No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

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

BRIEF FOR PETITIONER

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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 Elecs., Inc.,* 553 U.S. 617, 625 (2008). The questions presented are:

1. Whether a 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 (Pet. App. 1a-135a) is reported at 816 F.3d 721. The opinion of the district court addressing the "conditional sale" doctrine (Pet. App. 140a-155a) is unreported, but is available at 2014 WL 1276133. The opinion of the district court addressing international exhaustion (Pet. App. 156a-169a) is reported at 9 F. Supp. 3d 830.

JURISDICTION

The judgment of the court of appeals was entered on February 12, 2016. The petition for a writ of certiorari was filed on March 21, 2016, and granted on December 2, 2016. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATEMENT

A. Legal background.

A patent provides important, but limited, legal protection to inventions for the specific purpose of promoting the general public welfare. See *Graham* v. *John Deere Co.*, 383 U.S. 1, 5-6 (1966). The Constitution's "Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Thus, a patentee may preclude another from making, using, or selling an article that embodies its patented invention for the term specified in the Patent Act. 35 U.S.C. § 271(a). A patent holder can, in that sense, be said to possess a "monopoly" over the right to practice its patents.

That monopoly is limited by, among other things, the doctrine of patent exhaustion, which holds that 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). When title to the article "passes to the hands of the purchaser," the article "is no longer within the limits of the monopoly." *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539 (1852); see also *ibid*. (the article "passes outside" of the patent monopoly, and it "is no longer under the protection of the act of Congress").

That is because "the initial authorized sale of a patented item terminates all patent rights to that item" (*Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008)), and "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). Patent exhaustion thus enables secondary resale and repair markets for patented goods. See *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961).

The Federal Circuit has created two substantial exceptions to patent exhaustion. In *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992), the court held that a patentee may transfer title to the patented article and impose a post-sale restriction on the article's resale or use that, notwithstanding the exhaustion doctrine, may be enforced by the patent laws. And in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), the court held that a patentee's U.S. patent rights are not exhausted when the article is sold outside the United States in a sale authorized by the U.S. patentee.

B. Factual background.

This case concerns toner cartridges for laser printers—the component containing the ink used by the printer, which 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 a printer manufacturer often patents certain aspects of the toner cartridges used in its printers, the manufacturer may maintain a monopoly over the sale of new toner cartridges. Lexmark, a printer manufacturer, thus sells its new cartridges at a substantial premium, often charging several hundred dollars for a single 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 Products, a small, family-owned business in Charleston, West Virginia, is one such remanufacturer. Pet. App. 10a. It purchases spent toner cartridges that were initially sold by Lexmark within the United States and in other countries. *Id.* at 11a-13a. Impression Products then cleans, refills, and resells them to consumers. *Ibid.* It sells its high quality cartridges at a substantial discount to Lexmark's new products, saving its customers significant sums.[1]

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[1] In repairing the cartridges, Impression Products replaces a chip that counts down the number of pages left in the cartridge. Pet. App. 11a. Lexmark does not argue "that the chip replace-

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 therefore 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." Pet. App. 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.*

Lexmark maintains that its transfer of the Return Program Cartridges to its customers constitutes a sale of property; it specifically disclaims any contention that the legal arrangement qualifies as a lease. Pet. App. 11a n.1. According to Lexmark, 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 Products, for direct and contributory patent infringement. Pet. App. 12a-13a. Impression Products is the sole remaining defendant. *Id.* at 13a.

1. Impression Products moved to dismiss Lexmark's single claim of infringement in two separate motions—one directed to Return Program cartridges first sold in the United States, and the other directed to cartridges first sold abroad. Pet. App. 14a. Impression Products contended that Lexmark's pa-

ment and ink replenishment result in new articles, which would be outside the scope of the exhaustion doctrine." *Id.* at 12a n.2.

tent rights in the cartridges had been exhausted, and that its repair and resale of the cartridges was therefore lawful. *Ibid.*

The district court granted Impression Products' motion to dismiss as to the cartridges first sold in the United States. Pet. App. 140a-155a. The court held that the Federal Circuit's ruling in *Mallinckrodt* had been overruled by this Court's decision in *Quanta*. *Id.* at 153a-154a. In *Quanta,* the district court explained, a downstream purchaser "had notice of the conditions of the sale [of patented articles], yet the Supreme Court still held that the patent rights of [the patentee] had been exhausted after the first unrestricted authorized sale by its licensee." *Id.* at 153a. Thus, "[u]nder *Quanta*, * * * post-sale use restrictions do not prevent patent rights from being exhausted [when] the initial sales were authorized and unrestricted." *Id.* at 153a-154a.

Holding otherwise, the district court stated, would "create significant uncertainty for downstream purchasers and end users who may continue to [be] 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 Products' motion to dismiss. Pet. App. 169a. The court described the "core dispute" on this issue as whether this Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), "overturns" *Jazz Photo*. Pet. App. 162a. It concluded that this Court "did not intend to implicitly overrule *Jazz Photo* and that *Jazz Photo* remains controlling precedent on patent exhaustion abroad." *Id.* at 169a.

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

2. Prior to issuing a panel decision, the Federal Circuit *sua sponte* issued an order directing en banc hearing. Pet. App. 18a-19a. The en banc court reversed on the Return Program issue, reaffirming the validity of its *Mallinckrodt* decision; it affirmed on the foreign sales issue, reaffirming its *Jazz Photo* decision.

The Federal Circuit first observed that the parties had entered into agreements "narrow[ing]" the "focus" of the dispute (Pet. App. 13a):

- The court observed that only a "single count of infringement" remained against Impression Products, which does "not dispute the validity or enforceability of the patents." *Ibid*.
- It also was undisputed that all relevant parties had adequate notice of the conditions Lexmark putatively placed on the Return Program cartridges. *Id.* at 14a.
- Lexmark did not assert that Impression Products' 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.

The court concluded that this case therefore turns on two controlling legal questions. First, whether a patentee may impose post-sale restrictions on the use or resale of a patented article, enforceable under the Patent Act, even though the patentee or its licensee transfers title to the patented article in an authorized sale. Pet. App. 25a. And, second, whether a U.S. patentee's authorized sale of a patented good abroad can ever exhaust U.S. patent rights. *Ibid*.

With respect to patent-based post-sale restrictions, the majority 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." Pet. App. 26a. The majority 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.

With respect to international exhaustion, the majority categorically held that patent exhaustion "cannot rest on a foreign first sale." Pet. App. 67a. It dismissed *Kirtsaeng* as limited to the "statutory question" whether the Copyright Act's first sale doctrine applies abroad and concluded 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 a sale outside the United States of a patented item cannot exhaust U.S. patent rights.

3. Judge Dyk, joined by Judge Hughes, dissented. Pet. App. 105a-135a. With respect to the patent-based post-sale restrictions, 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.

"[I]n 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 international exhaustion, the dissent concluded that the majority's categorical holding—and *Jazz Photo*—are wrong. Pet. App. 125a-135a. The dissent determined that a foreign sale authorized by a U.S. patentee would not, "in all circumstances," exhaust U.S. patent rights. It 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.

SUMMARY OF ARGUMENT

Patent exhaustion is a bedrock principle of patent law: "Under the doctrine, 'the initial authorized sale of a patented item terminates all patent rights to that item'" (*Bowman*, 133 S. Ct. at 1766 (quoting *Quanta*, 553 U.S. at 625)), and "confers on the purchaser, or any subsequent owner, 'the right to use [or] sell' the thing as he sees fit" (*ibid.* (quoting *United States* v. *Univis Lens Co.*, 316 U.S. 241, 249-250)). Exhaustion thereby "prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta*, 553 U.S. at 638.

Patent exhaustion is vital to competition. Without it, patentees could opt to eliminate resale and repair markets for used, legally-purchased, patented goods. See *Aro Mfg.*, 365 U.S. at 346.

I. A patentee may not avoid patent exhaustion by selling its goods with putative post-sale restrictions attached. The Federal Circuit's contrary conclusion—which would permit circumvention of patent exhaustion at will—is incorrect.

To begin with, patent exhaustion serves as a mandatory "limit" on the scope of the patentee's rights. *Bowman*, 133 S. Ct. at 1766; *Quanta*, 553 U.S. at 621. It operates on a simple principle: the patentee is entitled to set the value of his or her reward for a particular patented article at the time of the first authorized sale, but after receiving that reward, the patent monopoly ceases as to the article sold.

An optional exhaustion regime would gut the fundamental purpose and operation of the doctrine. This Court has therefore rejected legal rules that would permit patentees to effect an "end-run around exhaustion." *Quanta*, 553 U.S. at 630.

Indeed, the Court has on numerous occasions held unenforceable patent-based post-sale restraints indistinguishable from Lexmark's resale ban. The Court's holdings in *Univis* and *Quanta* are each independently dispositive of that question. And those decisions reflect a long line of consistent determinations by this Court. To be sure, the Court briefly changed course in a single decision—*Henry* v. *A.B. Dick Co.*—which endorsed post-sale restrictions. But the Court expressly overruled *A.B. Dick* a mere five years later, confirming that post-sale restrictions may not be enforced through the patent laws.

To justify its contrary view, the Federal Circuit pointed to a purported distinction between sales by patentees and those by licensees. In fact, patent exhaustion applies identically, without regard to whether a good is sold by a patentee or licensee. If the patentee has authorized the sale, then the first-sale exhaustion doctrine applies.

