

No.

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

**On Petition for a Writ of Certiorari to
the United States Court of Appeals
for the Federal Circuit**

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

The “patent exhaustion doctrine”—also known as the “first sale doctrine”—holds that “the initial authorized sale of a patented item terminates all patent rights to that item.” *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). This case presents two questions of great practical significance regarding the scope of this doctrine on which the *en banc* Federal Circuit divided below:

1. Whether a “conditional sale” that transfers title to the patented item while specifying post-sale restrictions on the article’s use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law’s infringement remedy.

2. Whether, in light of this Court’s holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine “makes no geographical distinctions,” a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

RULE 29.6 STATEMENT

Petitioner Impression Products, Inc. has no parent corporation. No publicly held company owns 10% or more of its stock.

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OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-135a) is not yet reported. The opinion of the district court addressing the “conditional sale” doctrine (App., *infra*, 140a-155a) is unreported, but is available at 2014 WL 1276133. The opinion of the district court addressing international exhaustion (App., *infra*, 156a-169a) is reported at 9 F. Supp. 3d 830.

JURISDICTION

The judgment of the court of appeals was entered on February 12, 2016. This Court’s jurisdiction rests on 28 U.S.C. § 1254(1).

STATEMENT

A valid patent provides the patentee with a monopoly over the first sale of any good that embodies the patented invention. If a competitor sells a product using the patented technology, the patentee may sue for infringement.

The “patent exhaustion doctrine” (also known as the “first sale doctrine”) imposes a critical limit on the patentee’s rights. It provides that the first authorized sale of an article exhausts the patentee’s *patent* rights to that article. This doctrine enables resale of a car or a lawnmower or any other patented good without incurring liability for patent infringement. Absent patent exhaustion, every secondary market in patented goods would grind to a halt.

This case presents two different, but related, questions of very substantial legal and practical importance regarding patent exhaustion. Indeed, the questions are so consequential—and this case is such an ideal vehicle for resolving them—that the Federal Circuit, acting *sua sponte*, took the extraordinary

step of initially hearing this case *en banc*. The court received thirty-three *amicus* briefs, including a submission by the United States.

The first question is whether a patentee may circumvent the patent exhaustion doctrine by expressly specifying post-sale restrictions on the use or resale of the patented article at the time the patentee transfers title to the purchaser. Reaffirming its earlier decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), the court below concluded that a patentee may use patent law to enforce post-sale restrictions, so long as those restrictions are clearly communicated.

That holding squarely conflicts with this Court’s consistent teaching regarding the scope of the exhaustion doctrine. As the dissenting judges put it, there is “no colorable basis for the majority’s failure to follow the exhaustion rule for domestic sales as articulated by the [Supreme] Court in *Quanta* and numerous other cases.” App., *infra*, 124a-125a. Indeed, the United States has twice asked this Court to repudiate *Mallinckrodt*, and it reiterated that position in its *amicus* brief below.

The second question presented is whether patent exhaustion applies to articles that a U.S. patentee sells abroad—the issue addressed by this Court in the copyright context in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). The court of appeals affirmed its decision in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), holding that a sale made by a patentee outside the United States does not exhaust its U.S. patent rights. That, of course, is the opposite result from the one reached by this Court in *Kirtsaeng*.

This holding also warrants review. *Jazz Photo* was wrong when it was decided—indeed, the Court’s analysis in *Kirtsaeng* is controlling, because the patent law, unlike the copyright law, does not contain a statutory provision addressing exhaustion doctrine. The *Kirtsaeng* Court’s determination that the common law rule against restraints on alienation “makes no geographical distinctions” (133 S. Ct. at 1363) is therefore dispositive here. The Federal Circuit majority’s decision also conflicts with the position advanced by the United States in its *amicus* brief. And the question has enormous practical importance, because the majority’s ruling enables a patentee to disrupt international commerce by improperly extracting multiple payments for the same good.

A. Legal background.

A patentee may preclude another from making, using, or selling an article that embodies its patented invention. 35 U.S.C. § 271(a). “Under the doctrine of patent exhaustion,” however, “the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article.” *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013). That is because “the initial authorized sale of a patented item terminates all patent rights to that item” (*Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008)), and the first sale “confers on the purchaser, or any subsequent owner, ‘the right to use or sell’ the thing as he sees fit.” *Bowman*, 133 S. Ct. at 1766 (alteration omitted; quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 249-250 (1942)).

The Federal Circuit has recognized two substantial exceptions to the patent exhaustion doctrine. First, in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976

F.2d 700 (Fed. Cir. 1992), the court of appeals held that a patentee may transfer title to the patented article and specify a putative post-sale reuse or resale restriction on the article that, notwithstanding the exhaustion doctrine, may be enforced by means of the patent laws. Second, in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), the Federal Circuit held that a patentee’s U.S. patent rights are not exhausted when it sells (or authorizes the sale of) the patent article outside the United States.

B. Factual background.

This case concerns toner cartridges for laser printers—the part containing the ink used by a printer that is replaced by a new cartridge when the ink is used up—and Lexmark’s continued efforts to “dominate[] the market for cartridges compatible with its printers.” *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1383 (2014).

Because printer manufacturers often patent certain aspects of the toner cartridges used in their printers, the manufacturer may maintain a legal monopoly over the sale of new toner cartridges. Lexmark, a printer manufacturer, thus sells its new cartridges at a substantial premium, often charging hundreds of dollars for a single toner cartridge. After a cartridge is spent, however, “remanufacturers,” may “acquire used Lexmark toner cartridges, refurbish them, and sell them in competition with new and refurbished cartridges sold by Lexmark.” *Ibid.*

Impression, a small business located in Charleston, West Virginia, is one such remanufacturer. App., *infra*, 10a. Impression purchases cartridges that

Lexmark initially sold both inside and outside of the United States. *Id.* at 13a.

