyzing trade dress claims. That approach also has advantages over the 'tests' articulated by some other courts.").
42. Id. at 18 ("Thus, Seabrook asks straightforward, practical, design-oriented questions in an effort to focus the analysis on whether a plaintiff's claimed trade dress is so likely to serve the pro-competitive goal of distinguishing the maker's goods from those of others that it merits trademark protection, even without any proof of secondary meaning.").
43. Id. at 26.
44. Id.
45. It is, of course, a basic principle of U.S. trademark law that, in order to be eligible for protection, a mark must identify and distinguish the goods or services of one company from those of another and to indicate the source of the goods or services. See 15 U.S.C. § 1127 (2000). Absent evidence of source-identifying character, a term does not qualify for trademark protection no matter what the intent of a company. Indeed, it is conceivable that a term may be protectable absent any intent that it serve as a mark.
mark does not mean that it will. It is the reaction of the consuming public that controls. So, the Second Circuit focuses, at least in part, on the wrong issue. The Eighth Circuit’s *Stuart Hall* test also may be criticized because, as noted in *Duraco*, the *Abercrombie* analysis cannot be applied in the context of three-dimensional marks where the mark and the product merge.

**UNITARY TEST FOR INHERENT DISTINCTIVENESS**

Should a single test be applied for all types of trade dress -- product packaging as well as product design? Since a strong argument can be made that the distinction drawn between product design configuration and product packaging is artificial, simplistic, and impractical, a unified test is the best approach.

It is often difficult, for example, to determine if trade dress is a design or packaging. For example, with respect to the Mexican décor involved in the *Two Pesos* case, the Third Circuit, in *Duraco*, concluded that the dress equated to packaging, whereas the Eighth Circuit, in *Stuart Hall*, and the Fourth Circuit, in *Ashley Furniture*, held that *Two Pesos* was a design case. And, in *Wal-Mart*, while both the district court and the Second Circuit considered the trade dress in issue to be a design, Samara, in its brief to the Supreme Court, argued that the trade dress is more in the nature of a package than a configuration.46

Further, a reading of the cases demonstrates that trade dress can take a multitude of forms other than just strictly packaging or design. There are “pure” three-dimensional designs, but there also can be products that partake of elements of both packaging and design. For example, a banana-flavored candy has design elements, i.e., its shape -- round, square, rectangular, etc., but its banana flavor may be analogized to packaging. How would such a product be labeled?

To treat trade dress as a unitary concept is also consistent with at least the spirit of the Supreme Court’s decision in *Two Pesos*.47 The Court there

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47. See *Stuart Hall v. Ampad Corp.*, 51 F.3d 780, 787 (8th Cir. 1995) (“We ... read *Two Pesos* as resting on a presumption that “trade dress” is a single concept that encompasses both product configuration and packaging, and find that its holding applies to trade dress as a whole, not merely
suggested that the same rules should apply for trade dress and trademarks and the Court dealt with trade dress as a single concept. The "balkanization" of trade dress law would serve to further complicate litigation and client counseling.

Further, in those courts that apply different tests in determining whether trade dress is inherently distinctive, the outcome of the packaging versus design argument is often outcome determinative. For example, the Second Circuit, in Landscape Forms, commented that "this circuit appears to be moving toward a rule that packaging is usually indicative of a product's source, while the design or configuration of the product is usually not so." Outcome-determinative tests have the potential of diverting attention from the "real" issues in the case, i.e., whether the design serves the function of a mark and is nonfunctional.

Finally, it is interesting to note that Seabrook, the case relied upon by many courts for establishing the test for determining whether product design is inherently distinctive, was a packaging or a labeling case.

**PATENT/TRADEMARK INTERFACE**

Where the federal government has issued a patent covering a product design, either as the subject of a design patent or as an element of a utility patent, such protection lasts for a "limited time" only. As a matter of general public policy, most agree that unpatented or uncopyrighted products should be considered part of the public domain, free for all to use. The Supreme Court's decisions in Sears and Compco in holding that state unfair competition laws may not be used to enjoin the copying of unpatented products, make this point elegantly. In

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48. Landscape Forms, Inc. v. Columbia Cascade Co., 113 F.3d 373, 379 (2d Cir. 1997).
49. Seabrook involved a mark consisting of a design and the words "Seabrook Farms" on packaging for frozen fruit and vegetable products.
view of these constitutional principles, may product designs enjoy potentially perpetual protection under the Lanham Act or would such protection be anticompetitive and violative of federal patent law or policy?

Most courts that have considered this issue have concluded that any potential anticompetitive effect of affording product designs perpetual protection is ameliorated through application of the functionality doctrine. That is, to be protected under the Lanham Act, a product design must be nonfunctional. As held by the Supreme Court in *Qualitex*, a product feature is functional and, therefore, not protectable if exclusive use of the feature would put competitors at a significant non-reputation related disadvantage.53

Earlier, in 1982, the U.S. Court of Customs and Patent Appeals, in *In re Morton-Norwich Products, Inc.*,54 identified a number of objective factors that bear on the issue of whether a product design is functional. These factors include whether the design was covered by a utility patent, whether advertising materials tout any utilitarian advantage enjoyed through use of the design, whether there are adequate or sufficient alternatives in the marketplace for the subject design, and whether the design was the result of a relatively inexpensive means and cost of manufacture.55

However, not all courts view the functionality doctrine as a complete answer to the potential conflict between patent and trademark law. For example, the U.S. Court of Appeals for the Tenth Circuit, in *Vornado Air Circulation Systems v. Duracraft Corp.*, 56 held that trade dress protection is not available for a design that is claimed in a patent and is a described significant inventive aspect of the patented invention even if the configuration is nonfunctional.57 Reviewing the respective policy objectives of patent and trademark law, the Tenth Circuit found that while the public disclosure of inventions is a "core" patent law principle, protecting against consumer confusion that may arise from copying designs that are significant parts of patented inventions is merely a peripheral concern of the Lanham Act and, thus, the latter must yield to the former.58

The Tenth Circuit determined that functionality was an "incomplete answer" to the potential conflict between utility patent law and trade dress law because a

54. 671 F.2d 1332 (C.C.P.A. 1982).
55. Id.
56. 58 F.3d 1498, 1510 (10th Cir. 1995).
57. Id.
58. Id.
product could be nonfunctional in trademark parlance, and still be patentable.\textsuperscript{59} That is, according to the court, a product need not be better than other alternatives or essential to competition to be patentable.

\textit{Vornado} stands alone, however. Several courts had the opportunity to apply its teachings; however, none has. For example, the Seventh Circuit, in \textit{Thomas & Betts Corp. v. Panduit Corp.},\textsuperscript{60} refused to extend \textit{Vornado} to a case where the product design was disclosed, but not claimed, in an expired patent.\textsuperscript{61} The case involved two-piece cable ties, and protection under Section 43(a) of the Lanham Act was sought after the patent for the cable tie had expired.\textsuperscript{62} The district court found that to protect the cable tie under trade dress law would contravene federal patent law and policy on grounds that, upon expiration of the statutory term of patent protection, the subject matter falls into the public domain.\textsuperscript{63} In reversing, the Seventh Circuit determined that "[t]he safeguard against an impermissible extension of a patent monopoly by a trademark.is . . . the functionality doctrine...."\textsuperscript{64}

More recently, in \textit{Midwest Industries, Inc. v. Karavan Trailers, Inc.},\textsuperscript{65} the Federal Circuit considered and rejected application of \textit{Vornado}. Midwest involved a curved winch post that was the subject of design patents.\textsuperscript{66} The U.S. District Court for the Southern District of Iowa granted summary judgment to the defendant on the basis of \textit{Vornado}. The Federal Circuit reversed and remanded, interpreting recent Supreme Court precedent, including the Court's 1989 decision in \textit{Bonito Boats},\textsuperscript{67} to sanction Section 43(a) protection for nonfunctional designs, even if incorporated in a patent.\textsuperscript{68} The Federal Circuit noted that, in \textit{Bonito Boats}, the Supreme Court held that Section 43(a) of the

\textsuperscript{59} \textit{Id.}
\textsuperscript{60} 138 F.3d 277 (7th Cir. 1998).
\textsuperscript{61} \textit{Id.}
\textsuperscript{62} \textit{Id.}
\textsuperscript{63} 935 F. Supp. 1399 (N.D. Ill. 1996).
\textsuperscript{64} \textit{Thomas}, 138 F.3d at 288.
\textsuperscript{65} 175 F.3d 1356 (Fed. Cir. 1999).
\textsuperscript{66} \textit{Id.}
\textsuperscript{67} \textit{See} Bonito Boats v. Thunder Craft Boats, 489 U.S. 141 (1989) (holding that a Florida statute, which rendered it unlawful to use the direct molding process to copy unpatented vessel hulls, was preempted by the Supremacy Clause of the Constitution as inconsistent with federal patent law and policy).
\textsuperscript{68} \textit{Midwest}, 175 F.3d at 1356.
Lanham Act is consistent with federal patent law and policy and that Congress, through Section 43(a), gave federal recognition to concerns that underlie the state law of unfair competition, that is to protect against consumer confusion.69 The "application of Sears and Compco to nonfunctional aspects of a product which have been shown to identify source must take account of competing federal policies in this regard,"70 the Court declared. The even more recent decision of the Sixth Circuit, in Marketing Displays, Inc. v. Traffix Devices, Inc.,71 also rejected Vornado and directed the lower court to apply a functionality test.