That result is fundamental to enable competitive resale and repair markets for patented goods. Under the legal rule adopted below, any patentee could choose to foreclose completely all resale and repair markets for its patented products.

II. A patentee may not circumvent patent exhaustion by selling its goods outside the United States. The Federal Circuit's conclusion that a foreign sale can never exhaust U.S. patent rights is incorrect.

Kirtsaeng held that sales abroad exhaust U.S. copyrights. In reaching that result, the Court considered the contours of the common law, as identified by Lord Coke. It concluded that "[t]he common-law doctrine makes no geographical distinctions." *Id.* at 1363. That statement addressed property law and the exhaustion doctrine generally—not copyright exhaustion specifically. Because patent exhaustion is solely a common-law doctrine, *Kirtsaeng*'s understanding of the common law necessarily governs the result here.

The Court's holding in *Quanta* confirms that there is no foreign-sale exception to patent exhaustion. That result is likewise consistent with the principle that a patentee is entitled to a single reward for the sale of its patented goods.

The Federal Circuit's contrary conclusion injures U.S. consumers, industry, and workers alike. It authorizes U.S. patentees to engage in price discrimination, charging U.S. consumers more than foreign consumers for the same goods. It injects costly uncertainty into the complex supply chain, creating undue costs for industry. And, finally, the Federal Circuit's approach creates a perverse incentive for patentees to manufacture their goods outside the United States.

ARGUMENT

I. The Patent Exhaustion Doctrine Bars Use Of The Patent Law To Enforce Post-Sale Restrictions.

Patent exhaustion holds that the initial authorized sale of a patented article exhausts all patent rights to that item. A patentee may not, accordingly, assert a *patent-based* post-sale restriction.[2]

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[2] Like all other market participants, patentees may use non-patent mechanisms to restrict resale or reuse of goods. They may, for example, require contracts that regulate the disposition of goods. *Quanta*, 553 U.S. at 637 n.7. Or patentees may lease, rather than sell, a good. *United States* v. *United Shoe Mach. Co. of N.J.*, 247 U.S. 32, 58 (1918) ("Leases are not of this character; they do not convey the title.").

The Federal Circuit's contrary rule would dramatically expand the scope of the patent monopoly, enabling any patentee—such as manufacturers of automobiles, cell phones, and farm equipment—to eliminate all competitors in long-standing, well-developed markets, such as those for resale and repair of these and many other articles. That holding is manifestly wrong for four related reasons.

First, it is incompatible with fundamental attributes of patent exhaustion doctrine long recognized by this Court—that exhaustion is mandatory, and that a patentee is entitled to only a single reward for the sale of a patented good. *Second*, for nearly two centuries, this Court has squarely and consistently rejected attempts to enforce patent-based post-sale restrictions. *Third*, Section 271(a) does not authorize a patentee to impose patent-based post-sale restrictions. *Fourth*, the patent exhaustion doctrine does not treat patentees and licensees inconsistently: it applies identically whether the authorized first sale was made by a licensee or a patentee. And *fifth*, upholding patent-based post-sale restrictions would empower patentees to eliminate all competition in well-established secondary markets, hurting consumers and business alike.

A. Patent-based post-sale restrictions are fundamentally incompatible with the principles underlying exhaustion.

"The doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention." *Bowman*, 133 S. Ct. at 1766. "Under the doctrine, 'the initial authorized sale of a patented item terminates all patent rights to that item.'" *Ibid.* (quoting *Quanta*, 553 U.S. at 625).

Patent exhaustion is "a common-law doctrine with an impeccable historical pedigree"; it traces directly to "the common law's refusal to permit restraints on the alienation of chattels." *Kirtsaeng*, 133 S. Ct. at 1363. Indeed, "restraints upon" the "alienation" of property "have been hateful to the law from Lord Coke's day to ours"; they are "obnoxious to the public interest." *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 500-501 (1917). Absent patent exhaustion, "[t]he inconvenience and annoyance to the public * * * are too obvious to require illustration." *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 667 (1895).

The Federal Circuit's rule departs from exhaustion's animating principles in two fundamental ways: it would improperly transform patent exhaustion from a mandatory doctrine into an optional limitation avoidable at will by the patentee. It also would breach the "single-reward" principle, enabling a patentee to receive multiple rewards for a single patented good.

First, this Court has repeatedly characterized patent exhaustion as a fixed limit on patent rights.

"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." *Quanta*, 553 U.S. at 621 (emphasis added). See also *Bowman*, 133 S. Ct. at 1766 (patent exhaustion forms a "limit[]" to the "patentee's right[s]" that would otherwise exist).

The Court has consistently refused to configure the doctrine in a manner that would permit patentees to circumvent patent exhaustion. In *Quanta*, the Court declined to "[e]liminat[e] exhaustion for method patents," as doing so "would seriously undermine the exhaustion doctrine" because "[p]atentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus." *Quanta*, 553 U.S. at 629. That approach would have enabled patentees to "shield practically any patented item from exhaustion." *Id.* at 630. "[E]nd-run[s] around exhaustion" are not allowed. *Ibid.*

The Federal Circuit's holding, by contrast, rests expressly on the view that patent exhaustion is *optional.* In its view, "a patentee-made or patentee-authorized sale of a patent article" is merely a "*presumptive[]* grant[]" of "'authority' to the purchaser to use it and resell it." Pet. App. 40a. That would enable any patentee, in the course of any sale, to create an "end-run around exhaustion."

Such a result is wholly inconsistent with this Court's view that patent exhaustion admits of no exception: "[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*." *Quanta*, 553 U.S. at 638 (emphasis added).

Second, patent exhaustion implements the single-reward principle, and an avoidable exhaustion rule is starkly inconsistent with that principle.

A patent is a "limited monopoly," which the patentee "surrender[s]" "in whole by the sale of his patent or in part by the sale of an arti[c]le embodying the invention." *Univis*, 316 U.S. at 250.

More than 150 years ago, this Court explained that the patentee is entitled to a *single* reward at the time of the sale. The patentee is "entitled to but one royalty for a patented machine," and once "the consideration has been paid to him for the right, he has then to that extent parted with his monopoly." *Bloomer* v. *Millinger*, 68 U.S. 340, 350 (1863). Thus, "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," exhausts the patentee's rights—it "emancipates such article from any further subjection to the patent." *Keeler*, 157 U.S. at 666. After the patentee has received his or her "tribute" via the completed transaction, patent rights are exhausted. *Id.* at 667.

Patent-based post-sale restrictions would improperly extend the patent beyond this "limited monopoly." They would enable a patentee to demand *multiple* rewards for the same article—and to do so after the title to the article has passed to the purchaser. For example, the patentee could require payment of a royalty in connection with every resale of the patented article.

Post-sale restrictions are therefore irreconcilable with these two foundational principles underlying the patent exhaustion doctrine.

B. The Court has consistently held that post-sale restrictions are not enforceable via the Patent Act.

The dissenting judges below correctly concluded that there is "no colorable basis" for the Federal Circuit's "failure to follow the exhaustion rule for domestic sales as articulated by the [Supreme] Court in *Quanta* and numerous other cases." Pet. App. 124a-125a (Dyk, J., dissenting).

The Court's decisions in *Univis* and *Quanta* unequivocally establish that the initial authorized sale of a patented good exhausts the patentee's monopoly, barring the enforcement under the Patent Act of any putative post-sale restriction specified by the patentee or its licensee. Moreover, *Univis* and *Quanta* reflect a nearly unbroken line of cases dating back to the mid-nineteenth century recognizing that an authorized sale terminates a patentee's rights. The lone exception—*Henry* v. *A.B. Dick*, 224 U.S. 1 (1912)—is, in fact, the exception that proves the rule: it was overruled by the Court a mere five years after the decision was issued.

1. Univis *and* Quanta *preclude patent-based post-sale restrictions.*

a. The *Univis* Court held that after a patentee sells a patented article, the patentee may not subsequently exercise patent-based control. Specifically, the Court rejected the patentee's attempts to impose restrictions that forbade the resale of some patented goods and fixed the resale price for others.

Univis owned patents relating to multifocal eyeglass lenses. 316 U.S. at 243. Univis's licensee, the Lens Company, manufactured lens blanks; the Lens Company sold the blanks to wholesalers and retailers, which finished the lens blanks to create multifocal lenses purchased by consumers. *Ibid*. The Lens Company paid Univis 50 cents for each pair of lens blanks it sold. *Ibid*.

Univis sought to control the downstream distribution of the lenses, restricting both the parties to whom lenses could be sold and fixing the resale price. To do so, Univis issued different classes of licenses to different categories of purchasers—wholesalers, finishing retailers, and prescription retailers. *Id*. at 244. Univis required the Lens Company to sell the lens blanks only to companies that had entered into a license with Univis. *Ibid.*

Univis's licenses with the wholesalers and retailers imposed post-sale restrictions. For example, wholesalers could resell lenses only to Univis's "prescription licensees" and "only at prices fixed by" Univis. *Ibid.* Likewise, these post-sale restrictions required the finishing retailers and the prescription retailers to resell the lenses only to consumers, not to wholesalers or other retailers. *Id.* at 244-245. Additionally, the restrictions fixed the prices at which the retailers could resell the lenses. *Ibid.*

The government brought antitrust claims against Univis and the Lens Company, arguing that these resale provisions violated the Sherman Act. *Id.* at 243. 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." *Ibid.*

This Court unequivocally rejected that argument. "An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it." *Id.* at 249. Therefore, "upon familiar principles," the Court explained, "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Ibid.*

Such an authorized first sale of the lens blanks had occurred: the "purchase price paid by the finishing licensee to the Lens Company" "transfer[red] ownership of the blank." *Id.* at 249-250. That "sale" of the 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." *Id.* at 250.