Lexmark, however, “would prefer that its customers return their empty cartridges to it for refurbishment and resale, rather than sell those cartridges to a remanufacturer.” *Static Control Components*, 134 S. Ct. at 1383. It thus offers its customers the option to purchase a “Return Program Cartridge” at a discount of roughly 20 percent, subject to a single-use/no-resale restriction.” App., *infra*, 10a. These cartridges contain a restriction that “the buyer may not reuse the cartridge after the toner runs out and may not transfer it to anyone but Lexmark once it is used.” *Ibid.*

Respondent maintains that its transfer of the Return Program Cartridges to its customers constitutes a sale of property; it specifically disclaims that the legal arrangement qualifies as a lease. App., *infra*, 11a n.1. According to respondent, a customer who purchases a “Return Program Cartridge” “is not absolutely required to return the cartridge to Lexmark.” *Ibid.*

C. Proceedings below.

In 2010, Lexmark sued several remanufacturers, including Impression, for direct and contributory patent infringement. App., *infra*, 12a-13a. Only Impression remains in this case, as the claims against all other defendants have been resolved. *Id.* at 13a.

The parties entered various agreements that have “narrow[ed]” the “focus” of this dispute. App., *infra*, 13a. In particular:

- Only a “single count of infringement” remains against Impression, who does “not dis-

pute the validity or enforceability of the patents.” *Ibid.*

- For present purposes, no one disputes that all relevant parties had adequate notice of the conditions Lexmark putatively placed on the Return Program cartridges. *Id.* at 14a.
- Lexmark does not assert that Impression’s refurbishment of the cartridges—which includes “the chip replacement and ink replenishment”—“result[s] in new articles, which would be outside the scope of the exhaustion doctrine.” *Id.* at 12a n.2.

As a result, the two questions presented by this petition are each independently determinative of the claims that Lexmark asserts against Impression; the conditional sale question resolves Lexmark’s claim as to Impression’s refurbishment of domestically-sold Return Program Cartridges, and the international exhaustion question resolves Lexmark’s claims with respect to cartridges initially sold abroad.

1. The district court granted Impression’s motion to dismiss as to the cartridges first sold in the United States. App. *infra*, 140a-155a. The court held that the Federal Circuit’s decision in *Mallinckrodt* had been overruled by this Court’s ruling in *Quanta*. *Id.* at 153a-154a. Holding otherwise, the court stated, would “create significant uncertainty for downstream purchasers and end users who may continue to liable for infringement even after an authorized sale to the consumer has occurred.” *Id.* at 154a. The court concluded “that the fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the

scope of the patent monopoly despite the notices contained on those cartridges.” *Ibid.*

With respect to the cartridges first sold abroad, the district court denied Impression’s motion to dismiss. App., *infra*, 169a. The court considered whether this Court’s decision in *Kirtsaeng* relieved it of its obligation to otherwise follow the Federal Circuit’s decision in *Jazz Photo*. It concluded that this Court “did not intend to implicitly overrule *Jazz Photo* and that *Jazz Photo* remains controlling precedent on patent exhaustion abroad.” *Ibid.*

The parties subsequently entered a stipulated final judgment. The district court entered judgment in favor of Impression as to the Return Program cartridges and in favor of Lexmark as to the cartridges initially sold abroad. App., *infra*, at 17a-18a. Both parties subsequently appealed. *Id.* at 18a.

2. After the parties briefed the case and argued it before a panel, the Federal Circuit *sua sponte* issued an order directing that the matter would be decided, in the first instance, by the *en banc* court. App., *infra*, 18a-19a. The court identified as the controlling questions whether it should overrule either *Jazz Photo* or *Mallinckrodt*. *Id.* at 19a.¹

With respect to the conditional sale doctrine, the majority reaffirmed *Mallinckrodt*. App., *infra*, 26a-62a. It held that *Quanta* did not overrule *Mallinckrodt* (*id.* at 30a-37a), and that *Mallinckrodt* is compatible with this Court’s precedents addressing the exhaustion doctrine. *Id.* at 35a-62a. The majority

¹ Lexmark itself recognized that these two issues are the sole questions presented by this dispute. See, e.g., Fed. Cir. Dkt. No. 28, at 1-2.

concluded that a patentee may enforce, under the patent law, a restriction placed on the good at the time of sale: “A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the ‘authority’ to engage in the use or resale that the restriction precludes.” *Id.* at 26a.

With respect to international exhaustion, the majority reaffirmed *Jazz Photo*’s holding that patent exhaustion “cannot rest on a foreign first sale.” App., *infra*, 67a. It concluded that *Kirtseng* was limited to the “statutory question” whether the Copyright Act’s first sale doctrine (codified at 17 U.S.C. § 109(a)) applies abroad and that the decision’s reasoning therefore “cannot be transposed to the patent-law setting.” *Id.* at 73a. The majority concluded, in accord with *Jazz Photo*, that sale outside the United States of a patented item does not exhaust U.S. patent rights. It relied on this Court’s decision in *Boesch v. Graff*, 133 U.S. 697 (1890), which it read to “preclud[e] foreign control of U.S. [patent] rights.” App., *infra*, 84a.

3. Judge Dyk, joined by Judge Hughes, dissented. App., *infra*, 105a-135a. With respect to the conditional sale issue, the dissent stated that “*Mallinckrodt* was wrong when decided,” because this Court has “repeatedly held that the authorized sale of a patented article exhaust[s] all of the patentee’s patent rights in that article.” *Id.* at 105a, 109a. The dissent catalogued in detail the decisions of this Court conflicting with *Mallinckrodt*. *Id.* at 107a-109a. And, “in any event,” the dissent added, *Mallinckrodt* “cannot be reconciled with the Supreme Court’s recent decision in *Quanta* * * *.” *Id.* at 105a. In the dissent’s view, the court of appeals “exceed[ed] [its] role as a subordinate court by declining to follow the explicit

domestic exhaustion rule announced by the Supreme Court.” *Id.* at 105a-106a. See also *id.* at 118a (“The majority’s justifications for refusing to follow Supreme Court authority establishing the exhaustion rule misconceive our role as a subordinate court.”).