The potential conflict between patent and trademark law in the area of design protection raises the issue of whether Congress, acting pursuant to one of its enumerated powers, may adopt legislation that might be unconstitutional if adopted pursuant to another enumerated power.72 The few decisions of the Supreme Court on this issue do not provide clear guidance.73 However, given the different policy objectives that animate federal patent law, enacted pursuant to the Constitution's Patent and Copyright Clause,74 and federal trademark law, enacted pursuant to the Commerce Clause,75 potentially perpetual protection for

69. Id.
70. Id. at 166.
71. 200 F.3d 929 (6th Cir. 1999).
72. In U.S. v. Moghadam, 175 F.3d 1269 (11th Cir. 1999), the Eleventh Circuit held that Congress could use its Commerce Clause power to avoid limitations that might prevent it from passing the same legislation under the Patent and Copyright Clause. The court determined that enactment under the Commerce Clause of "anti-bootlegging" legislation, codified at 18 U.S.C. § 2319A, was constitutional even if such legislation was inconsistent with the "Writings" requirement of the Copyright Clause. Id. Significantly, the court specifically declined to rule on whether such legislation would be unconstitutional as inconsistent with the "Limited Times" requirement of the Patent and Copyright Clause. Id.
73. See Heart of Atlanta Motel, Inc. v. United States, 379 U.S. 241 (1964) (upholding constitutionality of public accommodation provisions of Civil Rights Act of 1964, enacted pursuant to Commerce Clause, even though similar provisions, enacted earlier pursuant to § 5 of Fourteenth Amendment, were held unconstitutional); Railway Labor Executives Ass'n v. Gibbons, 455 U.S. 457 (1982) (holding case-specific bankruptcy legislation enacted under Commerce Clause as unconstitutional because it is inconsistent with Bankruptcy Clause of Constitution, art. I, § 8, cl. 4, which empowers Congress to enact "uniform" bankruptcy laws).
74. See U.S. CONST., art. I, § 8, cl. 8.
75. See U.S. CONST., art. I, § 8, cl. 3.
product designs is not unconstitutional. The public policy goals and objectives of the Patent Clause are to promote innovation. The public policy of trademark law, primarily, is to protect against consumer confusion. As long as the particular mark in issue, whether a word or product design, continues to serve the function of a mark and, thus, enjoy protection, it should not be subject to any "limited times" limitation. Consumers are no less likely to be confused where the mark in issue is no longer subject to patent protection.

In sum, the policies that underlie enactment of federal patent and trademark law are distinct and equally compelling. Rather than being viewed as in conflict, these laws, as applied to designs, appear complimentary.\textsuperscript{76}

**CONCLUSION**

In the absence of a design protection statute,\textsuperscript{77} product innovators will continue to rely on the Lanham Act to protect against copying. While, as some courts have noted, product designs will often be viewed by consumers as something that render a product more desirable, as opposed to a source identifier,\textsuperscript{78} this does not justify the doctrinal confusion and uncertainty that

\textsuperscript{76}. See, e.g., Kohler Co. v. Moen Inc., 12 F.3d 632, 640, n.10 (7th Cir. 1993) (stating "As we have noted, federal trademark protection for a product's configuration does not create a \textit{monopoly} in the use of the product's shape. Moen is not 'free from effective competition in the market for a popular brand of faucet.' Moen simply has the right to preclude others from copying its trademarked product for the purpose of confusing the public as to its source. Kohler is free to copy Moen's design so long as it insures that the public is not thereby deceived or confused into believing that its copy is a Moen faucet"); \textit{In re Mogen David Wine Corp.}, 328 F.2d 925, 930 (C.C.P.A. 1964) ("trademark rights ... which happen to continue beyond the expiration of a design patent, do not "extend" the patent monopoly. They exist independently of it, under different law and for different reasons.").

\textsuperscript{77}. Design protection legislation was incorporated in Title II of the Copyright Revision bills but was deleted at the "eleventh hour" to facilitate passage of the Copyright Act of 1976. See \textit{In re Nalbandian}, 661 F.2d 1214, 1218-19 (C.C.P.A. 1981) (Rich, J. concurring) for an excellent review of the history of efforts to enact design protection legislation. In 1998, legislation was enacted to create a new Chapter 13 to the Copyright Act for protection of original designs. However, by its very terms, the legislation is limited to the design of vessel hulls. See Pub. L. No. 105-304, \S 502, 112 Stat. 2905.

\textsuperscript{78}. See Duraco Products v. Joy Plastic Enter., 40 F.3d 1431, 1441 (3d Cir. 1994) ("Moreover, insofar as consumer motivation to purchase a product will much more likely be predicated on an
currently infects the case law. The teachings of Seabrook provide an appropriate analytical tool for determining whether all types of trade dress are inherently distinctive. The application of different tests to packaging and design cases is impractical and unwarranted. The Supreme Court’s pending decision in Wal-Mart, hopefully, will advance the law toward these ends. Finally, in view of the functionality doctrine and the different policy concerns that underlie the patent and trademark laws, protection of product designs under the federal Lanham Act does not result in an impermissible conflict with federal patent law or policy or with the Constitution.

appreciation of a product’s features than on an appreciation of a product’s name, assuming no secondary meaning attached to either, one cannot automatically conclude from a product’s feature or configuration -- as one can from a product’s arbitrary name, for example -- that, to a consumer, it functions primarily to denote the product’s source.”).
TRADE DRESS PROTECTION: WHAT’S LEFT FOR THE STATES?

by Amy B. Berge

In furtherance of a recent symposium on intellectual property presented by The Northern Kentucky Law Review, this issue contains several articles discussing the status of federal trade dress protection and the debate as to whether product configuration and packaging shapes are protected under trademark, patent, or copyright laws. The purpose of this article is to consider where states weigh in on this controversy. In other words, when the dust settles on the scope of federal protection for trade dress, are the states left with any rights? In order to determine the scope of states’ rights to regulate trade dress, consideration must first be given to issues at the federal level.

I. THE DILEMMA: PATENT, TRADEMARK OR COPYRIGHT?

To a large extent, the laws of patent, trademark and copyright are separate and distinct. However, when the issue is protection of the shape of a product or its packaging, the same feature may be protected under the laws of patent, trademark and/or copyright: the new, useful, non-obvious features can be protected by utility patents; the new, ornamental, and original features can be protected by design patents; the original (non-useful) aspects of the configuration and patterns thereon can be protected by copyright; and the features which identify and distinguish the goods are protected by trademark and unfair competition at the federal level and, perhaps, at the state level. This situation begs the questions: How can the same item be protected in so many different ways? Can you grant protection for a feature under trademark law that could have been covered by patent or copyright, but does not meet the statutory requirements for such protection?

The dilemma has received increasing attention for several reasons. First, protection for product configurations and product packaging was traditionally

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provided under the common law of unfair competition. However, this aspect of the law of unfair competition found its way into § 43(a) of the Lanham Act beginning in the 1970’s.

The requirements for protection of trade dress under the Lanham Act are not necessarily the same as those that exist or existed under the common law of the various states. For example, some states, Kentucky included, require proof of intent to establish common law unfair competition. In addition, there has been controversy as to whether the reliance upon § 43(a) complemented or precluded state law claims of unfair competition. Second, the U.S. Supreme Court has struggled with the scope of federal preemption of trade dress protection. While the Supreme Court has tried to harmonize arguably inconsistent opinions, the lower courts have not agreed on what the Supreme Court has held. Finally, recent cases have brought into question the adequacy of the doctrine of functionality, which disallows protection of three dimensional trademarks that are considered functional, as a dividing line between trademarks and patents.

The doctrine of functionality is intended to strike a balance between the

7. See McCARTHY, supra note 5, § 1.16, at 1-33.
10. See, e.g., Ideal Toy Corp. v. Plawner Toy Mfg. Corp., 685 F.2d 78 (3d Cir. 1982).
competing principles of trademark and patent law. The federal circuit courts are now divided on a variety of issues related to whether functionality is enough to keep the disciplines of trademark and patent protection distinct; whether there should be a different standard for product packaging and product configuration; and whether acquired distinctiveness or secondary meaning is required for trade dress protection. The latter issue is currently under consideration by the Supreme Court in Samara Brothers, Inc. v. Wal-Mart Stores, Inc.

The resolution of these issues will affect the ability of states to provide their own form of protection. This article will first consider the scope of federal patent, copyright and trademark laws and then consider the extent to which the applicable federal laws preempt state action.

15. See Elmer v. Inc. Fabricating, 67 F.3d 1571, 1580 (Fed. Cir. 1995) ("[P]atent law, not trade dress law, is the principal means for providing exclusive rights in useful product features."); Sylvania Elec. Prods., Inc. v. Dura Elec. Lamp Co., 247 F.2d 730, 732 (3d Cir. 1957) (stating the rule against function features being protected "is obviously to prevent the grant of perpetual monopoly by the issuance of a trademark in the situation where a patent has either expired or for one reason or another, cannot be granted"). See also, Fabrication Enters. v. Hygenic Corp., 64 F.3d. 53, 59 n.4 (2d Cir. 1995) ("The Landham Act is not concerned with protecting innovations by giving the innovator a monopoly, which is the function of patent law." (citing, Duraco Prods., Inc. v. Joy Plastic Enter. Ltd., 40 F.3d 2332 (3d Cir. 1994)).
16. See, e.g., Mana Prods., Inc. v. Columbia Cosmetics Mfg., Inc., 65 F.3d 1063 (2d Cir. 1995) (where packaging was not found to be inherently distinctive); Sazerac Co. v. Skyy Spirits, 37 U.S.P.Q.2d 1731 (E.D. La. 1995) (finding blue cobalt vodka bottle not protected as trade dress as many alcoholic products are bottled in blue cobalt bottles); Aromatique, Inc. v. Gold Seal, 28 F.3d 863 (9th Cir. 1994) (holding as functional a cellophane bag, in a pillow shape, used for potpourri). But see Service Ideas, Inc. v. Traex Corp., 846 F.2d 246 (7th Cir. 1988) (finding the assembly of various parts can be protected as non-functional trade dress); Brunswick Corp. v. Spinit Reel Co., 832 F.2d 513 (10th Cir. 1987) (finding the question of functionality should turn on whether providing protection would hinder competition or impinge on rights to compete effectively).
17. See Stormy Clime, Ltd. v. Progroup Inc., 809 F.2d 971 (2d Cir. 1987) (holding a court should first determine if there is a secondary meaning and likely confusion and then proceed to the defense of functionality).
18. 165 F.3d 120 (2d Cir. 1998).
II. DIFFERING ORIGINS AND PURPOSES OF TRADEMARK, PATENT AND COPYRIGHT LAW

A. Constitutional Law versus Common Law

U.S. patent and copyright protections have their origin in the U.S. Constitution.\(^{19}\) The Patent and Copyright Clause of the Constitution states: "Congress shall have power . . . to promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."\(^{20}\) The stated purpose of this clause is to encourage development and invention.\(^{21}\) In carrying out this purpose, the Patent and Copyright Clause both empowers and limits the rights of Congress.\(^{22}\) Congress is empowered to enact laws that grant exclusive rights to authors and inventors.\(^{23}\) Congress is limited, however, in the fact that these exclusive rights can only be granted for limited amounts of time and that the power to grant (or deny) exclusive rights is limited to writings of authors and discoveries of inventors.\(^{24}\) Further, the Patent and Copyright Clause is permissive, not mandatory.\(^{25}\) Congress shall have the power to act, but is not required to exercise its power under the Patent and Copyright Clause.\(^{26}\)