The Court therefore held that the post-sale restrictions imposed by Univis, including the conditions "fixing resale prices," "derive[] no support from the patent." *Id.* at 251. Because the patentee had "received his reward for the use of his invention by the sale of the article," the "patent law affords no basis for restraining the use and enjoyment of the thing sold." *Ibid.*; see also *id.* at 252 (the "first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers").

Univis thus makes plain that a patentee may not enforce any patent-based post-sale restriction.

The court of appeals rested its contrary conclusion on its view that *Univis* excludes from enforceability under the Patent Act only a post-sale restriction that *independently* violates the antitrust laws. Pet. App. 54a. That misreads *Univis* and misunderstands the relationship between antitrust and patent law.

The *Univis* Court's holding with respect to exhaustion turned entirely on the legal rule that, following a first authorized sale, a patentee has "surrender[ed] his monopoly" and may not, therefore, exercise *any* patent-based restriction. 316 U.S. at 250. The Court never rested its patent exhaustion holding on a determination that the restrictions at issue violated the antitrust laws, nor did it hint that the antitrust status of the restrictions was relevant to its exhaustion analysis.

Nor would such analysis be proper. The "patent monopoly" is an exception to generally applicable antitrust laws, permitting a patentee "to control the price" of the *first* sale of patented articles. *Univis*, 316 U.S. at 251. It is only when the patentee "steps out of the scope of his patent rights and seeks to control and restrain those to whom he has sold his patented articles in their subsequent disposition of what is theirs, that he comes within the operation of the Anti-Trust Act." *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 485 (1926). See also, *e.g.*, *Walker Process Equip., Inc.* v. *Food Mach. & Chem. Corp.,* 382 U.S. 172, 177 (1965) ("A patent * * * is an exception to the general rule against monopolies."); *United States* v. *Line Materials Co.,* 333 U.S. 287, 300 (1948).

The application of patent exhaustion is thus a question *antecedent* to application of the antitrust laws. That is how the Court approached the issue in *Univis*. It first held that Univis's patent monopoly did not permit the restrictions at issue and therefore did not insulate them from the operation of the antitrust law. Only then did the Court conclude that those restrictions indeed violated the antitrust laws.

The Federal Circuit majority also dismissed *Univis*'s clear holding as dicta. It asserted that the conclusion that *Univis* bars post-sale patent-based restrictions relies on "language in *Univis*" "taken out of context." Pet. App. 54a.

But *Univis*'s reasoning is not *dicta*; it was essential to this Court's holding. Indeed, the *Quanta* Court explained that "*Univis* governs this case"—and there was no claim in *Quanta* that the post-sale restriction at issue violated the antitrust laws. 553 U.S. at 631. The dissent below therefore 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." Pet. App. 118a.[3]

For these reasons, *Univis* squarely precludes patentees from using the patent laws to enforce post-sale restrictions.

b. This Court's decision in *Quanta* rests on the same conclusion as *Univis*.

The plaintiff, LG Electronics, owned patents relating to microprocessors and chipsets. 553 U.S. at 621-622. It licensed those patents to Intel, authorizing Intel to manufacture parts for sale. The License Agreement stipulated that third-party purchasers were not authorized to combine these parts "with items, components, or the like acquired … from sources other than a party hereto." *Id.* at 623. Additionally, a Master Agreement required Intel to provide purchasers of Intel microprocessors and chipsets with notice that LG Electronics' license "does not extend, expressly or by implication, to any product that you make by combining an Intel product with any non-Intel product." *Id.* at 624.

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[3] The Federal Circuit majority also suggested that *Univis* considered solely a "vertical price-control restriction," not a resale bar. Pet. App. 54a. That is a distinction without a difference. If a patentee cannot control resale prices, it follows that a patentee cannot exercise the far greater control of barring resale entirely—which is what Lexmark purports to do here. (And, moreover, there is no principled distinction between a resale bar and a resale price restriction that fixes the price at an unreasonably high level.) In any event, the post-sale restrictions in *Univis included* a resale bar (*Univis*, 316 U.S. at 245-246), which was therefore addressed in the Court's conclusion that Univis could not "exercise *any* further control over the article sold." *Id.* at 252 (emphasis added).

Intel sold microprocessors and chipsets to Quanta Computer. *Ibid*. Intel informed Quanta of the post-sale restriction—"the notice required by the Master Agreement." *Ibid*. As the Federal Circuit put it, Intel's "sales were conditional"—and the court thus expressly relied on *Mallinckrodt*. *LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006).

Quanta nonetheless "manufactured computers using Intel parts in combination with non-Intel memory and buses in ways that practice" LG Electronics' patents, in violation of the post-sale restriction. *Quanta*, 553 U.S. at 624. LG Electronics sued Quanta for patent infringement.

The Federal Circuit rejected Quanta's patent exhaustion defense on two grounds: it first concluded that patent exhaustion does not apply to method patents (*id*. at 625); second, it held that "an expressly conditional sale or license" does not trigger patent exhaustion. *Bizcom Elecs.*, 453 F.3d at 1369.

When the case reached this Court, LG Electronics defended the Federal Circuit's second holding at some length. It contended that Quanta was "barred from practicing the systems patents with non-Intel components" because the "sale was accompanied by express notice" of the putative post-sale restriction. Brief of Respondent at *39, *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 2007 WL 4244683. LG Electronics argued that "[h]olders of a patent, like holders of any property, can sell distinct sticks from their bundle of property interests without losing the remainder"; therefore, it asserted that patentees "may impose reasonable conditions on sale of a patented article." *Id*. at *42.[4]

This Court reversed, holding that Quanta was entitled to the exhaustion defense.

At the outset, the Court characterized "[t]he longstanding doctrine of patent exhaustion" in broad terms, stating that it "provid[es] that the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S. at 625. The Court referenced *Adams* v. *Burke*, which it described as holding unenforceable "postsale restrictions" imposed by a patentee. *Quanta*, 553 U.S. at 625. And, although *A.B. Dick* "permitted postsale restrictions on the use of a patented article," *Quanta* noted that the "decision was short lived" and soon "explicitly overruled." *Quanta*, 553 U.S. at 625-626. The Court also relied in substantial measure on the discussion of first-sale exhaustion in *Univis*. *Id*. at 627-628.

Applying these precedents, the Court found that the sale of parts from Intel to Quanta was "authorized." *Id*. at 637. "Nothing" in the LG-Intel agreements restricted Intel's right to sell the microprocessors and chipsets "to purchasers who intend to com-

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[4] LG Electronics' argument was narrower than Lexmark's argument here. LG Electronics recognized that the Court long ago rejected post-sale restrictions relating to "price controls," "geographic or temporal sales limitations," and "tying arrangements with unpatented products." Brief of Respondent at *43. It attempted to distinguish its post-sale restriction as a limit on the "manner in which those purchasers can 'make' the systems," rather than a limit on the "selling" or "using" of a patented article. *Id*. at *45. Here, by contrast, Lexmark seeks to impose restrictions on "selling or using."

bine them with non-Intel parts," like Quanta. *Id*. at 636.

This "authorized" sale, therefore, "triggered" patent exhaustion. *Ibid*. That was so notwithstanding the fact that Quanta "received the notice" imposing post-sale restrictions regarding permissible combinations of the parts. *Id*. at 624.

The Court thus rejected the "conditional sale" doctrine invoked by LG Electronics and endorsed by the Federal Circuit. Notwithstanding the putative post-sale restrictions, LG Electronics could "no longer assert its patent rights against Quanta" because the first "authorized sale" "prevents the patent holder from invoking patent law to control postsale use of the article." *Id*. at 638.

Courts and commentators broadly concluded that *Quanta* repudiated the "conditional sale" doctrine embraced by the Federal Circuit in *Mallinckrodt*. See, *e.g.*, *Ergowerx Int'l, LLC* v. *Maxell Corp. of Am.*, 18 F. Supp. 3d 430, 448 (S.D.N.Y. 2014) ("[T]here is a substantial argument that *Quanta sub silentio* overruled *Mallinckrodt*."); *JVC Kenwood Corp.* v. *Arcsoft, Inc.*, 966 F. Supp. 2d 1003, 1010 n.1 (C.D. Cal. 2013) ("After *Quanta*, however, it is unclear to what extent the *Mallinckrodt* decision applies."); *Static Control Components, Inc.* v. *Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575, 585 (E.D. Ky. 2009) ("*Quanta* overruled *Mallinckrodt sub silentio*.").[5]

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[5] See also, *e.g.*, 12 Phillip E. Areeda & Herbert Hovenkamp, Antitrust Law 300, 301 n.15 (3d ed. 2012) ("To the extent that *Mallinckrodt* relaxed the first-sale doctrine, it was overruled by *Quanta Computer*."); Alfred C. Server & William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following* Quanta, 64 Hastings L.J. 561, 596 (2013) ("The weight of

As the dissenting judges below put it, "[t]he patent exhaustion doctrine, as stated by *Quanta*, admits of no exception." Pet. App. 114a (Dyk, J., dissenting); see also *id*. at 154a (district court in this case holding that "*Mallinckrodt* was overruled by *Quanta* sub silentio").