Turning to the international exhaustion issue, the dissenters concluded that *Jazz Photo* should be overruled in part. App., *infra*, 125a-135a. They determined that a foreign sale authorized by the U.S. patentee would not, “in all circumstances,” exhaust U.S. patent rights, but would have adopted the position advanced by the United States—holding “that the foreign sale should result in exhaustion if the authorized seller does not explicitly reserve its United States patent rights.” *Id.* at 125a.

REASONS FOR GRANTING THE PETITION

This case presents two questions whose resolution has extraordinarily important consequences for the scope of the patent monopoly and, in particular, the existence—or non-existence—of competition in every market for resale of every patented good whose title has been transferred in a sale by the patentee or in an authorized sale by a licensee. Review by this Court is plainly warranted.

I. This Court Should Resolve The Conditional Sale Question.

Beginning with its decision in *Mallinckrodt*, 976 F.2d 700, and culminating in the ruling below, the Federal Circuit has repeatedly held that a patentee may avoid patent exhaustion by transferring title to the patented item with a “clearly communicated, otherwise-lawful restriction as to post-sale use or resale.” App., *infra*, 26a. Such a restriction, the court of

appeals holds, may be enforced as a matter of *patent* law. *Ibid.*

The decision below squarely conflicts with this Court’s precedent. The United States has twice called on this Court to reverse *Mallinckrodt*, and it reiterated that position below. This issue, which has enormous practical implications, warrants definitive resolution by this Court.

A. The Federal Circuit’s holding—that a patentee may avoid exhaustion by imposing post-sale restrictions when transferring title to the patented article—is plainly wrong.

The *en banc* majority’s reaffirmation of *Mallinckrodt* is wholly inconsistent with this Court’s precedent. *First*, this Court has long recognized that the first sale of a patented article terminates *all* patent rights possessed by the seller; there is no room in the exhaustion doctrine for continuing post-sale restrictions. *Second*, to the extent that this Court’s early cases could be viewed as unclear, this Court’s holdings in *Univis* and *Quanta*—both of which the court of appeals improperly characterized as mere *dicta*—together preclude a conditional sale exception to patent exhaustion. *Third*, the major rationale relied on by the court of appeals—that, because a patentee may issue a restrictive license, it should also be able to make a restrictive sale—does not withstand scrutiny: it eviscerates the settled distinction in patent law between transfers of title and licenses.

1. Patent exhaustion is a common-law rule that has not been codified by Congress. *Quanta*, 553 U.S. at 621 (“For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent

rights that survive the initial authorized sale of a patented item.”). See also App., *infra*, 23a n.5. That doctrine—save for the aberration of *Henry v. A.B. Dick*, 224 U.S. 1 (1912), that was quickly overruled—has never permitted a patentee to enforce a putative post-sale restriction on an article *by means of the patent laws*.²

That has been true at least since 1853, when this Court held in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852), that the sale of a patented article exhausts the patentee’s patent rights. The Court explained that when a patented article “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.” *Id.* at 549. If the patentee’s rights in that ar-

² When a patentee sells a product, it may choose to place *contract*-based restrictions on that article. See, e.g., *Quanta*, 553 U.S. at 637 n.7; *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (“Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws”). But Lexmark does not attempt to assert its claims as a matter of contract law. Because a remanufacturer like Impression is not in privity with either Lexmark or Lexmark’s customers, Lexmark would have no contract claim against Impression. And Lexmark has apparently chosen not to sue its own customers for reselling spent toner cartridges in violation of the putative restriction.

Likewise, a patentee may choose not to sell articles embodying its patented innovations at all; instead, a party may choose to rent or lease those articles, without a transfer of title. But Lexmark has maintained that, notwithstanding its putative post-sale restrictions, it sells—not leases—the printer cartridges to its customers. See App., *infra*, 11a n.1.

ticle are infringed, “he must seek redress in the courts of the State, according to the [contract] laws of the State, and not * * * under the law of Congress granting the patent.” *Id.* at 549-50.

This Court repeatedly affirmed that rule over the following century:

- “By a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States.” *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 351 (1863).
- “[T]he sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time. * * * [I]t is open to the use of the purchaser *without further restriction on account of the monopoly of the patentees.*” *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 455-56 (1873) (emphasis added).
- “[W]hen the patentee * * * sells a machine or instrument whose sole value is in its use, he receives the consideration for its use, and *parts with the right to restrict that use.*” *Hobbie v. Jennison*, 149 U.S. 355, 361-62 (1893) (emphasis added).
- “[O]ne who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no

longer applied.” *Bos. Store of Chi. v. Am. Graphophone Co.*, 246 U.S. 8, 25 (1918).

- “[W]here a patentee makes the patented article, and sells it, *he can exercise no future control over what the purchaser may wish to do with the article after his purchase.*” *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926) (emphasis added).

As the dissent below explained, “[t]he question of whether the seller has ‘authorized’ the buyer to use or resell the item is simply irrelevant” in all of these cases. App., *infra*, 106a. The Court has thus “repeatedly held that the authorized sale of a patented article exhausted all of the patentee’s patent rights in that article, and freed the article from any restrictions on use or sale based on the patent laws.” *Id.* at 109a.