The Patent and Copyright Clause does not address identification of goods and services in the marketplace or the right of the public to be free from marketplace confusion. These rights emanate from an entirely separate body of law, namely, common law trademark and unfair competition laws.\(^{27}\)

\(^{19}\) U.S. CONST. art 1, § 8, cl. 8.
\(^{20}\) Id.
\(^{23}\) Id.
\(^{24}\) Id.
\(^{26}\) Id.
\(^{27}\) Congress has the power to regulate trademark unfair competition under U.S. CONST. art. 1, § 8, cl. 3. "The Congress shall have power . . . (3) To regulate Commerce . . . among the several states. . . ." Id. The states, however, retain the power to regulate intellectual property under the 10th Amendment, subject to the supremacy clause. U.S. CONST. amend. X.
differing nature of trademark law was articulated by the Supreme Court as early as 1879 in what are known as the Trademark Cases, wherein the Court recognized that the Patent and Copyright Clause did not permit Congress to enact trademark legislation. The Court stated:

The ordinary trade-mark has no necessary relation to invention or discovery... The trade-mark may be, and generally is, the adoption of something already in existence as the distinctive symbol of the party using it. At common law the exclusive right to it grows out of its use, and not its mere adoption... [It does not] depend upon novelty, invention, discovery, or any work of the brain. It requires no fancy or imagination, no genius, no laborious thought. It is simply founded on priority of appropriation.

The Supreme Court further stated:

The right to adopt and use a symbol or a device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has been long recognized by the common law and the chancery courts of England and of this country, and by the statutes of some of the States. It is a property right for the violation of which damages may be recovered in an action at law, and the continued violation of it will be enjoined by a court of equity, with compensation for past infringement. The exclusive right was not created by [any] act of Congress, and does not now depend upon it for its enforcement... These propositions are so well understood as to require neither the citation of authorities nor an elaborate argument to prove them.

B. Federal Legislation

Congress wasted no time in exercising the rights granted by the Patent and Copyright Clause. The first patent statute was enacted in 1790. Continuously since that time, Congress has elected to enact successive patent statutes granting monopoly rights, for limited times, to inventions or discoveries that are new and non-obvious and, either functional (utility patents) or

28. 100 U.S. 82 (1879).
29. Id. at 94.
30. Id. at 92.
32. The first patent was received by Samuel Hopkins for his method of "Making Pot and Pearl Ashes." Id. at 25.
ornamental (design patents). In each instance, the purpose of the legislation was to encourage and reward innovation.

Similarly, Congress has enacted a series of copyright statutes over the years. Statutes protected certain "writings" in the early 1800's. However, the first comprehensive copyright statute was passed in 1909. Each copyright statute protected, and still protects, original works of authorship, again, for a limited time, as a reward for creativity.

Congress' first attempt to regulate trademarks pursuant to its authority granted under the Patent and Copyright clause failed. The Trademark Cases struck down amendments to the copyright and patent statutes of 1870 as beyond the scope of the Patent and Copyright Clause. Moreover, attempts to justify the amendments under the Commerce Clause were also rejected in the Trademark Cases because the amendments, on their face, did not purport to relate solely to commerce among the states or with foreign nations. Congress was not able to effectively regulate trademarks until the passage of the Lanham Act in 1946. By that time, Congress had learned that such regulation must be specifically limited to commerce that can be regulated under the Commerce Clause, which is an express limitation in the Lanham Act. Further, and perhaps more importantly, by this time, the scope of the Commerce Clause was well on its way to significantly expanded interpretation. Since 1946, the scope of congressional power under the Commerce Clause has continued to expand. While some cases hinted at a hesitancy to interpret the protection of the Lanham Act

33. Id. at 26-34.
34. Id. at 34.
35. See LATMAN, supra note 22, at 4-14.
36. Id. at 7.
37. Id. at 9.
38. See MCCARTHY, supra note 5, § 5:3, at 5-6 to 5-7.
39. 100 U.S. 82 (1879). The Trade-Mark Cases were criminal cases of prosecution for fraudulent use, sale and counterfeiting of trademarks registered under the Act of 1870.
40. Id. at 95-99.
43. 1 RONALD D. ROTUNDA & JOHN E. NOWAK, TREATISE ON CONSTITUTIONAL LAW, SUBSTANCE AND PROCEDURE, §§ 4.8-4.10 (3d ed. 1999).
Act to the full extent of the Commerce Clause, the courts have clearly come to such a point today. Thus, the Lanham Act can have application in the great majority of modern day trademark disputes. However, there are still situations in which reliance upon state law would be desirable. For example, one of the parties could be engaged in purely local commerce. Alternatively, a party desiring for various reasons to litigate in state court can rely on state causes of action rather than the Lanham Act and avoid removal to federal court.

III. BASIS AND SCOPE OF PREEMPTION IN THE AREAS OF PATENT, COPYRIGHT AND TRADEMARK

Whether the states are still free to regulate trade dress protection depends upon the basis and scope of preemption in the areas of patent, trademark and copyright. The scope of preemption in each of these areas has been a source of considerable dispute. The landscape appears to have shifted several times over the last 35 years through a series of Supreme Court decisions.

The first two major cases in this area were Sears Roebuck & Co. v. Stiffel Co. and Compco Corp. v. Day-Brite Lighting, Inc., both of which were decided in 1964. In these cases, the Supreme Court held that a state could not utilize unfair competition laws to prevent or punish the copying of products not eligible for patent protection. The Court held that granting monopoly rights in the trade dress of products that were not protected by patents thwarted the federal policy of promoting invention. Such articles must be free to copy and use if they are in the public domain.

Following Sears-Compco, the ability of states to regulate trade dress, which had been a matter of state common law, seemed to be all but dead. However, the basis for preemption in these cases was unclear: Did the Patent and Copyright Clause preempt all state action with respect to writings and discoveries or was preemption founded upon the Supremacy Clause? If preemption was based on the Patent and Trademark Clause, the states were arguably preempted from regulating inventions or discoveries in any fashion. If preemption was based on

44. See Lange, supra note 42, at 228-29.
47. Stiffel, 376 U.S. at 231-33; Compco, 376 U.S. at 237.
48. Stiffel, 376 U.S. at 231; Compco, 376 U.S. at 237.
49. Stiffel, 376 U.S. at 232; Compco, 376 U.S. at 237.
the Supremacy Clause, the scope of preemption would be limited by the extent of congressional action.

The ensuing controversy over the basis for preemption of state intellectual property laws was put to rest in 1973, in *Goldstein v. California*. In *Goldstein*, the Court distinguished *Sears-Compco* stating that where Congress leaves an area "unattended" by legislation, the states are free to act. In *Goldstein*, the Supreme Court held that a state "videotape piracy" statute did not conflict with the federal copyright statute because the copyright statute, at the time, did not encompass such "writings." Shortly after this case, however, Congress enacted the Copyright Act of 1976 which includes an express preemption clause eliminating any "equivalent right in any [protected] work under the common law or statutes of any state." Thus, today, the states have virtually no ability to regulate the protection of copyrights that are covered by the federal Copyright Act.

The Supreme Court addressed the issue of preemption again in 1989 in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.* Here, the Court in a unanimous decision, reaffirmed the basic principles of *Sears-Compco* by finding that "the efficient operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions." The Court stated that "state regulation of intellectual property must yield to the extent that it clashes with the balance struck by Congress in our patent laws." Thus, states are forbidden from "offer[ing] patent-like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law."

At the same time, however, the Court recognized that its decisions in *Sears-Compco* were "the subject of heated scholarly and judicial debate." The Court

51. *Id.* at 570. A similar analysis was used by the Supreme Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), in finding that state trade secret laws were not incompatible with the federal patent policy of encouraging invention.
52. *Id.* at 571.
55. *Id.* at 156.
56. *Id.* at 152.
57. *Id.* at 156.
58. *Id.* at 154.
attempted to harmonize Sears-Compco, Goldstein, and other decisions by stating: There is room for state regulation of the use of unpatented designs if those regulations are "necessary to promote goals outside the contemplation of the federal patent scheme." 59 The protection of consumers from confusion appears to be outside the contemplation of the federal patent scheme since the Court expressly rejected the notion that states are prohibited from "regulating the deceptive simulation of trade dress." 60 The Court stated:

[O]ur decision in Sears clearly indicates that the States may place limited regulations on the circumstances in which such designs [trade dress, including those which are potentially the subject of design patents] are used in order to prevent consumer confusion as to source. Thus, while Sears speaks in absolutist terms, its conclusion that the States may place some conditions on the use of trade dress indicates an implicit recognition that all state regulation of potentially patentable but unpatented subject matter is not ipso facto pre-empted by the federal patent laws. 61

The Court made a distinction between the purposes of patent law, namely the promotion of inventions and the granting of monopolies which the states cannot impede, and the purposes of common law unfair competition which the states are able to regulate. 62 The Court, in discussing the nature and extent of common law unfair competition, stated:

The law of unfair competition has its roots in the common-law tort of deceit: its general concern is with protecting consumers from confusion as to source. . . . [T]he common law of unfair competition has been limited to protection against copying of nonfunctional aspects of consumer products which have acquired secondary meaning such that they operate as a designation of source. The "protection" granted a particular design under the law of unfair competition is thus limited to one context where consumer confusion is likely to result; the design "idea" itself may be freely exploited in all other contexts (citations omitted). 63

59. Id. at 166.
60. Id. at 154.
61. Id.
62. Id. at 155.
63. Id. at 157.
IV. WHERE DO THE STATES STAND AFTER BONITO BOATS?