The Federal Circuit majority suggested that *Quanta* did not address the issue posed here because the articles were sold to Quanta by Intel, a licensee, rather than by the patentee. Pet. App. 30a-31a. But, as explained below in more detail (see pages 38-41, *infra*), patent exhaustion applies identically to sales by licensees and patentees.

The court of appeals also reasoned that *Quanta* did not address patent-based post-sale restrictions because this Court's opinion did not identify by name the leading Federal Circuit precedents (*Mallinckrodt* and *B. Braun Med., Inc.* v. *Abbott Labs.*). Pet. App. 32a. But this Court need not catalog the lower court decisions that its holding overturns—recognizing such reversal is a task for the lower courts.

Quanta is clear: the Federal Circuit relied on its "conditional sale" doctrine (*Bizcom Elecs.*, 453 F.3d

the evidence indicates that *Mallinckrodt*'s conditional sale doctrine was rejected in *Quanta*."); Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. Ann. Surv. Am. L. 487, 502 (2011) ("In its 2008 *Quanta* decision the Supreme Court unanimously rejected the Federal Circuit's approach and restored the first sale rule to its original broad scope."); Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in* Quanta Computer, Inc. v. LG Electronics, Inc., 49 IDEA 517, 520 (2009) ("[T]he *Quanta* decision amounts to a sweeping reaffirmation of the Court's patent-exhaustion precedents and an implicit rejection of the exhaustion jurisprudence reflected in *Mallinckrodt*.").

at 1370), LG Electronics extensively defended the Federal Circuit's rationale in this Court, and the Court conclusively rejected it. *Quanta*, 553 U.S. at 637-638. That is why courts and commentators alike agree that *Quanta* precludes patent-based post-sale restrictions.

2. *A long line of this Court's decisions rejects post-sale restrictions.*

Univis and *Quanta* by themselves demonstrate why the Federal Circuit majority's post-sale restriction rule cannot stand—but those decisions do not stand alone. To the contrary, the Court's consistent holdings since the 1850s, other than the short-lived deviation in *A.B. Dick*, reject attempts by patentees to use patent law to enforce post-sale restrictions.

a. The Court's earliest articulations of the patent exhaustion doctrine appear in cases in which, following the sale of a patented article, Congress extended the length of a patent's term. The patentee argued that it could bar the purchaser from using the article during the term extension.

In *Bloomer* v. *McQuewan*, 55 U.S. at 547-548, Bloomer "purchased the right to construct and use" patented planing machines. Subsequent to his purchase, acts of Congress extended the length of the patent. The patentee asserted that the original purchase allowed Bloomer to use the machine only during the original term of the patent and not during the period of the extension. *Ibid.*

The Court rejected that argument, concluding that patent exhaustion barred the patentee's claim. Once "the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. If the patentee's rights in that article are infringed, "he must seek redress in the courts of the State, according to the laws of the State"—that is, via tort or contract law—and "not * * * under the law of Congress granting the patent." *Id.* at 549-550.

Similarly, in *Millinger*, 68 U.S. at 351, the Court confirmed that when a "patented machine rightfully passes from the patentee to the purchaser, or from any other person by him authorized to convey it"—that is, when there is an authorized first sale—"the machine is no longer within the limits of the monopoly." Thus, "[b]y 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." *Ibid.* See also *Chaffee* v. *Bos. Belting Co.*, 63 U.S. (22 How.) 217, 223 (1859) (Following an authorized sale, a patented article "passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights.").

b. Subsequently, the Court refused to enforce under the patent laws post-sale restrictions on the purchaser's use of the article.

In *Adams* v. *Burke*, 84 U.S. 453, 453-454 (1873), the patentee authorized Lockhart & Seelye to manufacture and sell patented coffin-lids within a ten mile radius of Boston. *Ibid.* Such geographic restrictions were then a common means of subdividing a patentee's rights. *Id.* at 459 (Bradley, J., dissenting).

Burke, an undertaker, purchased a patented lid from Lockhart & Seelye in Boston, but used it outside the geographic radius. *Id.* at 454-455. The patentees sued, and this Court rejected the patent claim—concluding that patent exhaustion protected Burke's use. *Id.* at 456-457.

The Court's decision turned on the fact that Lockhard & Seelye's sale to Burke, made within the geographic radius specified in the license, was authorized. *Ibid.* Once a patented article is "lawfully made and sold, there is no restriction on [its] *use* to be implied for the benefit of the patentee or his assignees or licensees." *Id.* at 457. The coffin lids, following the first authorized sale, "passe[d] without the limit of the monopoly" (*id.* at 456), and Burke "acquired the right to this use of [them] freed from any claim of the patentee, though purchased within the ten-mile circle and used without it." (*id.* at 457).

Subsequently, in *Keeler*, 157 U.S. 659, the Court applied the same rationale in holding that a patent-based post-sale restriction does not limit a purchaser's right to resell a patented good. Keeler purchased patented beds in Michigan, from a seller authorized to sell only in Michigan; Keeler then resold the beds in Boston. *Id.* at 659. Keeler was protected by patent exhaustion because "the purchase of the article from one authorized by the patentee to sell it[] emancipates such article from any further subjection to the patent throughout the entire life of the patent." *Id.* at 666.

The Court noted that whether a patentee could "protect himself" via "special contracts brought home to the purchasers" was not an issue before it. *Ibid.*[6]

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[6] The defendant in *Keeler* had suggested that the patentee could have protected itself by placing a notice on the article that it was "Not to be used or resold in [blank]." Br. for Appellants at 7-8, *Keeler*, 157 U.S. 659.

Crucially, however, the Court explained that it was "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." *Ibid*; accord, *Jackson* v. *Vaughan*, 73 F. 837, 843 (C.C.N.D. Cal. 1896) (whether geographical limitation could be enforced against purchaser is a "question of contract").

In *Morgan Envelope Co.* v. *Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 430 (1894), the patent related to a special fixture for dispensing toilet paper. The patentee sold the fixtures with a post-sale restriction—"the understanding that their paper would be subsequently purchased" from the patentee. *Id*. at 432. But the defendants purchased the patented fixtures and, notwithstanding this condition, resold them with the defendants' own brand of toilet paper. *Id*. at 431.

Patent exhaustion, this Court held, barred the patentee from claiming patent infringement. The "original sale by the patentee" caused the fixtures to "pass[] out of the limits of the monopoly." *Id*. at 432. "The patentee having once received his royalty upon such device, he cannot treat the subsequent seller or user as an infringer." *Ibid*. The post-sale restriction was unenforceable.

3. The Court's repudiation of A.B. Dick *confirms that post-sale restrictions cannot be enforced through the patent laws.*

In *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), the Court briefly reversed course. But its quick decision to overrule that precedent provides further confirmation that the exhaustion doctrine bars the use of patent law to enforce post-sale restrictions.

The patentee in *A.B. Dick* sold a patented mimeograph machine with a "License Restriction" requiring purchasers to use the machine with only the patentee's brand of paper and ink. *Id.* at 11. After the defendant sold its own brand of ink to an owner of a patented mimeograph, the patentee brought suit, alleging contributory patent infringement. *Ibid.*

The Court, dividing four to three, held this post-sale restriction enforceable. The Court reasoned that "if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee." *Id.* at 24. And, "[i]f that reserved control of use of the machine be violated, the patent is thereby invaded." *Id.* at 25. This stemmed, the Court explained, from its view that there is a "right to sever ownership and use" with respect to patented articles. *Ibid.*

Three Justices dissented. They explained that patent exhaustion's prohibition on post-sale restrictions was a "settled rule," "established by so many decisions." 224 U.S. at 68 (White, J., dissenting).

A.B. Dick "aroused a storm of protest from the public." Floyd L. Vaughan, *Economics of Our Patent System* 117 (1925). Almost immediately, the Court limited the decision, holding that a "packaging notice that set a minimum retail price for a patented tonic, *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 8 (1913), and a purported 'License Notice' that operated to fix the price at which phonographs could be resold, [*Straus*, 243 U.S. at 500-501], were not enforceable under the patent laws." Pet. App. 111a n.2 (dissenting opinion).

Then, just five years after handing down the *A.B. Dick* ruling, the Court expressly overruled it in *Mo-*

tion Picture Patents Co. v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917).

There, the patentee authorized Precision Machine Company to sell patented film projectors; the patentee required that the sales agreement contain a "restriction and condition" limiting the projector's use to film reels embodying the patentee's separate patent. *Id.* at 506-507. The defendant, however, purchased a patented protector and used it with other film reels, in violation of the post-sale restriction. *Id.* at 507-508.

Repudiating the logic of *A.B. Dick*, the Court explained that "[t]he extent to which the use of the patented machine may validly be restricted * * * is a question outside the patent law." *Id.* at 509. The Court rejected the view "that, since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses." *Id.* at 514. Following the sale of the patented article, the patentee may not "subject" patented goods "to conditions as to use or royalty to be paid." *Id.* at 516.