To be sure, there was one short-lived deviation from this otherwise uniform precedent. In *Henry v. A.B. Dick Co.*, 224 U.S. 1, 24-25 (1912), the Court permitted enforcement through the patent laws of a post-sale restrictive condition:

[I]f the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded.

But the Court quickly overruled *A.B. Dick*. In *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917), the Court held that “the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put

upon it.” Thus, the Court explicitly stated that *A.B. Dick* “must be regarded as overruled.” *Id.* at 518. See also *Quanta*, 553 U.S. at 626 (“the Court explicitly overruled *A.B. Dick*”). This history is, as the dissent below put it, “compelling authority against the majority’s conclusion.” App., *infra*, 111a.

2. This Court’s more recent decisions in *Univis* and *Quanta* confirm conclusively that a patentee may not enforce a putative post-sale restriction by means of the patent laws.

In *Univis*, the patentee (Univis) licensed to the Lens Company the right to manufacture lens blanks and sell them to other designated licensees. 316 U.S. at 243. Univis issued three different classes of licenses for different categories of purchasers, granting them different use rights in the lens blanks, and setting different prices to be charged for the resale of the lenses ultimately produced. *Id.* at 244-245.

The government brought antitrust claims against Univis and the Lens Company; the companies defended by arguing that their sale of the lens blanks was “excluded” from the ambit of the Sherman Act by their “patent monopoly.” *Id.* at 243. This Court rejected that argument, holding that the “sale of [an 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.” *Id.* at 250. It is difficult to imagine a more explicit rejection of a “conditional sale” exception to patent exhaustion.

The court below claimed that *Univis* addresses only restrictions that violate the antitrust laws, asserting the case involved a “vertical price-control restriction.” App., *infra*, 54a. But Univis had imposed a

variety of non-price restrictions on the resale of its products. For example, Univis sold lens blanks to “prescription retailer[s]” and stated that the retailer could “sell finished lenses only to consumers.” *Univis*, 316 U.S. at 245. In addressing the enforceability under the patent laws of post-sale restrictive conditions, *Univis* therefore was *not* limited to price restrictions.

Indeed, this Court in *Quanta* confirmed that *Univis* “governs” patent exhaustion as a general matter and its reliance on *Univis* to define the general reach of exhaustion is inconsistent with the contention that *Univis*’s rationale is limited to a subset of cases in which a putative restriction would otherwise violate the antitrust laws. *Quanta*, 553 U.S. at 631.

The Federal Circuit majority also characterized as dicta *Univis*’s conclusion that the exhaustion doctrine precludes enforcement under patent law of post-sale conditions—asserting that only “some language in *Univis*” “taken out of context and read as going beyond the restriction involved” weighed against its result. App., *infra*, 54a. The dissent properly criticized the majority for “characteriz[ing] the statement of the exhaustion rule in the Supreme Court cases as mere dictum” given that “the cases impose no such qualification on the rule announced.” *Id.* at 118a.

Finally, this Court’s decision in *Quanta* does not simply confirm the reach of *Univis*; that ruling independently compels rejection of the lower court’s holding that a patentee may use a putative post-sale restriction to circumvent patent exhaustion. The *Quanta* Court expansively defined the scope of the exhaustion doctrine: “[t]he authorized sale of an article that

substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control postsale use of the article.” 553 U.S. at 638. And the Court described *Motion Picture Patents* as having “reiterated the rule that ‘the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.’” *Quanta*, 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516).

As the dissent below recognized, *Quanta* “reiterated the broad patent exhaustion rule and left no room for a resurrection of *A.B. Dick*[’s]” conditional sale doctrine. See App., *infra*, 113a-115a.

3. The majority below rested its holding in large part on this Court’s cases holding that a patentee may place restrictions on the scope of a *license* to manufacture articles embodying its patents—and that a sale by the licensee in violation of those restrictions does not exhaust the patent rights. See, e.g., App., *infra*, 28a, 31a, 34a, 41a-55a. Contrary to the majority’s analysis, a restriction in a license stands on vastly different ground than a putative post-sale restriction.

The patent exhaustion doctrine itself explains why a license is different than a sale. Under the first *sale* doctrine, “the *initial authorized sale* of a patented item terminates all patent rights to that item.” *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1765 (2013) (quoting *Quanta*, 553 U.S. at 625) (emphasis added). The required authorization, of course, is authorization *by the patentee*. When a patentee manufactures its own products, its sale of those articles will, in all cases, qualify as an “initial authorized

sale.” If a patentee does not wish to “authorize” the sale, it can simply decline to sell the articles.

In the context of a patentee-licensee arrangement, the patentee authorizes the licensee to manufacture and sell articles that embody the patented technology. The “initial authorized sale” occurs when the licensee first sells the article in question. For that sale to qualify as an “authorized” one, the licensee must comply with the terms of the license.

The Court’s decisions in *General Talking Pictures Corp. v. Western Electric Company*, 304 U.S. 175 (1938), *opinion on rehearing* 305 U.S. 124 (1939), are instructive. There, a patentee granted one company a license to produce patented amplifiers for commercial use, and it granted the defendant a license to manufacture amplifiers for home use. The defendant nonetheless made and sold amplifiers for commercial use. *General Talking Pictures*, 305 U.S. at 125-126. The Court found that the restriction in the license was valid, and that the amplifiers sold by the defendant for commercial use were therefore infringing products subject to the patent laws. *Id.* at 127.

This result accords with common sense: if the sale is in compliance with the license terms, then an “initial *authorized* sale” occurs, and all patent rights to that article held by the patentee are exhausted. But, if the sale is not in compliance, then no “initial *authorized* sale” occurs.