Unfortunately, the Supreme Court’s language in Bonito Boats raises more questions than it answers. By reference to the common law tort of “deceit,” is the Court limiting state action to cases involving intentional or deceitful acts? Or, is the reference to deceit merely of historical significance? Does the Supreme Court’s mentioning of “nonfunctional aspects” of products indicate its acceptance of the doctrine of functionality as a dividing line between patents and permissible protection of product shapes upon which the states can rely in protecting trade dress under the law of unfair competition or trademarks? Further, does the quoted language imply that secondary meaning is required for protection of trade dress under state unfair competition or trademark law? If so, how does this square with the Supreme Court’s decision in Two Pesos, Inc. v. Taco Cabana, Inc., in which the Court held that protection for inherently distinctive trade dress under Section 43(a) of the Lanham Act does not require proof of secondary meaning?

The questions set forth above will undoubtedly be the subject of further development in the courts. However, the Supreme Court’s analysis clearly recognizes that patent law and trademark law serve different purposes. Patent law protects and promotes inventions. The patent owner can preclude others from making, using or selling the invention in any context. Certainly, the state law at issue in Bonito Boats was intended to grant monopoly rights to unpatented articles. The trademark law, on the other hand, protects consumers from confusion. If the statute at issue in Bonito Boats had been designed to address consumer confusion, and was appropriately limited in scope to that purpose, it would likely have withstood the challenge. Accordingly, state action should not be for the purpose, and should not have the effect, of granting monopoly rights without regard to consumer confusion.

64. 505 U.S. 763 (1992).
65. Id. at 776.
68. Id. at 148.
69. Id. at 144-45.
72. Id.
The most recent case on the subject out of the Federal Circuit contains a thoughtful discussion of the issues and draws conclusions that this author believes will be followed.

In *Midwest Industries, Inc. v. Karavan Trailers, Inc.*, the Federal Circuit reversed a lower court decision dismissing claims under § 43(a) of the Lanham Act and Iowa's trademark and unfair competition laws as preempted by federal patent laws. The Court began by recognizing that trade dress protection "if granted too freely, would conflict with the policy in favor of encouraging 'competition by all fair means....'" To prevent such results, the courts have invoked the doctrine of functionality. As explained by the Supreme Court recently in *Qualitex Co. v. Jacobson Products Co.*:

The functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation from instead inhibiting legitimate competition by allowing a producer to control a useful product feature. It is the province of patent law, not trademark law, to encourage invention by granting inventors a monopoly over new product designs or functions for a limited time. after which competitors are free to use the innovation.

The Supreme Court then "defined a product feature as 'functional' if it is 'essential to the use or purpose of the article or if it affects the cost or quality of the article, ... [that is] if exclusive use of the feature would put competitors at a significant non-reputation-related disadvantage.'" The *Midwest* Court went on to state that the doctrine of functionality is the appropriate balance between the law of trademark and patent. The Court noted that the Tenth Circuit "stands alone" in challenging the adequacy of the doctrine of functionality. Thus, the Court held that "the patent law and the Lanham Act erect distinct protections

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73. 175 F.3d 1356 (Fed. Cir. 1999).
74. Id. at 1357.
75. Id. at 1361 (citing *In re Deister Concentrator Co.*, 289 F.2d 496, 501 (C.C.P.A. 1961)).
76. Id. at 1362 (quoting *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164-65 (1995)).
79. Id.
80. Id. at 1364. *See also*, *Voronado Air Circulation Sys. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), cert denied, 516 U.S. 1067 (1996).
that can be separately enforced.” The Court then stated, citing Bonito Boats, that the same analysis applies to state law regulation directed at consumer confusion.

V. CONCLUSION

The patent law and trademark laws serve different purposes. Patent law protects and promotes inventions; trademark law protects consumers from confusion. These differences were recognized at common law and have been recognized by statute. There is no reason for this to change. As stated in In re Mogen David Wine Corp., trademark rights do not extend patent rights, rather “they exist independently... and for different reasons.” While the patent laws will preempt efforts by the states to give exclusionary rights to functional aspects of a property, the federal government, and the states, are free to otherwise take action to protect the interests of consumers.

81. Midwest, 175 F.3d at 1365.
82. Id.
83. 328 F.2d 925, 930 (1964).
A BRIEF COMMENT TO PROFESSOR ADELMAN’S REMARKS

by Roddy M. Bullock

There is at least one compelling attribute, although others may exist, of Professor Adelman’s suggested approach to non-textual infringement that makes his approach worth some serious consideration. If Professor Adelman’s approach were adopted, certainty in the law as it relates to the doctrine of equivalents (DOE) would dramatically increase. In my opinion, any change in the law of the DOE that increases certainty is a change in the right direction. It is the topic of certainty in the law of the doctrine of equivalents and its relationship to fairness that I want to briefly touch on in the few minutes I have today.

As Professor Adelman mentioned in his discussion, the doctrine of equivalents in United States patent law has been the subject of innumerable law review articles and many judicial decisions. Yet, any coherent theory for deciding when and how it is to be used has yet to be identified. In particular, it seems that the Federal Circuit has been unable to formulate an approach to deal with non-literal infringement that can be concisely explained or consistently applied. In short, it is evident that the Federal Circuit has failed to bring a high level of certainty or predictability to the doctrine of equivalents. In fact, it often seems that, even after Warner-Jenkinson, each ruling on a doctrine of equivalents issue only confounds the question even more.

Do not get me wrong – I am not suggesting that the Federal Circuit is not trying, or is not aware of the issues, or does not appreciate the ramifications of its decisions. The application of the doctrine of equivalents is by its very nature an exercise in adjudicating a policy dilemma, and, it is evident that in many cases the Court struggles with this dilemma and attempts to arrive at a fair solution. In fact, I believe that it is the Court’s sometimes misguided attempts at fairness that have resulted in the many seemingly inconsistent holdings and rationales that have lead to uncertainty in the law.

Let me at the outset challenge the assumption that certainty and fairness are in tension here. Professor Adelman stated that, despite the best efforts of others at developing any theory for deciding when, if ever, the DOE should be applied, “[t]he most that is said is that there must be a balance between legal certainty and fairness.” This is an accurate statement of a common sentiment – the idea that somehow in the application of the DOE there is a tradeoff between legal certainty and fairness. The concept is presented as if certainty and fairness are on opposite ends of the spectrum, and a move toward one end necessarily results in a move away from the other.

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This sentiment is probably best expressed in a phrase coined by Donald Chisum in a 1998 law review article in which he discussed the anomalous nature of the DOE. He described the policy dilemma as “The Fair Protection – Certainty Conundrum.” This conundrum is characterized by attempts to define a position that combines fair protection for the patentee with a reasonable degree of certainty for third parties.

Without trying to read too much into such a statement, at least on the face of it, it suggests that combining fair protection for the patentee and certainty for the public are competing interests that cannot easily be simultaneously satisfied. With all due respect to Mr. Chisum, of course, I hope to convince you that these statements reflect wrong assumptions about the nature of the DOE, the value of certainty, and the validity of fairness as a standard for deciding these issues.

First, it is wrong to assume that certainty comes at the expense of fairness. In fact, I believe an increasing level of certainty in the law brings with it a greater sense of the fairness of the law. One may disagree with the outcome of a particular application of the law, but, if it is principle-based, and one can be highly certain it will be relatively consistently applied, most people would agree the outcome is fair. Let me illustrate the point this way: Prior to 1982, there was no CAFC. Patent infringement appeals were heard at the various circuit courts, just as any other case would have been. At this time, as you know, the circuit courts differed widely in their basic attitude toward patents, and their application of patent law. There was little principle-based jurisprudence, and little consistency. Uncertainty was at an all-time high, the value of patents was at an all-time low, and forum shopping was the norm. However, I do not think that anyone would argue that the law was fairer at that time. And, most would agree that the remarkable certainty that the Federal Circuit has brought to the field of patent law in general has brought with it a very high degree of fairness.

Rather than a tradeoff between certainty and fairness, therefore, I submit that certainty and fairness can go hand in hand. In fact, I submit that certainty, guided by reasonable policy choices that are consistently applied will always lead fairness along with it. But, in the absence of principle, if fairness is made the goal, certainty will rarely follow.

Second, I believe that a high degree of certainty is actually achievable, whereas a high degree of fairness in all cases may not be achievable at all. It may strike you as odd that I say that a high degree of fairness may not be achievable at all, so let me elaborate. Fairness is an ideal that should, in general, be pursued. But “fairness” is one of those things like “beauty” that is often only in the eye of the beholder. What is fair to one may appear patently unfair to another. This is particularly true in the law, where policy choices often dictate
outcomes that may seem to some as being unfair. This is no less true in patent law where often the equities of a particular fact pattern would seem to outweigh the value of certainty and predictability in the law.

Therefore, I do not believe there is a “Fair Protection – Certainty Conundrum”. But, there is a conundrum here somewhere. You do not get where we are today with regard to the DOE without a good conundrum. The conundrum, accurately characterized, does relate to fairness, and it reflects the fundamental policy question: “Fairness to whom?” Now I’m going to coin a phrase, and suggest that to make progress in resolving the difficulties in the consistent application of DOE infringement principles, the context of our dialog should be focused on the “Fairness to the Patentee – Fairness to the Public Conundrum.” That is the dichotomy at work here, and it is truly a conundrum only when one attempts to strike a balance between the two competing interests with a high level of certainty in the process.

We should, of course, attempt to balance the competing interests to the extent that the legal framework can do so in a workable and consistent manner. But it is not only the patentee that should be considered as deserving of fairness, and it is not only the public that is deserving of certainty. An effective balancing of the interests recognizes that there are two parties that both can claim they deserve fairness and certainty in the law. A patentee wants not only fair protection from infringers, but certainty as to how his or her patent might fare in court, and the public not only wants certainty in general, but specifically some degree of certainty of fair protection from accusations of infringement. In short, to the extent fairness is considered, any legal framework intended to deal with non-literal infringement must attempt to ensure that fairness, or at least a lack of unfairness, extend both ways.

But, to be clear, I am also suggesting that it may not be possible to ultimately be fair to all if a premium is to be put on certainty. This is because certainty implies some degree of policy-determined line drawing to mark the limits courts can go to extend fairness to one party or the other. The ultimate success of such line drawing has much to do with the underlying policies behind the line drawing.

Certainty, then, in my estimation, should always be the goal, and not a dispensable part of a balancing of interests, even the interest of fairness. But, because of the underlying equitable nature of the DOE, and the inconsistent manner in which so-called “fairness to the patentee” is achieved using current methodologies, it is understandable how the debate could be so often characterized as a “fair protection-certainty” issue. As the Federal Circuit attempts to fairly apply precedent to unwilling facts, the convoluted reasoning
results in rationales, holdings and more “precedent” that leave little in the way of predictive value to the law of the doctrine of equivalents.