The Court held—contrary to *A.B. Dick*—that a patentee's rights are "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." *Ibid.* (emphasis added). The Court explicitly stated that *A.B. Dick* "must be regarded as overruled." *Id.* at 518. See also *Quant*a, 553 U.S. at 626 ("the Court explicitly overruled *A.B. Dick*").

In sum, *A.B. Dick* rested on an understanding of the divisibility of rights to use patented articles that

Motion Picture Patents expressly rejected. See 6 *Moy's Walker on Patents* § 19:21 (4th ed. 2016) (explaining that the Court rejected the view "that the patent owner could divide title in a patented article at will").

After *A.B. Dick*, the Court consistently refused to permit the enforcement of post-sale restrictions under the patent laws. In *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U.S. 8, 25 (1918), the Court held that "one who had sold a patented machine * * * could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Motion Picture Patents*, the Court recognized, resolved "the *general* question of the power of the patentee to sell and yet under the guise of license or otherwise to put restrictions which in substance were repugnant to the rights which necessarily arose from the sale which was made." *Id*. at 24. The Court therefore concluded that a post-sale restriction fixing resale prices was not enforceable via the patent laws. *Id*. at 25.

By 1926, the Court considered it "well settled" that "where 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). And the rule has remained fixed ever since. See, *e.g.*, *United States* v. *Line Materials Co.*, 333 U.S. 287, 300 (1948) (noting "the fixed rule that a sale of the patented article puts control of the purchaser's resale price beyond the power of the patentee"); *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 457 (1940) ("[B]y the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold."); *United States* v. *United Shoe Mach. Co. of N.J.*, 247 U.S. 32, 58 (1918) (A patentee "cannot grant the title" to a patented article yet "retain the incidents of it.").

This Court's express repudiation of *A.B. Dick*—and its continued adherence to that position—provides further confirmation that the decision below—which would resurrect *A.B. Dick*'s discredited rule—is manifestly wrong. See Pet. App. 110a-111a ("The holding of *A.B. Dick* * * * is the same as * * * the majority's holding in this case.").

4. Mitchell *v.* Hawley*'s reference to "conditions" does not authorize post-sale restrictions.*

The court of appeals rested its contrary interpretation of this Court's precedents on language in *Mitchell* v. *Hawley*, 83 U.S. 544, 548 (1872)—and repeated in subsequent opinions—relating to sales "with or without conditions." Pet. App. 38a-39a, 42a-43a, 50a. In discussing patent exhaustion, the *Mitchell* Court explained:

> Sales of the kind may be made by the patentee with or without conditions, as in other cases, but where the sale is absolute, and without any conditions, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair it or improve upon it as he pleases, in same manner as if dealing with property of any other kind.

Ibid. See also *Motion Picture Patents*, 243 U.S. at 516 (exhaustion triggered by "a single, unconditional sale").

The Federal Circuit, and Lexmark, seize upon the reference to a sale that is "absolute, and without any conditions"—and assert that a sale agreement imposing post-sale restrictions on use of the patented article is "conditional" and not "absolute," and therefore falls outside the exhaustion doctrine. Cert. Opp. 8.

This argument rests on an erroneous interpretation of *Mitchell*'s reference to a "sale [that] is absolute, and without any conditions."

As the dissent below explained (Pet. App. 114a-116a), a "conditional sale" was understood at the time (and is understood today) as a sale that is contingent upon—and thus not complete until—the satisfaction of a specified condition. *Mitchell*'s reference to a sale "without any conditions" thus meant a sale in which title had been transferred, either because there was no condition precedent to transfer (an "absolute" sale) or because the condition precedent had been satisfied.

Mitchell's holding, therefore, is that if title has not yet transferred to the purchaser, there is no completed sale that triggers exhaustion. *Mitchell* does not address the situation presented here, and in all of the cases just discussed—in which title has transferred and the patentee is attempting to enforce a post-sale restriction via patent law.

Black's Law Dictionary—which dates the term to the eighteenth century, defines a "conditional sale" as a "sale in which the buyer gains immediate possession but the seller retains title until the buyer performs a condition, esp. payment of the full purchase price." *Sale*, Black's Law Dictionary (10th ed. 2014). In contrast, an "absolute sale" is a "sale in which possession and title to the property pass to the buyer immediately upon the completion of the bargain." *Ibid.*

That definition reflects this Court's cases, which have long distinguished a "conditional sale" from an "absolute sale"—including in decisions rendered during the same era as *Mitchell*.

Thus, in *Harkness* v. *Russell & Co.*, 118 U.S. 663, 666 (1886), following a review of multiple treatises, the Court explained that a "conditional sale" is a "mere agreement to sell upon a condition to be performed." The condition may be imposed on either buyer or seller; thus, "'[w]here the buyer is by the contract bound to do anything as a condition, either precedent or concurrent, on which the passing of the property depends, the property will not pass until the condition be fulfilled, even though the goods may have been actually delivered into the possession of the buyer." *Id.* at 668. Accord *Fosdick* v. *Schall*, 99 U.S. 235, 246 (1878) (describing a transaction in which there was "a right of rescission on the part of the vendor in case the purchaser should fail in payment of his instalments" as a "conditional sale").

Numerous decisions of this Court apply the same definition of "absolute" and "conditional" sales. See, *e.g.*, *Bailey* v. *Baker Ice Mach. Co.*, 239 U.S. 268, 272 (1915) (describing the "distinction" between "a conditional sale and an absolute sale"); *Bryant* v. *Swofford Bros. Dry Goods Co.*, 214 U.S. 279, 290 (1909) ("We think it clear that the contract under which the goods were delivered to the Newtons was one of conditional sale."); *Southard* v. *Russell*, 57 U.S. (16

How.) 547, 567 (1853) (referring to "a conditional sale to become absolute on the failure to refund the purchase-money within the time").

For these reasons, *Mitchell*'s statement that patent exhaustion is triggered by an "absolute"—and not a "conditional"—sale simply reaffirms that patent exhaustion attaches when title to the patented article passes to the purchaser. That is unremarkable: transfer of title of the patented good has *always* been the linchpin of exhaustion. See, *e.g.*, *Chaffee*, 63 U.S. at 223 (the first-sale doctrine applies when "a person legally acquires a title to that which is the subject of letters patent").

The use of the term "conditional" in *Mitchell* and other cases therefore is completely irrelevant to whether—once title has been transferred to the purchaser—the patentee may enforce patent-based post-sale restrictions.[7] That is why *Mitchell* is completely consistent with the numerous opinions of this Court, discussed above, in which the Court has expressly held that such post-sale restraints may be enforced through patent law.[8]

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[7] In *Goodyear* v. *Beverly Rubber Co.*, 10 F. Cas. 638 (C.C.D. Mass. 1859), the court explained that, "[b]y virtue of the contract of sale, and *the unconditional delivery of the manufactured article*, it passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights." *Id.* at 641 (emphasis added).

[8] Lexmark cannot contend that its sale of cartridges is "conditional" within the meaning of *Mitchell*. Lexmark's transfer of title to the printer cartridges was not contingent on performance of any subsequent condition. Nor is there any agreement that title to the cartridges could ever revert to Lexmark. Indeed, Lexmark acknowledges that its customers are not obligated to return spent cartridges to Lexmark. And Lexmark expressly

C. Section 271(a) does not alter the pre-1952 exhaustion rule.

The Federal Circuit majority also grounded its rejection of this Court's precedents in the text of Section 271(a), which provides:

> Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

35 U.S.C. § 271(a).

The majority argued that "exhaustion doctrine" is "an interpretation of [Section] 271(a)'s 'without authority' language." Pet. App. 25a. Under Section 271(a), the court reasoned, "it is a conferral of 'authority' by the patentee that is needed in order for the actions listed in [Section] 271(a) not to constitute infringement." *Id.* at 24a. Thus, it contended, exhaustion depends on what "authority" the patentee chooses to convey when selling a patented article: "[A] clear denial of authority leaves a buyer without the denied authority." *Id.* at 40a-41a.

That analysis is flawed for multiple reasons.

First, patent exhaustion is a "limit" on "the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. This principle—that exhaustion is a "limit" on a patentee's rights—is the foundation of the exhaustion doctrine. See *Bowman*, 133 S. Ct. at 1766 & n.2; *Aro Mfg.*, 377

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maintains "that its transfer of the Return Program Cartridges to its customers constitutes a sale of property." Pet. App. 5a.

U.S. at 497. Section 271(a)'s reference to the rights a patentee has *absent* a first sale thus says nothing about the "limit" that exhaustion imposes.[9]

As the dissent below explained, the Federal Circuit majority's reliance on Section 271(a) was therefore "misplaced." Pet. App. 119a. "The focus of patent exhaustion is not whether the *buyer* has been expressly or impliedly authorized to sell or use a product in a certain way after the sale"; rather, the analysis "begins and ends with an inquiry of whether the *seller* had authorization to make a sale." *Id.* at 119a-120a.

In the language of Section 271(a), the patent exhaustion doctrine supplies the "authority" for a purchaser to use and sell the specific patented good. That is because, once an authorized sale has occurred, the article passes beyond the "limits of the monopoly" (*Bloomer*, 55 U.S. at 549) and the seller lacks the power to perpetuate the monopoly after the sale.