That principle has important real-world consequences. It means that a downstream purchaser need ascertain only that the patentee made the initial sale of the article or that the licensed manufacturer making the initial sale had full authority to sell to the initial purchaser. If one of those circumstances

is present, the downstream purchaser need not attempt to discern any other conditions that the patentee attempted to impose. Under the majority's approach, "[p]ost-sale restraints would 'cast a cloud of uncertainty over every sale.'" App., *infra*, 117a (dissent).

At bottom, the decision by the court of appeals hinges on the assertion that a patentee can authorize a sale (either via selling the article himself, or by licensing another to sell the good), but nonetheless restrict the buyer from later reselling the duly purchased article. App., *infra*, 40a-41a. That reasoning would render the patent exhaustion doctrine meaningless, because the patentee could avoid the doctrine entirely by specifying a restriction in connection with the first sale. Instead, as this Court has long held, the first authorized sale necessarily exhausts all patent rights, including any post-sale restriction the patentee may wish to impose.

B. The court of appeals rejected the longstanding view of the United States that *Mallinckrodt* is inconsistent with this Court's precedents.

For nearly a decade, the United States has recognized that *Mallinckrodt* "reflects a fundamental misunderstanding of the role and scope of the patent-exhaustion doctrine." U.S. Br. at 23, *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 3353102. The government's brief in *Quanta* stated that the Federal Circuit's conditional sale doctrine "cannot be reconciled" with this Court's decision concerning the first-sale doctrine. *Ibid.*

Later, in its *Bowman* certiorari-stage *amicus* brief, the United States explained that *Mallinckrodt*

“was materially different from, and inconsistent with” this Court’s exhaustion holdings. U.S. Cert. Br. 8, *Bowman*, 133 S. Ct. 1761 (No. 11-796), 2012 WL 3643767. Following the grant of certiorari, the United States underscored that “the Federal Circuit’s ‘conditional sale’ doctrine is erroneous and inconsistent with *Quanta*.” U.S. Br. at 29, *Bowman*, 133 S. Ct. 1761 (No. 11-796), 2013 WL 137188. *Mallinckrodt*, the United States said, “is irreconcilable with this Court’s precedents,” which have “repeatedly applied the patent-exhaustion doctrine in concluding that explicit restrictions imposed on authorized purchasers were ineffective as a matter of patent law.” *Id.* at 30-31.

Finally, the United States appeared as *amicus* before the court below and reaffirmed its longstanding position, urging the *en banc* court to “overrule *Mallinckrodt* and hold that post-sale restrictions are not enforceable in patent law.” U.S. Br. at 4, *Lexmark Int’l, Inc. v. Impression Prods., Inc.*, 2016 WL 559042 (Fed. Cir. 2015) (No. 14-1617), 2015 WL 4112927.

The United States stated that “*Mallinckrodt* was wrong when it was decided, and the gap between *Mallinckrodt* and the Supreme Court’s precedents has only become more evident in the ensuing years.” *Id.* at 8. It urged the court of appeals to “overrule *Mallinckrodt* and hold that the first authorized sale in the United States exhausts all patent rights in the article sold, regardless of the patentee’s attempt to impose post-sale restrictions by contract.” *Id.* at 12. For this reason, the government contended, “Lexmark’s single-use restrictions on its cartridge sales cannot be enforced through patent law.” *Ibid.*

The government's *amicus* brief in *Quanta* explained the significant adverse practical consequences of the *Mallinckrodt* rule:

Absent patent exhaustion, the lawful purchase of an article useful only for practicing the patent provides no value to the purchaser until completion of further negotiations and a further payment for the right to use or to resell. Moreover, the need for further negotiations and payments may depend on a court's after-the-fact determination whether the seller adequately expressed a limitation on the rights conveyed. * * * The potential for "inconvenience and annoyance," as well as inefficiency, is palpable.

That potential is not limited to the first purchaser. If the patentee can impose use and resale restrictions on the first purchaser in an authorized sale, there is no reason why it cannot also do so as to all subsequent purchasers. * * * The inconvenience, annoyance, and inefficiency can thus be passed down the chain of distribution, with no obvious stopping point short of the end of the article's useful life.

That ability to employ the patent law to extract royalties at multiple downstream points in the channels of commerce, even after an authorized sale, can have consequences beyond the evident transactional inefficiencies. * * * The result would be a transfer of wealth from downstream firms and ultimate consumers to the patentee. Nothing suggests that this transfer would further "the Progress of Science and useful Arts," U.S.

Const. Art. I, § 8, Cl. 8, to the benefit of the public.

Br. at 27-28. These consequences, and the stark inconsistency between *Mallinckrodt* and this Court's decisions, confirms the need for this Court's intervention.

C. The question is extremely important.

This Court has frequently observed that “[t]he promotion of the progress of science and the useful arts is the ‘main object’” of patent law; the “reward of inventors is secondary and merely a means to that end.” *E.g.*, *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942). Patent law must therefore strike a balance between the public interest, on the one hand, and providing proper incentives to inventors on the other.

A key mechanism for establishing this balance is the “single-reward principle”: that “the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent.” *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666 (1895). Once an article has been sold, the patentee has received its patent-law “reward” for that article and any subsequent conditions on the article’s resale or use can only be enforced through contract law. *E.g.*, *Quanta*, 553 U.S. at 637 n.7 (“[T]he authorized nature of the sale to [a purchaser] does not necessarily limit [the patentee’s] other contract rights.”).

Allowing patentees to enforce sale and use restrictions through patent law, in addition to contract law, would dramatically expand patentees’ ability to impose such restrictions. Patent rights, unlike con-

tract rights, can be asserted against downstream purchasers not in privity with the patentee or its authorized licensee. And patent law provides for enhanced damages (see 35 U.S.C. § 284) and injunctive relief (*id.* § 283) that generally are unavailable under contract law. The severity and far-reaching scope of the patent infringement remedy would allow patentees to exert considerable control over the secondary market for their products and the uses to which those products are put.