Can the conundrum be dealt with effectively? Can certainty and fairness to both the patentee and public be achieved? I believe that the “fairness to the patentee-fairness to the public conundrum” can be dealt with effectively, but only if the Federal Circuit makes some tough policy choices that elevate relative certainty over relative fairness. Today, because fairness rationales drive opinions, the outcome of any given doctrine of equivalents analysis depends more on the make-up of the panel hearing the case than on the actual merits of the case. In a sense we are back to the pre-CAFC days, where we have a plurality of panels instead of plurality of circuits. Only now we don’t even have the option of forum shopping. The best we can do is “forum hoping”.

Professor Adelman’s approach to non-textual infringement would greatly simplify the law of the DOE in the United States, and bring about a very high degree of certainty. However, I can guess that one of the criticisms that he receives is that his approach in many cases would not be fair. To this, I would have two responses.

First, without being trite, I would suggest that life is not always fair. Of course, that is not a sufficient basis to sustain positive development in the law. So, second I would consider the implications of my earlier statement that “fairness is in the eye of the beholder.” In this context it is more appropriate to suggest that “fairness is in the mind of the beholder.” One way to change the perception of fairness, then, is to change the mind of the beholder. This can be done by putting in place a system of law in where rules based on sound policy are consistently applied with predictable results. Then, as certainty increases, expectations are met, and “fairness” also increases.

In closing, I submit that in any attempt to solve the DOE “conundrum,” certainty in the law should not be considered the tradeoff, as there is some virtue in the loss of certainty as simply being the price to pay for fairness.
PFAFF V. WELLS ELECTRONICS, INC.: AMORPHOUS BOUNDARIES FOR THE ANALYSIS OF THE ON-SALE BAR TO PATENTABILITY

by Darran D. Winslow

Civil reformation seldom is carried on without violence and confusion, while inventions are a blessing and a benefit without injuring or afflicting any.1

I. INTRODUCTION

Inventors seek patent protection because a patent bestows upon its holder the exclusive right to prevent others from making, using, or selling a particular device or invention within the United States.2 In order to secure a patent, an inventor is required to demonstrate, in a patent application, that she has developed a new, useful, and non-obvious process or product.3 The on-sale bar to patentability, which is established in 35 U.S.C. § 102(b),4 restricts an inventor from procuring a valid patent if her invention was on sale in the United States more than one year prior to the date of the application for the patent.5 This seemingly straightforward doctrine, which limits an inventor’s right to patent an idea, has perplexed the federal courts and has left inventors in search of protection from the whim of the judiciary.6 Courts have struggled to determine

1. LORD BACON, NOVUM ORGANUM, Book I, § CXXIX.
4. Title 35 § 102(b) of the United States Code provides that a person shall be entitled to a patent unless—
   (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States . . .
5. See 35 U.S.C. § 102(b) (1994). In accordance with this provision, an inventor may actually secure a patent in the United States Patent Office; however, the patent will be deemed invalid if it is subsequently discovered that the object of the patent was on sale more than one year prior to the date of the application for patent.
6. See Brief for the Petitioner at 32, Pfaff v. Wells Elecs., Inc., 525 U.S. 55 (1998) (No. 97-1130) (advising the Supreme Court that the on-sale bar has evolved “into a trap for the unwary inventor”).
at what point the invention is sufficiently developed such that, coupled with an offer to sell, the inventor’s activities will trigger the on-sale bar. 7 On November 10, 1998, the Supreme Court decided Pfaff v. Wells Electronics, Inc., 8 which held that if the invention is “ready for patenting,” the statutory grace period should begin if the product is the subject of a commercial offer for sale. 9

The Court’s creation of the “ready for patenting” standard 10 has failed to establish a workable doctrine with which an inventor, or an attorney, can readily determine when the statutory bar will be activated. 11 This comment evaluates the current status of the on-sale bar and attempts to construct a more reasonable interpretation of § 102(b). Part II discusses the historical background of the on-sale bar beginning with the statutory development, followed by an examination of common law precedent. Part III details the facts that were before the Court in Pfaff. Part IV discusses the reasoning that led to the Court’s decision in Pfaff. Part V presents an analysis and critique of the Court’s holding in Pfaff. Part VI concludes with a suggestion as to how the Court could better frame its on-sale bar analysis.

II. HISTORICAL BACKGROUND

A. Development of Constitutional and Statutory Basis

Patent laws, or at least the recognition of their importance by our founding fathers, can be traced back to the United States Constitution. 12 From its

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7. Central in making this determination is whether the activities of the inventor, which triggered the bar, occurred before the “critical date.” This term refers to the date exactly one year prior to when the patent at issue was filed in the U.S. Patent & Trademark Office. See Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 57 (1998).
9. See id. at 67-68.
10. Id.
11. The whole system of patents is based upon two factors. First, the importance of encouraging inventions by making them remunerative to inventors, and second, giving the public accurate knowledge of new inventions so that they can be used by all people after the expiration of the patent. Therefore, any development that frustrates these purposes does not serve to promote the patent system as a whole.
12. See U.S. Const. art. 1, § 8, cl. 8. The Constitution states: “The Congress shall have power ... to promote the progress of science and useful arts, by securing for limited times to authors and
inception, the Constitution has bestowed upon Congress the capacity to create patent laws to stimulate the development of useful inventions. Patent laws accomplish this by allowing inventors to secure, for an established period of time, the exclusive right to control their respective writings and discoveries. Throughout the years, Congress has used this power to develop and enact numerous Patent Acts.

Congress enacted the first United States Patent Statute in 1790. The statute permitted patenting of any useful machine or device, or any improvement to the same, not before known or used. Just three years later, Congress revised that statute to permit patenting of "any new and useful... machine, manufacture or composition of matter, or any new and useful improvement on any art, machine, manufacture or composition... not known or used before the [patent] application...". This attempt to prevent the issuance of patents for inventions that had "been long in the public use" prior to the filing of the patent applications did not expressly include a provision barring a patent because the invention had been placed on-sale.

The first consequential Supreme Court decision that addressed the on-sale issue was *Pennock v. Dialogue* in 1829. In this case, the inventors devised a...
new method to produce tube or hose used to convey air, water, and other fluids; these same inventors permitted its manufacture and sale for seven years prior to filing for their patent application.\textsuperscript{22} The Supreme Court unanimously determined "that the first inventor cannot acquire a good title to a patent, if he suffers the thing invented to go into public use or to be publicly sold for use before he makes application for a patent."\textsuperscript{23} This decision represented the first time an "on-sale" provision had been addressed. The purpose of the holding was to define the "not known or used" language of the Patent Act of 1793.\textsuperscript{24} Justice Story explained how the Court came to its determination of the true meaning of that phrase:

\begin{quote}
[T]he true meaning must be, not known or used \textit{by the public} before the application. And, thus construed, there is much reason for the limitation thus imposed by the act. While one great object was, by holding out a reasonable reward to inventors and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius, the main object was "to promote the progress of science and useful arts;" and this could be done best by giving the public at large a right to make, construct, use, and vend the thing invented, at as early a period as possible, having a due regard to the rights of the inventor. If an inventor should be permitted to hold back from the knowledge of the public the secrets of his invention; if he should, for a long period of years, retain the monopoly, and make and sell his invention publicly, and thus gather the whole profits of it, relying upon his superior skill and knowledge of the structure, and then, and then only, when the danger of competition should force him to secure the exclusive right, he should be allowed to take out a patent, and thus exclude the public from any further use than what should be derived under it during his fourteen years; it would materially retard the progress of science and the useful arts, and give a premium to those who should be least prompt to communicate their discoveries.\textsuperscript{25}

This definition of the "not known or used" language of the Patent Act of

\textsuperscript{21} See \textit{id.}.
\textsuperscript{22} See 2 Pet. at 3.
\textsuperscript{23} See 27 U.S. at 9, 2 Pet. at 23-24.
\textsuperscript{24} See 27 U.S. at 5, 2 Pet. at 18-19.
\textsuperscript{25} 27 U.S. at 5-6, 2 Pet. at 19 (emphasis added). This reasoning by the Supreme Court serves to illustrate several of the modern justifications for the development of the "ready for patenting" test announced in \textit{Pfaff v. Wells Electronics., Inc.} See \textit{Pfaff v. Wells Elecs., Inc.}, 525 U.S. 55 (1998).
1793 established that a voluntary acquiescence of an invention into the public constitutes an abandonment of the right granted by a patent.\textsuperscript{26}

The statute remained unchanged until Congress passed the Patent Act of 1836, which was the first statute that explicitly created an on-sale bar.\textsuperscript{27} This statute provided:

\begin{quote}
[A]ny person or persons having discovered or invented any new and useful art, machine, manufacture, or composition of matter . . . not known or used by others before his or their discovery or invention thereof, and \textit{not, at the time of his application for a patent, in public use or on sale}, with his consent or allowance, as the inventor or discoverer; and shall desire to obtain an exclusive property therein, may make application in writing to the Commissioner of Patents . . . and the Commissioner, on due proceedings had, may grant a patent therefor.\textsuperscript{28}
\end{quote}

This version of the on-sale bar remained in effect until 1839, when Congress revised the statute by adding a grace period of two years after the first sale for inventors to file their patent applications.\textsuperscript{29} This revision also eliminated the limitation that the sale needed to have occurred with the applicant's consent to activate the statutory bar.\textsuperscript{30}

Congress next made a substantial change in the patent statutes in 1897.\textsuperscript{31} This version of the statute limited the application of the on-sale bar to sales conducted within the United States.\textsuperscript{32} Later, in 1939, Congress again revised the Patent Act, shortening the grace period under the on-sale bar from two years to one year.\textsuperscript{33} Congress explained the change:

Under the present conditions 2 years appears unduly long and operates as a

\textsuperscript{26} See Pennock v. Dialogue, 27 U.S. 1, 9, 2 Pet. 1, 23 (1829).
\textsuperscript{27} See Act of July 4, 1836, ch. 357, § 6, 5 Stat. 117, 119.
\textsuperscript{28} Id. § 6, 5 Stat. at 119 (emphasis added).
\textsuperscript{30} See id. § 7, 5 Stat. at 354. Although the language of the statute appeared to eliminate the requirement by removing the word "consent," it was the Supreme Court's interpretation of the change in the statute that officially eliminated the consent requirement. See Andrews v. Hovey, 123 U.S. 267, 274 (1887).
\textsuperscript{31} See Act of Mar. 3, 1897, ch. 391, 29 Stat. 692. The statute was revised in 1870, but no significant changes were made to the on-sale bar provisions. Id. § 4886, 29 Stat. at 692.
\textsuperscript{32} See id. § 4886, 29 Stat. at 692.
handicap to industry. Reduction of the period would serve to bring the date of patenting closer to the time when the invention is made, and would expedite applications, not only in their filing but also in their process through the Patent Office. One year is believed to be a very fair period for all concerned.34

The Patent Act of 1952 revised and re-codified patent law, but no substantive changes were made to the on-sale provision.35 Today's on-sale bar remains identical to that of 1952.36

B. Common Law Development of the On-Sale Bar37

1. Early Supreme Court Decisions

In the late 19th century, two Supreme Court decisions had a significant impact on the on-sale bar. In the first case, City of Elizabeth v. Pavement Co.,38 the Supreme Court had to consider whether an invention was in public use, or on sale, if it was placed into the public by the inventor to test its usefulness or durability.39 The plaintiff in the case, American Nicholson Pavement Company, claimed that the defendants, the City of Elizabeth and New Jersey Wood-Paving Company, had violated a patent issued to Samuel Nicholson in 1867 and extended in 1868 for seven more years.40 The patent was on a process for the construction of wooden block pavements upon a foundation along a street or roadway.41 The defendants, in their answer, admitted they had constructed wooden pavement in Elizabeth, but argued that Nicholson's patent was invalid because it was in public use for six years prior to the date on the patent application.42 Nicholson's reply was that the roadway in Boston, where the invention had been in use for six years, was placed there at his own expense to

34. See SEN. REP. NO. 76-876, at 1-2 (1939), in 9 CHISUM, supra note 19, § 6.02 [2], at 6-18.
39. See id. at 133.
40. See id. at 127.
41. See id.
42. See id. at 129.
“see the effect upon it of heavily loaded wagons . . . .”43 After wrestling with the question, the Supreme Court announced the doctrine of “experimental use.”44 Justice Bradley explained that an experimental use did not amount to a public use:

[I]f used under the surveillance of the inventor, and for the purpose of enabling him to test the machine, and ascertain whether it will answer the purpose intended, and make such alterations and improvements as experience demonstrates to be necessary, it will still be a mere experimental use, and not a public use, within the meaning of the statute.45

The Court, in order to limit the experimental use doctrine, opined that where an inventor allows his invention to be used by other persons generally, or with his consent, an inventor puts an invention on sale, then the invention will be considered in public use and on sale, within the meaning of the law.46

The second important Supreme Court decision in this area, Andrews v. Hovey,47 dealt with the “proper construction of § 7 of the act of March 3, 1839, interpreted in connection with §§ 6, 7, and 15 of the act of July 4, 1836.”48 The patent in question was an “improvement in the method of constructing artesian wells.”49 The appellants contended that the invention was put into public use without their knowledge, consent, or allowance, while the appellees contended that, according to § 7 of the Patent Act of 1839, such knowledge, consent, or allowance was not necessary to trigger the statutory bar.50 In interpreting § 7 of the Patent Act of 1839, which dealt with public use, as not requiring the consent of the inventor, the Court stated:

The evident intention of Congress was to take away the right (which existed under the act of 1836) to obtain a patent after an invention had for a long period

43. Id. at 133.
44. Id. at 135.
45. Id.
46. See id. In dicta the court stated that while the machine is in an experimental use the public may be deriving an incidental benefit from it, and as such this will still not constitute public use, within the meaning of the law. See id.
47. Andrews v. Hovey, 123 U.S. 267 (1887).
48. Id. at 268 (citations omitted) (commonly referred to as “The Driven-Well Cases” because it involved a patent commonly known as the “driven well” patent).
49. Id. at 268.
50. See id.
of time been in public use without the consent or allowance of the inventor; it
limited that period to two years, whether the inventor had or had not consented
to or allowed the public use. The right of an inventor to obtain a patent was in
this respect narrowed, and the rights of the public as against him were enlarged,
by the act of 1839. 51

As the above language indicates, the Court’s holding was that under § 7 of
the Act of March 3, 1839, public use prior to the date of application invalidated
the patent, whether such use was with or without the consent of the patentee. 52

2. Circuit Court Decisions Affecting the On-Sale Bar

In addition to the statutory development and a few early Supreme Court
decisions, the parameters of the on-sale bar also have been defined by various
circuit court decisions. 53 When examined, these cases establish five major legal
approaches to the on-sale inquiry: 1) the on-hand doctrine; 2) the reduction to
practice standard; 3) the totality of the circumstances standard; 4) the
substantially complete standard; and 5) the completed invention standard. 54

The “On-Hand Doctrine”

The “on-hand doctrine,” established in a trilogy of cases, was the first
decision created by the federal courts to deal with the various aspects of on-sale
bar analysis. 55 This standard, first established in McCreery Engineering Co. v.

51. See id. at 274.

52. See id.

53. Although Federal Circuit case law lacks uniformity, an examination of the more important
decisions provides insight into the development of the current existence of the law in this area.

54. See Vincent J. Allen, Comment, The On Sale Bar: When Will Inventors Receive Some

55. See Timely Prods. Corp. v. Arron, 523 F.2d 288, 301 (2d Cir. 1975). The trilogy of cases
that established the on-hand doctrine are: McCreery Eng’g Co. v. Massachusetts Fan Co., 195 F.
498, 502 (1st Cir. 1912) (holding the invention must exist as “a complete article of sale, not on
paper, but in fact” to trigger the on-sale bar); B.F. Sturtevant Co. v. Massachusetts Hair & Felt Co.,
124 F.2d 95, 97 (1st Cir. 1941) (holding that “proof of a mere contract to construct from plans...falls short of proof that the machine or invention was ‘on sale’”); Burke Elec. Co. v. Independent
Pneumatic Tool Co., 234 F. 93 (2d Cir. 1916) (holding “[i]f patented articles are on hand ready to
be delivered to any purchaser, they are on sale, whether any of them has been sold or not”).
Massachusetts Fan Co., 56 and subsequently articulated in Barmag Barmer Maschinenfabrik AG v. Murata Machinery, Ltd., 57 requires that "a device incorporating the invention must have existed in its ordinary or contemplated usable form, and must have been on hand and ready for delivery more than one year prior to the patent application filing date." 58 In McCreery, McCreery Engineering Company, the owner of a patent for a ventilating apparatus, sued the Massachusetts Fan Company, for patent infringement. 59 The defendants argued that the plaintiffs had entered into an executory contract prior to the critical date, invalidating the patent since the invention had been on sale for more than two years prior to the application for patent, although no proof was offered that any workable model of the invention existed. 60 The court insisted that the invention must exist as "a complete article of sale, not on paper, but in fact" to trigger the on-sale bar. 61 Since actual production and delivery are required under this standard to trigger the on-sale bar, courts eventually rejected this standard because it allowed the inventor to control the application of the statutory on-sale bar by controlling production and delivery times. 62

The "Reduction to Practice" Standard

The Second Circuit was one of the first courts to reject the on-hand doctrine.

56. McCreery Eng'g Co. v. Massachusetts Hair & Felt Co., 124 F.2d 95 (1st Cir. 1941).
59. See McCreery Eng'g Co. v. Massachusetts Fan Co., 195 F. 498 (1st Cir. 1912).
60. See id. at 500. This case was decided well before the modern one-year statutory grace period, which was adopted by statute in 1939.
61. Id. at 502. The court held:

In the absence of evidence that the invention had been reduced to practice at the time of this executory contract for future construction, or at any time prior to March 5, 1906, [the court was] of the opinion that it cannot be said that the machine or manufacture had been "on-sale" for more that [sic] two years prior to the application date.

Id. at 503. This holding serves to demonstrate that a reduction to practice may be required by the "on-hand" doctrine; however, it leaves open what requirements beyond this minimum might be necessary to trigger the on-sale bar.
In *Timely Products Corp. v. Arron*, the court developed a three-part test, called "the reduction to practice standard," to determine that "section 102(b) bars an application for patent filed more than one year after the solicitation of an order for a specific article to be produced later . . . ." The court announced that to determine whether the invention was on sale, a court must find the following:

1. The complete invention claimed must have been embodied in or obvious in view of the thing offered for sale.
2. The invention must have been tested sufficiently to verify that it is operable and commercially marketable. This is simply another way of expressing the principle that an invention cannot be offered for sale until it is completed, which requires not merely its conception but its reduction to practice.
3. The sale must be primarily for profit rather than for experimental purposes.

This test, although not as restrictive as the on-hand doctrine, still requires a physical embodiment of the invention to start the running of the statutory bar. As a result, it has been criticized for producing results contrary to the basic policies underlying the on-sale bar.

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64. *Id.* at 302.
65. *Id.* at 302 (citations omitted).
66. See id.
67. See *Barmag Barmer Maschinenfabrik AG v. Murata Mach.*, Ltd., 731 F.2d 831, 837 (Fed. Cir. 1984), where the court stated:

   The Timely Products standard, while requiring less for "on sale" activity than the "on hand" test, is, nevertheless, restrictive in that an offer to sell, without the existence of a physical embodiment of what is offered, does not start the running of the time period. It is not difficult to conceive of a situation where, because commercial benefits outside the allowed time have been great, the technical requisite . . . for a physical embodiment . . . would defeat the statutory policy and we, therefore, do not adopt the Timely Products test as the answer in all cases.

   *Id.* at 837.
The "Totality of the Circumstances" Standard

Later, the Second Circuit's decision in *Timely* was called into question by *Barmag Barmer Maschinenfabrik AG v. Murata Machinery, Ltd.* The court wrestled with the strict reduction to practice standard because it thought that the standard defeated the policy or primary purpose of § 102(b), which is to prevent commercial exploitation of the invention by expanding the period of exclusive rights created by statute. The court suggested in dicta that if the invention were merely marketable, this would suffice to trigger the statutory on-sale bar because the reduction to practice standard is not functional in all situations.