Second, Section 271(a) did not alter the legal principles embodied in this Court's pre-1952 exhaustion decisions. See *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 563 U.S. 754, 761 (2011) ("Finding no definitive answer in the statutory text, we turn to the case law that predates the enactment of § 271 as part [of] the Patent Act of 1952."); *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 530 n.10 (1972). Cf.

[9] *Motion Picture Patents* identified the "defect in this thinking"—it is a " failure to distinguish between the rights which are given to the inventor by the patent law" as opposed to the "rights which he may create for himself by private contract." *Motion Picture Patents*, 243 U.S. at 514.

Aro Mfg. Co. v. *Convertible Top Replacement Co.*, 377 U.S. 476, 485-486 & n.6 (1964).[10]

As explained above, this Court's decisions in *Univis* and other cases established, prior to 1952, that a patentee may not exert patent-based post-sale control. Nothing in the text of Section 271(a) evinces an intent to displace patent exhaustion. And, following enactment of Section 271, *Quanta* and *Bowman* held that pre-1952 precedents continue to "govern[]" exhaustion. *Quanta*, 553 U.S. at 631. See also *id*. at 625-628 (relying upon pre-Section 271(a) authority); *Bowman*, 133 S. Ct. at 1766 (same).

D. The same patent exhaustion rule applies to sales by patentees and licensees.

To support its contrary decision, the Federal Circuit made repeated reference to a supposed distinction between patentees and licensees. See, *e.g.*, Pet. App. 26a, 28a, 30a-31a, 34a-35a, 37a, 43a-44a, 46a-47a, 55a-56a. In particular, the court interpreted *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175, *aff'd on reh'g*, 305 U.S. 124 (1938), to hold that a patentee can impose patent-based post-sale restrictions if an article is sold by a *licensee*. Pet. App. 26a; 43a-44a. Based on that view, the majority asserted that sales by patentees should benefit from the same legal rule.

[10] "[W]hen Section 271 was drafted and submitted to the Senate in 1952, Senator Saltonstall asked: 'Does the bill change the law in any way or only codify the present patent laws?' Senator McCarran, Chairman of the Judiciary Committee, responded: 'It codifies the present patent laws.'" *Deepsouth Packing*, 406 U.S. at 531 n.10 (quoting 98 Cong. Rec. 9323).

In fact, as it relates to patent exhaustion, there is no distinction between authorized sales made by patentees and those made by licensees: exhaustion applies to both.

To begin with, patent exhaustion is triggered by "the initial *authorized* sale of a patented item." *Bowman*, 133 S. Ct. at 1766 (emphasis added).

When a patentee itself sells a patented item, it has necessarily "authorized" that sale. A patentee—like other market participants—may establish the terms on which it offers its goods for sale. It can, for example, set the price at which it will sell its patented articles; it can control the range of buyers to whom it will sell; and it can restrict the geography of its sales. When the patentee completes a sale, the passage of title triggers patent exhaustion.

Alternatively, a patentee can license another to manufacture and sell its patented articles. When it does so, the patentee may establish the terms on which the licensee is authorized to sell the patented article. It can, for example, set the price at which the licensee may sell the good, to whom the licensee may sell it, and limit the geographic area in which the licensee may sell. If the licensee makes a sale in compliance with the terms imposed by the patentee, then the sale is "authorized," triggering patent exhaustion. If the licensee breaches these terms, then its sale is *not* "authorized"; in those circumstances, the licensee is no different than any third-party infringer.

General Talking Pictures applied this unexceptional last point—patent exhaustion does not apply when a licensee's sale is outside the scope of its authority.

There, a patentee granted the Transformer Company a license to manufacture and sell amplifiers for home use; it gave other companies licenses to produce the patented amplifiers for commercial use. 304 U.S. at 179-180. Yet, the Transformer Company knowingly sold the amplifiers to the defendant for commercial use. *Id.* at 180. And the defendant, "when purchasing from the Transformer Company for that use, had actual knowledge that the latter had no license to make such a sale." *Ibid.*

The "Court held that exhaustion did not apply because the manufacturer had no authority to sell the amplifiers for commercial use, and the manufacturer 'could not convey to petitioner what both knew it was not authorized to sell.'" *Quanta*, 553 U.S. at 636 (quoting *Gen. Talking Pictures*, 304 U.S. at 181). The sales were not "made under the patents or the authority of their owner." *Gen. Talking Pictures*, 304 U.S. at 181.

On rehearing, the Court confirmed this conclusion: "As the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to [the manufacturer]." *Gen. Talking Pictures*, 305 U.S. at 127. The Court therefore had no "occasion to consider the effect of a 'licensee's notice' which purports to restrict the use of articles lawfully sold." *Ibid.*

General Talking Pictures does not suggest, as the court of appeals believed (Pet. App. 26a), that an *authorized* sale by a licensee can result in patent-based post-sale restrictions. Nor could it. In *Keeler*, a licensee was authorized to sell and use patented beds only in Michigan; the licensee made an authorized sale to Keeler in Michigan. 157 U.S. at 659. Following that sale, this Court held that the geographic restriction imposed on the licensee had no effect on the purchaser. *Id*. at 666. So too in *Quanta*—after Intel made an authorized initial sale, the post-sale restriction was unenforceable. 553 U.S. at 636-638.

Whether an article is sold by a patentee or a licensee, patent exhaustion applies as long as the sale is authorized.[11]

E. The Federal Circuit's rule would dramatically expand the patent monopoly, enabling patentees to eliminate long-established competitive markets.

In the Federal Circuit's view, patent exhaustion is merely a presumption—and any patentee may circumvent it by imposing a putative restriction at the time of sale. See, *e.g.*, Pet. App. 40a-41a. This Court explained in 1895 that "[t]he inconvenience and annoyance to the public" imposed by such post-sale restrictions "are too obvious to require illustration." *Keeler*, 157 U.S. at 667. The consequences would indeed be dramatic:

Foreclosure of secondary markets for patented goods. Countless goods today are protected by patents—for example, automobiles, consumer electronics, and heavy machinery. Under the Federal Circuit's approach, any patentee could preclude purchasers of patented articles from reselling them. An auto manufacturer, for instance, could bar its cus-

[11] If a patentee leases or licenses—rather than sells—a patented good, patent exhaustion does not apply because there has been no transfer of title. See *Chaffee*, 63 U.S. at 223. Because the patentee still *owns* the good, it also still owns—and may control—the patent rights to that good.

tomers from reselling its cars—and then enforce that restriction against used car dealers. Or a manufacturer could restrict used car sales to only "authorized" retailers, and control the price at which used cars are bought and sold.

Since Lord Coke, however, "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods" has been well established. *Kirtsaeng*, 133 S. Ct. at 1363. "American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer." *Ibid*.

Free markets for used products are a bedrock of the economy. Owners sell goods when they no longer need them, monetizing an asset they possess. Others, in turn, acquire used goods at discounted prices. Reuse is also good for the environment, as it precludes waste.

Foreclosure of repair markets. The ability of individuals to repair patented goods rests on patent exhaustion. See, *e.g.*, *Aro Mfg.*, 377 U.S. at 484. If patent exhaustion were optional, patentees could forbid users from repairing their patented goods. Or patentees could restrict repairs to repair shops owned or licensed by the patentee.

Patent law has always "reflect[ed] a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition." *Bonito Boats*, 489 U.S. at 146. It is hard to imagine what could stifle competition more than allowing patentees to eviscerate repair markets for patented goods.

Beyond these devastating harms to competition, the decision below interferes with markets in other, more indirect ways. By permitting a patentee to demand additional royalties from downstream purchasers, the decision below multiplies the transaction costs of producing goods using patented articles and thereby creates inefficiency. Likewise, it forces businesses—and even consumers—to expend resources discerning whether their use is permitted by the terms of sale. See Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 Yale L.J. 1, 8 (2000) ("The existence of unusual property rights increases the cost of processing information about all property rights.").

The Court long ago devised a simple solution to avoid this heavy burden: the patentee is entitled to determine the amount of his or her reward at the time of a first sale, but once that payment is made and title transfers, patent rights are exhausted.

To the extent that patentees nonetheless desire to exercise control over the downstream use and/or sale of their products, they may—like sellers of non-patented goods—impose restrictions on purchasers enforceable through contract law. See note 2, *supra*. Alternatively, a patentee may decide only to lease, and not sell, articles embodying its patent. But, as *Univis*, *Quanta*, and the nearly two centuries of exhaustion jurisprudence make clear, the need to strike a balance between patent rights and the public interest bars patentees from using the patent law to enforce post-sale restrictions. Rather, the patentee "surrender[s]" its "limited monopoly" by making a first sale. *Univis*, 316 U.S. at 250.

II. The Foreign Sale Of A Patented Article Authorized By The U.S. Patentee Exhausts U.S. Patent Rights.

A sale outside the United States, if authorized by the U.S. patentee, exhausts U.S. patent rights. That conclusion is compelled by this Court's precedents, as well as the adverse practical consequences—for U.S. consumers, businesses, and workers—that will result from the Federal Circuit's contrary rule.