The anticompetitive implications of the holding below are therefore dramatic: it permits *any* patentee to foreclose the secondary market for *any* patented good. The inevitable consequence would be to enable patentees to extract unjustified rents from downstream users.

That would distort the function of patent law, expanding its restrictions far beyond those in the patent law to encompass any restriction devised by the patentee. But “[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.” *Masonite Corp.*, 316 U.S. at 280.

Our intellectual property laws were never intended to authorize that result. Indeed, since at least the seventeenth century, the common law has strongly disfavored restraints on the alienation of chattels because they interfere with the functioning of secondary markets. See 1 Edward Coke, *Institutes of the Laws of England* § 360, at 223 (5th ed. 1656). *Kirtsaeng* expressly recognized this principle in the context of intellectual property, explaining that it is “importan[t] [to] leav[e] buyers of goods free to com-

pete with each other when reselling or otherwise disposing of those goods” because “competition, including freedom to resell, can work to the advantage of the consumer.” *Kirtsaeng*, 133 S. Ct. at 1363 (citing *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886 (2007)).

By enabling a patentee to eliminate competition in the secondary market, *Mallinckrodt*’s “conditional sale” doctrine reduces consumer welfare and causes an unjustified “wealth transfer from customers to the patentee.” Richard H. Stern, *Post-Sale Patent Restrictions After Mallinckrodt—An Idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech. 1, 11 (1994).

This Court should intervene to abrogate this harmful rule. As the United States has put it, “no one benefits from the uncertainty caused by dissonance between Supreme Court patent precedents and more recent holdings of the Federal Circuit.” U.S. Br. at 18-19, *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 2425785. The Court should “provide much needed guidance” (*id.* at 19)—and this is the ideal case in which to do so.

II. This Court Should Review The International Exhaustion Question.

The question whether a sale outside the United States, authorized by the U.S. patentee, exhausts U.S. patent rights also warrants review. The Federal Circuit’s holding below—that a U.S. patentee’s sales abroad do not exhaust its U.S. patent rights—cannot be reconciled with this Court’s decisions in *Kirtsaeng* and *Quanta*.

A. The Federal Circuit’s holding is contrary to this Court’s precedents.

The ruling below is wrong for three reasons: it is foreclosed by *Kirtsaeng*, it is inconsistent with over a century of common-law rulings, and it departs from the clear implications of *Quanta*.

1. This Court’s recent decision in *Kirtsaeng* holding that sales outside the U.S. exhaust copyright rights resolves this question.

In the patent context, Congress has not enacted a statute addressing the scope of exhaustion. See App., *infra*, 23a n.5 (“Congress has not defined the underlying patent-exhaustion rule.”). In the absence of action by Congress, the issue turns on the common law rule, and *Kirtsaeng* decisively answered that question.

The copyright law addressed in *Kirtsaeng* contained a statutory provision addressing exhaustion. The Court held that one “relevant canon of statutory interpretation” was that “[w]hen a statute covers an issue previously governed by the common law,” there is a presumption that “Congress intended to retain the substance of the common law.” *Id.* at 1363.

The Court therefore proceeded to identify the relevant common law rule. In undertaking this review, the Court remarked that “[t]he ‘first sale’ doctrine is a common-law doctrine with an impeccable historic pedigree.” *Ibid.* The Court relied on Lord Coke’s explanation of “the common law’s refusal to permit restraints on the alienation of chattels” (*ibid.*):

“[If] a man be possessed of ... a horse, or of any other chattell ... and give or sell his

whole interest ... therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest ... is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him.”
 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628).

Ibid. It concluded that “Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods.” *Ibid.* Likewise, “American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer.” *Ibid.*

The Court concluded that the common law doctrine had no territorial restrictions: “[t]he common-law doctrine makes no geographical distinctions.” *Ibid.*

Importantly, the Court conducted its analysis of the common law with respect to property *generally*. *Ibid.* Its conclusion was not limited to copyright law. Only *after* indentifying the common law principle applicable to *all* property rights did the Court then apply that principle to the copyright context—to determine whether the relevant statutory provision (Section 109(a) of the Copyright Act) limited the application of the common law rule. *Kirtsaeng*, 133 S. Ct. at 1363-1364.

There can be no doubt that the *Kirtsaeng* Court’s common law determination applies equally to patent

law. Indeed, the Court has previously relied on Lord Coke’s analysis of the common law prohibition of restraints on alienation to guide the contours of patent exhaustion. See *Straus v. Victor Talking Machine Co.*, 243 U.S. 490, 500-01 (1917) (noting that a patentee’s attempt “to place restraints upon [a patented product’s] further alienation * * * have been hateful to the law from Lord Coke’s day to ours”).

And the exhaustion question in the patent context is more straightforward than it was with respect to copyright: there is *no* statutory language to interpret. The sole question, therefore, is what the common law requires—because “[w]hen a statute covers an issue previously governed by the common law,” there is a presumption that “Congress intended to retain the substance of the common law.” *Kirtsaeng*, 133 S. Ct. at 1363. *Kirtsaeng*’s common law analysis is therefore determinative.

The majority below distinguished *Kirtsaeng* as a decision interpreting Section 109(a) of the Copyright Act, a provision that “has no counterpart in the Patent Act.” App., *infra*, 70a. In the majority’s view, Section 109(a)’s text authorizes a first-sale doctrine in the copyright context that is broader than the rule applicable in the patent context. App., *infra*, 70a.