In *UMC Electronics Co. v. United States*, the Federal Circuit supported and gave validity to the dicta in *Barmag*. The court held that reduction to practice is not always a requirement of the on-sale bar:

Thus, the second requirement of Timely Products, reduction to practice of the claimed invention, is inherently inconsistent with the first requirement under which the bar is applicable if the claimed invention is merely "obvious in view of the thing offered for sale." ... [W]e conclude that reduction to practice of the claimed invention has not been and should not be made an absolute requirement of the on-sale bar.

The court, however, failed to articulate what standard inventors and practitioners could use to determine when the inventive process activates the on-sale bar. Instead, the court held that "[a]ll of the circumstances surrounding the sale or offer to sell, including the stage of development of the invention and the nature of the invention, must be considered and weighed against the policies underlying section 102(b)."

The "Substantially Complete" Standard

In *Micro Chemical, Inc. v. Great Plains Chemical Co.*, the Federal Circuit Court of Appeals advanced the "totality of the circumstances" test announced in

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68. *Id. at 831.*
69. *See id. at 836.*
70. *See id. at 837.*
71. *UMC Elecs. Co. v. United States, 816 F.2d 647 (Fed. Cir. 1987).*
72. *See id.*
73. *Id. at 656 (emphasis in original).*
74. *Id.*
William Pratt developed and patented an apparatus for weighing and mixing small amounts of nutrients to be added to livestock or poultry feed. Prior to the critical date, Pratt, armed only with a rough sketch of the design, approached Lee Isaac, the manager of Sunbelt feedlot, and made an offer to sell a weighing machine, but the offer was turned down. The court stated that Pratt’s alleged offer to sell did not constitute an on-sale bar within the meaning of § 102(b):

At the time of the alleged offer to Isaac, Pratt had not reduced the invention to practice, nor had he substantially completed the invention. Because Pratt was not close to completion of the invention at the time of the alleged offer and had not demonstrated a high likelihood that the invention would work for its intended purpose upon completion, his . . . “offer” could not trigger the on-sale bar.

This holding followed and slightly extended the holding in UMC, which stated that “[i]f the inventor had merely a conception or was working towards development of that conception, it can be said there is not yet any ‘invention’ which could be placed on sale.”

The “Completed Invention” Standard

The “completed invention standard” was the result of litigation that arose when Marvin Maxfield became interested in using his expertise in the asphalt paving business to create an all-weather athletic running track. Seal-Flex, Maxfield’s company, installed the surface at a high school prior to the critical date; however, it was uncertain how the surface would fare when exposed to the elements. When Seal-Flex sued Athletic Track and Court Construction for infringement of the patent on the surface, the court noted that “[t]he general rule

76. See id.
77. Id. at 1538.
78. Id. at 1543. At that time, the design did not incorporate a mixing system into the design of the weighing system. Id. The primary challenge facing Pratt in combining the two systems was the “adverse effects of vibrations caused by the mixing system and by other sources.” Id.
79. Id. at 1545.
80. Id. (quoting UMC Elecs. Co. v. United States, 816 F.2d 647, 657 (Fed. Cir. 1987)).
81. See Seal-Flex, Inc. v. Athletic Track & Court Constr., 98 F.3d 1318 (Fed. Cir. 1996).
82. See id. at 1320. The critical date refers to the date exactly one year prior to when the patent at issue was filed in the U.S. Patent & Trademark Office. Id.
is that the on-sale bar starts to accrue when a completed invention is offered for sale.” The court favored this standard because, unlike the “substantially complete standard,” it allowed the inventor to know when the on-sale bar began to run.

III. THE FACTS OF PFAFF v. WELLS ELECTRONICS, INC.

Wayne K. Pfaff was the creator and owner of United States Patent No. 4,491,377 (hereinafter the “‘377 patent”), issued January 1, 1985, which related to a housing for testing and mounting leadless chip carriers. In November 1980, Pfaff was asked by representatives at Texas Instruments (hereinafter “TI”) to develop a socket for testing leadless chip carriers. Pfaff conceptualized the device and created detailed engineering drawings of the socket. On April 8, 1981, a representative acting on behalf of TI issued a purchase order to Pfaff’s company for 30,100 sockets. This purchase order confirmed an earlier, verbal order placed on March 17, 1981. “Additionally, Pfaff acknowledged in his testimony that, as a result of his meetings with TI, he had . . . a ‘deal’ prior to the critical date.” This order was, however, expressly conditioned upon the ability of the product to meet TI’s satisfaction. Several weeks after the critical date of April 19, 1981, the component parts of

83 id. at 1324. The determination of whether the invention was completed and known to work for its intended purpose is a question of fact. id.
84. See id. at 1323.
85. See Pfaff, 525 U.S. at 59.
86. See Pfaff v. Wells Elecs., Inc., 5 F.3d 514, 515 (Fed. Cir. 1993). The court stated: “A leadless chip carrier is a protective enclosure for [computer] chips. An integrated circuit chip is packaged within a ceramic . . . carrier which incorporates electrical leads for connecting the chip to other circuitry.” id. at 515 n.1.
87. See Pfaff, 525 U.S. at 58.
88. See id.
89. See id.
91. Id. at 1433
the socket were produced.\textsuperscript{93} Other than the drawings and Pfaff’s mental impressions, nothing relating to the invention existed before April 19, 1981.\textsuperscript{94} The socket was not tested until after it was shipped to TI in August 1981.\textsuperscript{95}

Pfaff first applied for a patent on April 19, 1982; however, he did not actually receive his patent until September 25, 1984.\textsuperscript{96} This patent was not, in fact, issued until January 1, 1985.\textsuperscript{97} Prior to September 25, 1984, Wells, who had long been in the business of selling sockets for testing semiconductor devices, began design efforts on a leadless chip carrier socket similar to the Pfaff design.\textsuperscript{98} Wells finally settled on a design, and, after modifying his design based on Pfaff’s ‘377 patent, began production.\textsuperscript{99}

Pfaff sued Wells Electronics in 1991 in the U.S. District Court for the Northern District of Texas, alleging that Wells had violated several claims of the ‘377 patent.\textsuperscript{100} The district court granted summary judgment to Wells Electronics on grounds of non-infringement.\textsuperscript{101} On appeal, the Federal Circuit, upon finding a genuine issue of material fact, reversed and remanded to the district court.\textsuperscript{102} On remand, the district court found two claims were invalid under § 102(b) and that the other claims on the patent were valid and infringed.\textsuperscript{103} Both parties appealed to the Federal Circuit.\textsuperscript{104}

In a unanimous decision, the Federal Circuit held that all of the claims were invalid because “the substantially completed socket had entered the production
phase prior to the critical date and a specific purchase order was being filled."105 This decision was based on "all of the circumstances surrounding the sale."106 The Supreme Court granted certiorari to determine whether the Federal Circuit had improperly construed § 102(b)'s on-sale bar.107

IV. THE REASONING OF THE COURT IN PFAFF V. WELLS ELECTRONICS, INC.108

Pfaff v. Wells Electronics, Inc. required the Supreme Court to address the issue of "whether the commercial marketing of a newly invented product may mark the beginning of the 1-year period even though the invention has not yet been reduced to practice."109 The Court found Pfaff's patent invalid because "the invention had been on sale for more than one year in this country before [Pfaff] filed his patent application."110 In affirming the decision of the Federal Circuit, the Court rejected the "substantially complete" reasoning of the district court and established a new test determining when the on-sale bar applies.111

Justice Stevens first established that the critical date for purposes of the on-sale bar of § 102(b) was April 19, 1981.112 Therefore, if the one-year period began to run before that date, Pfaff's patent would be invalid and the judgment of the Federal Circuit Court should be affirmed.113

The first stage of the Court's argument addressed the "reduction to practice" requirement that had developed in previous case law.114 To rebut the assertions posited by the doctrine, the Court established and stated that the meaning of the word "invention" in the Patent Act "refers to the inventor's conception rather

108. Id. at 55. Justice Stevens wrote the unanimous opinion of the court. Id. at 57.
109. Id. at 57.
110. Id. at 69.
111. See id. at 66. The Supreme Court also stated that the "substantially complete" test set forth by the Federal Circuit "seriously undermines the interest in certainty" and "finds no support in the text of the statute." Id.
112. See id. at 59-60. The record indicated that Pfaff filed his patent application for a patent of the computer chip socket at issue on April 19, 1982. Id.
114. See Pfaff, 525 U.S. at 60-62. See also Timely Prods. Corp. v. Arron, 523 F.2d 288 (2d Cir. 1975).
than to a physical embodiment of that idea.” The Court supported this conclusion with two propositions. First, the statute does not contain a requirement that the invention must be reduced to practice before it is patented. Second, the only mention of the term “reduction to practice” can be found in the standard for priority determination for two competing claimants. Therefore, the Court concluded that “assuming diligence on the part of the applicant, it is normally the first inventor to conceive, rather than the first to reduce to practice, who establishes the right to the patent.”

The Supreme Court’s two-part test requires: 1) that the product be the subject of a commercial offer for sale; and 2) that the invention must be ready for patenting. This second requirement can be satisfied “by proof of reduction to practice before the critical date or by proof that prior to the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention.

V. ANALYSIS

A. Introduction

The Supreme Court has failed to announce a workable standard by which inventors, or their attorneys, can determine the critical date for an on-sale bar analysis. Further, the policies of the on-sale bar, as described in General Electric Co. v. United States, are not furthered by the decision in Pfaff. As a

115. See Pfaff, 525 U.S. at 60.
116. See id. at 60-61.
117. See id. at 60-62. 35 U.S.C. § 102(g) provides:
   In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.
Id. at 61 (quoting 35 U.S.C. § 102(g)).
118. Pfaff, 525 U.S. at 61.
119. See id. at 67.
120. See id. at 67-68.
121. An on-sale bar analysis is an attempt to determine the date on which § 102(b) is triggered.
122. See also infra note 129 and accompanying text.
result of these two shortcomings, courts will continue to struggle with the application of § 102(b). This analysis will begin with a brief discussion of why the Supreme Court’s decision in Pfaff can be supported given the facts of the case. Next, the analysis will address the two areas in which the rule announced in Pfaff has failed: first, as a means of clarifying the on-sale bar; and second, as a means of furthering the policy behind the on-sale bar. Finally, the analysis will conclude with a proposal for the use of a new doctrine called the “commercially marketable doctrine.”