A. This Court's precedents mandate exhaustion based on non-U.S. sales.

The Court's holding in *Kirtsaeng* regarding the common-law doctrine underlying the exhaustion principle—that "[t]he common-law doctrine makes no geographical distinctions" (133 S. Ct. at 1363)—is dispositive of the second question presented in this case. *Kirtsaeng* established that the common-law rule, which has no territorial limitation, applies unless the Patent Act provides otherwise, and there is no contrary statutory provision. Moreover, because patent and copyright often protect the same article, it would be odd indeed if exhaustion were international in one context, but territorial in another.

Quanta and earlier lower court cases lend further support to the conclusion that, contrary to the Federal Circuit majority's decision, patent exhaustion may be based on sales outside the United States. *Boesch* v. *Graff*, 133 U.S. 697 (1890), a case involving sales *not* authorized by the U.S. patentee, does not support the contrary rule.

1. Kirtsaeng*'s analysis resolves this question.*

The question presented in *Kirtsaeng* was whether the first-sale exhaustion doctrine under copyright law applied to copies of works lawfully sold abroad. *Kirtsaeng*, 133 S. Ct. at 1355. The first-sale doctrine is codified in the Copyright Act (see 17 U.S.C. § 109), but Section 109's text did not clearly answer the question whether the doctrine applied to foreign sales.

This Court therefore consulted the familiar "canon of statutory interpretation" that "'[w]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" *Kirtsaeng*, 133 S. Ct. at 1363.

In analyzing the common-law first-sale doctrine, the Court turned to the relevant passage from Lord Coke's Institutes:

> [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.

Kirtsaeng, 133 S. Ct. at 1363 (quoting 1 E. Coke, Institutes of the Laws of England § 360, at 223 (1628)).

The Court observed that by referring to the conflict between restraints on alienation and "Trade and Traffi[c]," "Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Kirtsaeng*, 133 S. Ct. at 1363. And the Court noted that "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" against restraints on alienation "makes no geographical distinctions." *Kirtsaeng*, 133 S. Ct. at 1363. That analysis was not specific to copyright—but the Court held that it applied to authorized sales of copyrighted works because nothing in Section 109 of the Copyright Act overrode the common-law rule.

This conclusion is dispositive here. Unlike the Copyright Act, the Patent Act does not expressly address patent exhaustion, much less define its geographic scope. See Pet. App. 23a n.5. The common law is thus the only relevant consideration in determining the geographic scope of patent exhaustion.

Moreover, this Court has previously recognized that Lord Coke's explication of the common law rule is as pertinent to patent exhaustion as it is to copyright. See *Straus*, 243 U.S. at 500-501 (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"). *Kirtsaeng*'s reading of Lord Coke—and its holding regarding the contours of the common-law exhaustion rule—thus compels the conclusion that a sale of a patented article authorized by the U.S. patentee, wherever in the world it occurs, exhausts the patentee's U.S. patent rights.

The Federal Circuit's attempts to distinguish *Kirtsaeng* are unavailing. *First*, the lower court argued that *Kirtsaeng* is inapposite because *Kirtsaeng* interpreted a specific provision of the Copyright Act that lacks an analogue in the Patent Act. Pet. App. 69a-70a. But that difference makes the case for international exhaustion stronger in the patent context. *Kirtsaeng* looked to the underlying common-law principles in order to illuminate the meaning of Section 109 of the Copyright Act—and also addressed whether Section 109's codification of the exhaustion rule evidenced Congress's intent to alter the common law rule. Because there is no Patent Act provision codifying the exhaustion doctrine, the case for applying the common-law rule is even clearer.[12]

Second, the Federal Circuit referenced the "distinctness of the copyright and patent regimes." Pet. App. 69a. But *Kirtsaeng* examined the common law doctrine of restraints on alienation of property—which is the root of both copyright and patent exhaustion. And, with respect to exhaustion, the Court has already held that "there is a strong similarity between and identity of purpose in the two statutes." *Bauer & Cie*, 229 U.S. at 13.

Indeed, copyright and patent exhaustion have long enjoyed a close kinship. *Kirtsaeng* explained that "the 'first sale' doctrine has played an important role in American copyright law" since at least *Bobbs-Merrill Co.* v. *Straus,* 210 U.S. 339 (1908). 133 S. Ct.

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[12] Although Section 271(a) grants a patentee the exclusive right to "import[]" into the United States a patented invention, patent exhaustion limits a patentee's otherwise existing rights. See pages 36-38, *supra*. The Patent Act thus does not address whether sales abroad exhaust U.S. patent rights.

at 1364. The Court has repeatedly considered *Bobbs-Merrill* in patent cases. See, *e.g.*, *Gen. Elec.*, 272 U.S. at 493; *Am. Graphophone*, 246 U.S. at 21; *Gen. Talking Pictures*, 304 U.S. at 185 n.3 (Black, J., dissenting). *Kirtsaeng*'s analysis is therefore equally applicable here.

Harmonizing copyright and patent exhaustion makes good practical sense as well. Products are often protected by both intellectual property laws. In consumer electronics, the hardware typically is protected by patent law, the software by both copyright and patent, and the operating manual and packaging by copyright. See *Kirtsaeng*, 133 S. Ct. at 1365 ("[A]utomobiles, microwaves, calculators, mobile phones, tablets, and personal computers contain copyrightable software programs or packaging."). A legal regime under which a foreign sale exhausts the manufacturer's copyright—but not its patent—makes little sense and would add costly complexity and gamesmanship to international trade.

2. Quanta *confirms that international sales exhaust patent rights.*

This Court's decision in *Quanta*, discussed above (see pages 20-25, *supra*), also supports the international exhaustion rule.

In addressing the first question before the Court in *Quanta*—whether Intel's authorized sale of computer parts exhausted LG Electronics' method patents—the critical issue was whether the "methods" were "'embodied' in a product, the sale of which exhausts patent rights." *Quanta*, 553 U.S. at 628.

The Court began from the premise that, under *Univis*, "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Id.* at 631 (quoting *Univis*, 316 U.S. at 249). Because LG Electronics had not identified any "reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents" (*id.* at 632), the Court held that Intel's sales had exhausted the patent rights.

LG Electronics argued that Intel's products did not satisfy the *Univis* test because they "would not infringe its patents if they were sold overseas, used as replacement parts, or engineered so that use with non-Intel products would disable their patented features." *Id.* at 632 n.6. But this Court rejected that argument, explaining that patent exhaustion depends on whether "the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Ibid.* (quoting *Univis*, 316 U.S. at 249). Even if "*outside the country*," this Court held, "the Intel Products would still be *practicing* the patent, even if not infringing it." *Ibid.* (emphasis added).

Quanta thus establishes that an article sold outside the United States can *practice* a U.S. patent. It follows that foreign sales of patented articles exhaust U.S. patent rights—because the authorized sale of an article that practices the patent is what triggers exhaustion. *Univis*, 316 U.S. at 249.

This result accords with the "single-reward" principle animating patent exhaustion. See page 15, *supra*. Long ago, the Court explained that a patentee is "entitled to but one royalty for a patented machine." *Millinger*, 68 U.S. at 350. When the patentee sells the good, "he receives the consideration for its use and he parts with the right to restrict that use." *Adams*, 84 U.S. at 456. That applies to foreign sales—when the U.S. patentee authorizes the sale abroad, it receives its "tribute" (*Keeler*, 157 U.S. at 667), exhausting its rights to that item.

3. *Pre-1952 lower court precedents preclude the Federal Circuit's domestic-only exhaustion rule.*

The Federal Circuit's holding—that a foreign sale authorized by the U.S. patentee can *never* exhaust U.S. patent rights—is also inconsistent with early decisions of the lower courts.

In *Holiday* v. *Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885), for example, the court concluded that the sale in England "of a vendee of the patentee" exhausted the U.S. patent rights. *Id*. at 185. Likewise, in *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Engineering Corp.*, 266 F. 71, 78 (2d Cir. 1920), the court held that, "[i]f 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." The Federal Circuit's holding below is inconsistent with these decisions.

The United States agrees that the Federal Circuit's holding is wrong. It argues that, while a foreign sale authorized by the U.S. patentee presumptively exhausts U.S. patent rights, a patentee may exempt a foreign sale from exhaustion by "reserv[ing] his U.S. rights * * * if he does so expressly." U.S. Cert. Br. 17. The government points to a few lower court cases that permit such restrictions. See, *e.g.*, *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir.

1893); *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897).

That result is contrary to *Kirtsaeng*. And it is inconsistent with this Court's repeated holdings in the line of decisions culminating in *Univis* and *Quanta* that the exhaustion doctrine is a fixed limit on patent rights, not a presumptive rule that a patentee can alter by inserting conditions into a sales contract. See pages 13-36, *supra*.

In any event, the government's authority necessarily shows—and the government agrees—that the Federal Circuit's categorical rule is incorrect. It certainly lends no support to Lexmark's contention that foreign sales *never* exhaust.

4. Boesch *does not support limiting exhaustion to domestic sales.*

The Federal Circuit rested its rejection of international exhaustion principally on this Court's decision in *Boesch*. See Pet. App. 65a, 68a-69a, 81-84a, 97a, 102a. But *Boesch* is entirely consistent with an international exhaustion rule.