But that reading of *Kirtsaeng* is exactly backwards. The Court there held that Section 109(a) *constrained* the first-sale doctrine that existed at common law, because it requires not only an authorized sale of a copy of a work but also that that copy have been “lawfully made under this title”—a phrase the Court was required to interpret in *Kirtsaeng*. 17 U.S.C. § 109(a). The Patent Act places no such restriction on the common law’s first-sale doctrine. The Court’s common law analysis therefore controls,

making the doctrine at least as expansive in the patent context as it is in copyright law—not *less* expansive, as the majority suggested below.³

2. This understanding of the common law is reflected, moreover, in a consistent line of patent cases indicating that a sale outside the United States authorized by the U.S. patentee has long been understood to exhaust U.S. patent rights.

The best-known articulation of this rule was in *Holiday v. Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), which addressed “the question whether the owner of a patent in the United States for an invention, who has sold the patented article in England without restriction or conditions, can treat as an infringer one who has purchased the article in England of a vendee of the patentee, and can restrain him from using or selling the article here.” The court held that the patentee did not retain any patent rights in the article after its foreign sale; rather, the purchaser “acquire[d] the right of unrestricted ownership in the article * * *, including, as an inseparable inci-

³ *Kirtsaeng* also makes inapposite the court of appeal’s focus on the territorial nature of patent rights. See App., *infra*, 84a-86a. To be sure, a U.S. patentee may not assert that a foreign party infringed a U.S. patent abroad; the patentee must instead obtain a patent in each country in which it will seek to enforce patent rights. But that is also true of copyright law. Indeed, the *Kirtsaeng* dissent pointed out that “[t]he Copyright Act, it has been observed time and again, does not apply extraterritorially.” *Kirtsaeng*, 133 S. Ct. at 1376 (Ginsburg, J., dissenting). But the majority held that U.S. copyrights in copies of works sold outside the United States are exhausted by a sale outside the U.S. that is authorized by the U.S. copyright holder. There is no basis for a different result with respect to U.S. patent rights. As the dissent below put it, “the doctrine of extraterritoriality” is “inapposite.” App., *infra*, 126a.

dent, the right to use and enjoy it, and to transfer his title to others.” 24 F. at 186.⁴ *Holiday*’s rule was broadly adopted.⁵

The majority below tried to distinguish *Holiday* on the ground that “its emphasis on the absence or presence of patentee-conveyed restrictions on post-purchase use[] is taken entirely from domestic exhaustion law.” App., *infra*, 90a. But that is precisely the point. The same exhaustion rule governing authorized domestic sales *also* applies to authorized sales abroad.

The court below also held (App., *infra*, 90a-91a) that *Holiday* was superseded by this Court’s later decision in *Boesch v. Graff*, 133 U.S. 697 (1890). Indeed, the court below (App., *infra*, 80a-83a), like the *Jazz Photo* court, 264 F.3d at 1105, relied on *Boesch* in concluding a foreign sale does not exhaust a U.S.

⁴ *Holiday* derived, in substantial part, from English common law. See 24 F. at 186. In *Betts v. Willmott*, [1871] 6 L.R. 239, 245 (Ch. App.) (Eng.), the Court of Appeal in Chancery held that a holder of both a French and English patent, who manufactured and sold an item in France, granted the purchaser of the good in France an implicit license to use and sell the item in England; “inasmuch as [the patentee] has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser pleases.”

⁵ See, e.g., *Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988); *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 939 (D.N.J. 1983); *Becton, Dickinson & Co. v. Eisele & Co.*, 86 F.2d 267, 268-70 (6th Cir. 1936); *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp.*, 266 F. 71, 78 (2d Cir. 1920); *Dickerson v. Tinling*, 84 F. 192, 194-95 (8th Cir. 1897); *Dickerson v. Matheson*, 57 F. 524, 527 (2d Cir. 1893).

patentee's rights. But *Boesch* held nothing of the sort.

The plaintiffs in *Boesch*, who held the U.S. patent rights to a lamp burner, brought an infringement action against the importers into the United States of lamp burners practicing that patent. *Boesch*, 133 U.S. at 698-99. The defendants had purchased the burners from a third party in Germany who was permitted to make and sell them under German law because he had been doing so prior to the German patent application for the same technology. *Id.* at 701-02.

Thus, as this Court explained, the “exact question presented [was] whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, *without the license or consent of the owners of the United States patent.*” *Id.* at 702 (emphasis added). The Court concluded that because the third party had not received this “license or consent” from the patentee, “purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights [of] patentees under [the] United States patent.” *Id.* at 703.

Boesch thus addresses the circumstance in which a patented article is sold abroad *without authorization by the U.S. patentee*. It did not address situations, such as this case, in which a foreign sale is authorized by the U.S. patentee. See, e.g., App., *infra*, 126a (dissent) (“*Boesch* does not apply here because the foreign sales were made by Lexmark—the U.S. patent rights holder—itsself.”); *Curtiss Aeroplane*, 266 F. at 77 (explaining that *Boesch* is limited to circumstances 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”).

When the foreign sale is authorized by the U.S. patentee, the common-law rule announced in *Holiday*, rather than *Boesch*, controls, and the patentee’s U.S. patent rights are exhausted. See 5 Donald S. Chisum, *Chisum on Patents* § 16.05[3][a][ii] (1997) (noting that *Boesch* “left open” the question whether “an importer infringe[s] by domestic sale when he bought the product in a foreign country from the person who owns the United States patent,” and that *Holiday* answers that question).

3. Finally, the court of appeals conclusion that patent exhaustion occurs only if a patentee receives an award for a sale in the United States (App., *infra*, 75a-81a) is plainly inconsistent with *Quanta*.

To begin with, nothing in the text of 35 U.S.C. § 271(a) supports the lower court’s conclusion. That statute addresses the circumstances in which a patentee may sue for infringement, and generally requires that the infringement occurred “within the United States.” *Ibid.* That says nothing about the reach of the exhaustion doctrine. Cf. App., *infra*, 75a-76a.