B. The Pfaff Decision

Given the facts of the Pfaff case, the test used by the Supreme Court seems justifiable. After all, Pfaff was admittedly confident that his plans or drawings for the leadless chip carrier were going to prove successful. Since Pfaff’s invention was rather basic in nature, he was actually able to know that it would work for its intended purpose. Therefore, applying the reduction to practice test announced by the Supreme Court to the facts of the Pfaff case, the policies underlying the statute are advanced. First, Pfaff would be encouraged to disclose his new invention to the public because he would be able to determine when the on-sale bar was triggered. Second, Pfaff would be prevented from commercially exploiting the exclusivity of his invention substantially beyond the statutorily authorized period because the bar would be triggered at his first

123. At Pfaff’s deposition, he and respondent’s counsel engaged in the following discussion:

“Q. Now at this time [late 1980 or early 1981] did we [sic] have any prototypes developed or anything of that nature, working embodiment?
“A. No.
“Q. It was in a drawing. Is that correct?
“A. Strictly in a drawing. Went from the drawing to the hard tooling. That’s the way I do my business.
“Q. ‘Boom Boom’?
“A. You got it.
“Q. You are satisfied, obviously, when you come up with some drawings that it is going to go—‘it works’?
“A. I know what I’m doing, yes, most of the time.”

Pfaff, 525 U.S. at 58 n.3 (1998).

commercial sale. Third, Pfaff would be given a reasonable amount of time following sales activity to determine whether his patent was a worthwhile investment because he would have known from the first moment that the bar began to run. Finally, the public's interest in this invention, that it had rightfully come to rely on as a result of prolonged sales activity, was not violated as a result of the decision. These advantages to the rule, however, are entirely a result of the unique fact pattern given to the Supreme Court. If Pfaff had doubt as to whether his invention would work for its intended purpose, the equities and soundness of the Supreme Court's decision would begin to break down.

C. Inventors and Lawyers are Unable to Determine The Critical Date

To be functional, any rule affecting the on-sale bar must elucidate, for the inventor, precisely when the statutory bar begins to run. Otherwise, the goal of any patent statute as announced in the Constitution, "to promote the progress of science and useful arts," would be thwarted. To be practical, the test announced in Pfaff requires the benefit of hindsight that inventors do not have at the time they must make the crucial decision to apply for a patent. Often the inventor will not know if the invention will suffice for its intended purpose until a prototype is built. If an inventor does not know how to determine when the statute begins to run, the development of useful devices will be curtailed.

In reality, most inventors are unable to determine whether an invention will work for its intended purpose before it is actually reduced to practice. Even the most sanguine inventor will rarely be able to say with any true degree of precision that an invention will work for its intended purpose prior to the point in time at which it is reduced to practice. This is especially true for more complex inventions, which require an inventor to go back to the drawing board several times before finally reaching the design that results in the finished product. Yet, in order to solicit and facilitate future sales or funding for their projects, inventors must demonstrate confidence in their ideas. Therefore, under the present test, inventors, without the benefit of hindsight, cannot discern when the statutory bar is in place because they are rarely sure which version of their

126. Inventors must be able to commercially utilize their inventions in order to encourage the inventive process. However, penalizing an inventor for pursuing a concept that may only be marginally successful obviously stifles the process.
127. See supra notes 62-66 and accompanying text.
invention actually will work. Further, courts are ill equipped to determine whether the confidence displayed by inventors is a sagacious sales pitch or a true belief in the likelihood that a particular drawing will provide a desired result.

As an example, assume that an inventor named Idein developed a concept for an invention called Convenience. Idein worked for several months on the drawings of the plans for Convenience, but after a great deal of work he was not sure whether Convenience could accomplish its intended purpose. To determine the marketability of Convenience, Idein decided to discuss his proposal with a representative from Acme, a company that Idein hoped might someday purchase his invention. During the meeting Idein showed the drawings to the Acme official and told her that he was sure his invention could save Acme a great deal of money. The Acme official, based on Idein’s sales pitch, gave Idein a purchase order for 10,000 units of Convenience. Idein explained that he was not sure how long it would take to deliver the finished product, to which the Acme official replied that as long as the invention worked as planned Acme would accept delivery.

In this example, Convenience was certainly the subject of a commercial sale. However, Idein is not sure whether his drawings are sufficiently specific to enable a person skilled in the art to practice the invention. Should Idein apply for a patent? If he does not, and it takes him more than a year to discover that the drawings he held in his hands during his meeting with Acme actually worked for their intended purpose, he will be out of luck according to the Supreme Court’s “ready for patenting” standard. Then again, it is expensive and time consuming to apply for a patent, and these are two things that inventors are often least able to part with: time and capital. Idein is trapped.

The “ready for patenting” standard is not sufficient because, in reality and in practice, it is an objective test. As the above problem illustrates, the only way to apply the test is to consider whether a person skilled in the art could use the drawings to practice the invention. In effect, whether the inventor believes the invention, based on his or her drawings, will work for its intended purpose has no meaning until after the fact. An inventor, such as Idein, would essentially be penalized for conceiving an invention that he is only marginally sure will succeed. A test that creates such a scenario is obviously unworkable.
D. The Policy Behind the On-Sale Bar is Not Advanced

It has been stated by the Court of Appeals for the Federal Circuit that "the policies underlying the [on-sale] bar... define it."128 The policy behind the on-sale bar is important in interpreting the wisdom behind the decision in *Pfaff*. Further, the policy behind the on-sale bar has played an important role in every judicial decision concerning the statute.129 In *General Electric Co. v. United States*,130 the Court of Claims stated four policy reasons for the on-sale bar:

First, there is a policy against removing inventions from the public which the public has justifiably come to believe are freely available as a consequence of prolonged sales activity. Next, there is a policy favoring prompt and widespread disclosure of new inventions to the public.

A third policy is to prevent the inventor from commercially exploiting the exclusivity of his invention substantially beyond the statutorily authorized 17-year period. The fourth and final identifiable policy is to give the inventor a reasonable amount of time following sales activity (set by statute as 1 year) to determine whether a patent is a worthwhile investment.131

Because furtherance of these four policy considerations is the only measuring stick to determine the success of any judicial decision affecting the on-sale bar, an examination of these policies should be the building blocks of any thorough analysis of § 102(b).

At its heart, the overarching policy of the patent system enjoyed by the United States is to encourage and stimulate invention.132 Three of the above-mentioned policy considerations address this singular goal.133 As discussed above, the Supreme Court, in *Pfaff v. Wells Electronics, Inc.*, announced a two-part test for inventors and attorneys to use in determining when the statutory on-

129. *See supra* notes 37-83 and accompanying text.
133. The exception is the first identified policy consideration, which protects the public's interest in inventions upon which it has come to rely.
sale bar has been triggered. 134 The on-sale bar applies when two conditions are present. First, a product or invention must be “the subject of a commercial offer for sale.” 135 Second, in order for the bar to apply “the invention must be ready for patenting.” 136 The Court stated that this second condition could be satisfied with proof of a reduction to practice prior to the critical date. 137 Alternatively, satisfaction could occur with proof that the inventor “prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention.” 138 This standard fails to effectively advance the basic tenet of the overarching policy of the patent system, which is to encourage invention. Inventors, such as Idein discussed in the fictitious example above, must have the ability to stimulate capital for their projects before they are confident that their invention will work for its intended purpose. By limiting when inventors may secure a patent based on when they indicate to an investor that their invention is ready for production, the ability of inventors to effectively raise capital is dramatically curtailed. Without the capacity to effectively raise capital, many important developments might be ignored by risk averse inventors.

E. Proposal: The “Commercially Marketable” Doctrine

At its earliest opportunity the Supreme Court should consider adopting a “commercially marketable doctrine.” Under this test an invention is commercially marketable if both the inventor and the seller can say with confidence that the object of the sale will work for its intended purpose. 139 As discussed, any standard that fails to provide an identifiable date when inventors must patent their designs discourages invention in toto. This test would not depend on the hindsight of inventors because it requires that the invention be in a form that will work for its intended purpose. This test could be criticized for allowing the inventor to exploit the patent laws to extend the time period when the inventor has an exclusive control of the invention. However, it is not the

134. See Pfaff, 525 U.S. at 56.
135. Id. at 67.
136. Id.
137. See id.
138. Id.
139. Most of the time this will require that the invention will be reduced to practice or in hand in some form, however it is possible that specific drawings of the invention may suffice.
case that a standard that fails to protect the public from exploitation will always result in inventors taking advantage of the system. It does not follow that because an inventor extends his patent by six months, or even a year, that commercial exploitation has occurred. Consider that extending a twenty-year patent an extra twelve months only amounts to a 5% lengthening of the right to control a particular design. Without an embodiment of the design in hand, an inventor cannot significantly develop the commercial value of an invention.

Admittedly, this may not be a perfect solution, but perhaps the American Intellectual Property Law Association has endorsed a reduction to practice standard for good reason. A reduction to practice standard easily affords inventors the ability to know under what circumstances they will run the risk of invalidating a patent. The commercially marketable standard would have a similar effect on patent law. The Supreme Court should set aside its unfounded fears that inventors will exploit any patent system that affords them the opportunity. Inventors must be able to readily identify when the statutory bar is triggered. The economic benefits that result from encouraging invention will always outweigh any burdens on the public that result from exploitation of patent laws.

VI. CONCLUSION

Lamentably, the Supreme Court failed, in Pfaff v. Wells Electronics, Inc., to create an operative and functional framework for an on-sale bar analysis. The "ready for patenting" test espoused by the Supreme Court in Pfaff lacks the requisite precision found in more pragmatic tests. Clearly, the law that shapes the nature or effect of the on-sale bar should be modified in order to furnish a definitive approach to the on-sale bar analysis that is not dependent on the hindsight of inventors. To be tenable, these alterations must also advance the policy rationale behind § 102(b).

Attempts to appease the needs of inventors, and those of the public, are tenuous at best. Inventors require a test that allows them to make concrete decisions concerning the date they are required to apply for a patent. Likewise, the public desires to be protected from the inventor's ability to exploit the system by extending his or her control beyond the statutory period. In constructing a rule, courts should err on the side of the inventor because to do so is to err on the side of caution.