Quanta, however, does address that question. In that case, LGE, the owner of certain method patents, licensed them to Intel, which produced microprocessors and chips that practiced the patents when incorporated into a computer system. 553 U.S. at 623. Intel sold the articles to *Quanta*, which integrated them into its computers. *Id.* at 624. When LGE sued *Quanta* for patent infringement, *Quanta* asserted exhaustion as a defense, and this Court was asked to

address (among other issues) whether Intel’s sale of its products substantially embodied the method patents and therefore exhausted LGE’s patent rights. *Id.* at 621.

On that issue, this Court held that patent exhaustion depends on whether “the product is ‘capable of use only in *practicing* the patent,’ not whether those uses are infringing.” *Id.* at 632 n.6 (quoting *Univis*, 316 U.S. at 249). And—addressing the point that some of the products were sold outside the United States—the Court explained that even if sold “*outside the country * * **, the Intel Products would still be *practicing* the patent, even if not infringing it.” *Ibid.* (first emphasis added). That reasoning demonstrates that foreign sales of patented articles can exhaust U.S. patent rights, because it shows that an article can *practice* a U.S. patent outside the United States—which is the critical question for exhaustion purposes.⁶

⁶ The court of appeals does not confront this essential point. It recognizes that this language means that a good sold abroad can “embody” a U.S. patented innovation. App., *infra*, 66a n.14. But, as *Quanta* and *Univis* hold, the embodiment of the invention in an item subjected to an authorized sale triggers exhaustion. The first sale need not *infringe* a patent right. Geography is therefore irrelevant.

The court of appeals also pointed to various trade agreements in support of its rule. See App., *infra*, 86a-88a. But some of the agreements, TRIPS and the TPP, say nothing at all about exhaustion. *Id.* at 86a-87a. The three country-specific agreements (*id.* at 87a-88a) *undermine* the court of appeals decision, because they demonstrate that Congress thought it necessary to modify the law in order to avoid international exhaustion.

B. The decision below rejected the argument advanced by the United States.

The United States asserted that “by default, foreign sales authorized by the U.S. patentee exhaust domestic patent rights, but a U.S. patentee may expressly reserve his U.S. patent rights in such sales.” See U.S. Br., *Lexmark*, *supra*, at 26. The dissenters below would have adopted that rule. App., *infra*, 125a-135a.

To be sure, we disagree with the position advanced by the United States—for two reasons. First, it is inconsistent with the *Kirtsaeng* Court’s analysis of the governing common law rule. Second, it is inconsistent with the basic principle that a patentee cannot impose *any* patent-based post-sale restriction following an “initial authorized sale” (see pages 10-18, *supra*). Restrictions that a patentee attempts to place on the sale of goods may be enforceable in contract, but they are not enforceable through patent law. Indeed, the United States does not attempt to reconcile its position with respect to this question with its view that the patent exhaustion doctrine “leaves no room for post-sale restrictions enforceable in infringement actions.” U.S. Br., *Lexmark*, *supra*, at 5.

But the majority’s rejection of the United States’ approach is further evidence of the importance of the issue, and the need for this Court’s intervention.

C. The question is important.

Jazz Photo’s domestic-only exhaustion rule creates substantial market inefficiencies, frustrates innovation, and creates a distinction between copyright and patent law that will produce substantial practical problems.

The modern supply chain for consumer goods is astonishingly complex: many finished consumer products incorporate numerous separate patented components, which are manufactured in a number of different countries. A recent report identified 785 different suppliers, in 31 countries, for various components of the iPhone 6. Ian Barker, *The Global Supply Chain Behind the iPhone 6*, <https://perma.cc/NT2H-VV2Q>. Even “a given semiconductor product * * * will often embody hundreds if not thousands of ‘potentially patentable’ technologies,” and that is just one part of a consumer device. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 *Rand J. Econ.*, No. 1, 101, 110 (2001).

A domestic-only exhaustion rule adds substantial complexity to this system: it requires a manufacturer who wishes to import an intermediate or finished product into the United States to trace the patent rights of *every* component in its product and license each component for importation—over and above purchasing the components themselves.

It also allows a patentee to wait until its components have been incorporated into end products that have been imported into the United States before demanding royalties. At that point in time, the patentee has leverage to extract value beyond what the market would bear if the patentee had to price its full patent rights into its initial sale of the component. The inefficiencies and rent-seeking that result from the *Jazz Photo* rule are harmful to consumers and to the global economy.

The *Jazz Photo* rule also makes it harder for innovators to develop new technologies. New products

often are created by combining existing components in new ways—but a developer cannot experiment with components if there is no meaningful way to understand whether the patent rights in the components have been exhausted. Thus, as a recent study explained, “deregulation of parallel imports”—*i.e.*, loosening patent-based restrictions on secondary-market goods—“generates both an increase in consumer surplus in the innovative country and an *increase* in the world pace of innovation.” Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 *Rand J. Econ.* 378, 380 (2008).

Finally, *Jazz Photo* creates a glaring disparity between copyright law and patent law. Under *Kirtsaeng*, a foreign sale of a copy of a work that is authorized by the U.S. rights owner exhausts the copyright in the copy, see 133 S. Ct. at 1355-1356, but under *Jazz Photo* a foreign sale of a patented article does not exhaust the patentee’s U.S. rights. As *Kirtsaeng* observed, however, copyrights are often found in products that are protected by patents as well, including “automobiles, microwaves, calculators, mobile phones, tablets, and personal computers.” *Id.* at 1365. Differing exhaustion rules for differing intellectual property rights will lead to the bizarre results in which a first sale exhausts a copyright embodied in an article, but not a patent embodied in that same article. That would only increase the gamesmanship available to entities seeking to prevent secondary market competition. By granting review, therefore, this Court can address whether it is appropriate to harmonize the application of the exhaustion doctrine.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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