In *Boesch*, the assignees of a U.S. patent for an "improvement in lamp-burners" brought suit for infringement against a dealer who had imported the patented burners into the United States. 133 U.S. at 698. The dealer bought the burners in Germany from Hecht, who was allowed to sell them under German law because he had been making "preparations to manufacture the burners prior to the application for the German patent." *Id.* at 701. The question raised by this chain of events was "whether a dealer * * * can purchase in another country articles patented there, from a person authorized to sell them, and import them to * * * the United States, *without the li-*

cense or consent of the owners of the United States patent." *Id.* at 702 (emphasis added).

The Court held that the importation infringed the U.S. patent. It noted that "[t]he right which Hecht had to make and sell the burners in Germany was allowed him [only] under the [particular] laws of that country." *Id.* at 703. "[P]urchasers from him could not be thereby authorized to sell the articles in the United States"—because he was neither the U.S. patentee nor an authorized licensee of the U.S. patentee. *Ibid.*

Boesch thus stands only for the unremarkable proposition that patent exhaustion cannot occur unless the sale of a patented article is authorized by the U.S. patentee. As the government pointed out at the certiorari stage, *Boesch* "had no occasion to decide whether, or under what circumstances, a foreign sale that is made or authorized by the U.S. patent holder * * * will exhaust U.S. patent rights." U.S. Cert. Amicus Br. 17-18. Many courts and commentators have endorsed the same conclusion.[13]

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[13] See *Curtiss Aeroplane*, 266 F. at 77 (distinguishing *Boesch* as a case "in which there [was] 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 [was] alleged to infringe"); Daniel J. Hemel & Lisa Larrimore Ouellette, *Trade and Tradeoffs: The Case of International Patent Exhaustion*, 116 Colum. L. Rev. Sidebar 17, 19 n.6 (2016) (calling *Jazz Photo*'s reliance on *Boesch* "mistaken" because *Boesch* "did not involve an authorized first sale—it involved a German sale that was legal (due to prior user rights under German law) but that the patentee did not authorize"); Harold C. Wegner, *Post-*Quanta*, Post-Sale Patentee Controls*, 7 J. Marshall Rev. Intell. Prop. L. 682, 698 (2008) ("*Boesch* has nothing to do with patent exhaustion be-

The court of appeals based its contrary conclusion on *Boesch*'s statement that "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." Pet. App. 83a (quoting *Boesch*, 133 U.S. at 703). But all that *Boesch* meant by that statement was that in order for U.S. patent exhaustion to occur, a sale must be authorized by the U.S. patentee—it is not enough that the sale was legal under the laws of another country. The Court did not hold that foreign sales can never have consequences under U.S. patent law.

5. International exhaustion is consistent with the Patent Act's domestic reach.

The Federal Circuit also asserted that patent law's "territorial" nature is a reason to reject international exhaustion. See Pet. App. 84a-86a. But that is clearly incorrect in light of *Kirtsaeng*.

Copyright law is also territorial: "The Copyright Act, it has been observed time and again, does not apply extraterritorially." *Kirtsaeng*, 133 S. Ct. at 1376 (Ginsburg, J., dissenting). Even so, *Kirtsaeng* held that a U.S. copyright is exhausted by the authorized sale of a copy of the work outside the United States. *Id.* at 1371. There is no basis for a different result with respect to patent rights.

This "territorial" argument is also belied by *Quanta*. In holding (1) that products sold "outside the country" nonetheless "would still be *practicing* the patent" (*Quanta*, 553 U.S. at 632 n.6) and (2) that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to

cause there was no patent right, German or otherwise, that was exercised").

the article sold" (*id*. at 631), the Court indicated that sales of goods outside the United States may exhaust U.S. patent rights.

6. U.S. trade agreements do not preclude international exhaustion.

The Federal Circuit identified certain U.S. trade agreements—including with Australia and Morocco—that specifically preserved the ability of U.S. patentees to restrict exhaustion when sales are made in specific countries. Pet. App. 87a-88a. These agreements are wholly irrelevant to determining the scope of exhaustion under the Patent Act.

First, the implementing legislation for the agreements states that they do not modify U.S. law. See U.S.-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, § 102(a), 118 Stat. 919, 921 (2004) (nothing in the implementing legislation "shall be construed * * * to amend or modify any law of the United States," "unless specifically provided for in" the legislation); U.S.-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, § 102(a), 118 Stat. 1103, 1104-1105 (2004) (same). These agreements therefore do not establish any rule of exhaustion.

Second, the agreements' treatment of copyright confirms that they supply no reason to reject international exhaustion. For example, the U.S.-Morocco Free Trade Agreement requires the United States to permit copyright holders to prevent the importation of copies of works lawfully made abroad. See Free Trade Agreement, Morocco-U.S., art. 15.5(2), June 15, 2004. Yet, in *Kirtsaeng*, this Court held that sales outside the United States exhaust U.S. copyrights.

Third, Congress subsequently enacted appropriations riders that prevent the United States from agreeing to similar international-exhaustion provisions in future trade agreements. See, *e.g.*, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, Pub. L. No. 109-108, § 631, 119 Stat. 2290, 2344 (2005) ("None of the funds made available in this Act may be used to include in any new bilateral or multilateral trade agreement the text of" the pertinent provisions of the Singapore, Australia, and Morocco agreements.). The reason for this, as the rider's sponsor explained, was to prevent opponents of international exhaustion from attempting to "enshrine" domestic-only exhaustion in trade agreements. *Fiscal Year 2006 Defense Appropriations and the Fiscal Year 2006 Science, State and Justice Appropriation Bills: Hearing Before the H. Comm. on Appropriations*, 109th Cong., 2005 WL 1350973 (June 7, 2005).

Finally, the international community is moving toward international exhaustion. At least 24 countries have adopted rules of international patent exhaustion. See World Intellectual Property Organization [WIPO] Committee on Development and Intellectual Property ("CDIP"), *Patent Related Flexibilities in the Multilateral Legal Framework and Their Legislative Implementation at the National and Regional Levels*, Annex II, Fifth Session, CDIP/5/4 (Mar. 1, 2010).

B. International exhaustion benefits American workers, consumers, and industry.

The Federal Circuit's domestic-only exhaustion rule has negative repercussions for American workers, consumers, and industry alike.

First, domestic-only exhaustion raises prices for U.S. consumers. If a patentee authorizes articles practicing its patent to be sold abroad at prices lower than those offered within the United States, American consumers should be permitted to purchase those goods for use in the United States. Lexmark's contrary view seeks to use the patent laws to permit price discrimination against American consumers—making U.S. consumers pay more for the very same goods.

As this Court made clear in the copyright context, "the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain." *Kirtsaeng*, 133 S. Ct. at 1371. So, too, here: the patent laws are designed to "promot[e]" "the progress of science and the useful arts" (*United States* v. *Masonite Corp.*, 316 U.S. 265, 278 (1942))—not to provide a windfall to patent owners by allowing them to discriminate against American consumers.[14]

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[14] To the extent desirable (see Pet. App. 86a), patentees may achieve price discrimination in other ways. They may impose contracts on purchasers or they may lease goods. Manufacturers may use region-specific software, packaging, or languages. What patentees may not do is create an "end-run around exhaustion." *Quanta*, 553 U.S. at 630.

Concerns that imported products could pose safety risks are properly addressed by consumer-protection laws and the dozens of federal and state regulators, including the Food & Drug Administration, the National Highway Traffic Safety Administration, and the Federal Trade Commission. The patent laws are not a free-floating source of consumer protection.

Domestic-only exhaustion is impractical. An American tourist should not fear that a camera purchased while on vacation will infringe a U.S. patent when brought home. Cf. *Kirtsaeng*, 133 S. Ct. at 1365 ("But under a geographical interpretation a contemporary tourist who buys, say, at Shakespeare and Co. (in Paris), a dozen copies of a foreign book for American friends might find that she had violated the copyright law.").

Second, in light of increasingly complex supply chains, the Federal Circuit's domestic-only rule creates a logistical nightmare—with the attendant costs shouldered by consumers. Modern products, such as consumer electronics, automobiles, and heavy machinery, incorporates hundreds (if not thousands) of components. Under the domestic-only rule, a manufacturer must trace the provenance of every component, sub-component, and sub-sub-component to verify that its products do not infringe the supplier's patent rights.

Third, the domestic-only exhaustion rule permits a patentee to extract multiple awards for the sale of the same good—once at the time of initial sale, and then again at the time of importation into the United States. And it permits a patentee to obtain an oversized reward for its rights. After a manufacturer produces a product using components it lawfully acquired, the components are—quite literally—hardwired into its products. The domestic-only exhaustion rule permits patentees to extract a second royalty *after* the manufacturer has already incorporated those components, leaving the manufacturer with no option to substitute alternative parts. The ability to assert patent claims at that late juncture increases the leverage of the patentee, enabling an oversized, second reward.

Fourth, domestic-only exhaustion harms innovation. Innovators create novel products by combining existing components in unique ways. See Gene M. Grossman & Edwin L.-C. Lai, *Parallel Imports and Price Controls*, 39 RAND J. Econ. 378, 380 (2008). But to do so, they must have confidence that, if they lawfully acquire components, the patentees who sold those components cannot later bring suit.

Fifth, international exhaustion benefits American workers. The Federal Circuit's domestic-only exhaustion rule creates a perverse incentive: a U.S. patentee can circumvent patent exhaustion if it chooses to make and sell its goods *outside* the United States. The Federal Circuit's rule thus incentivizes patentees to move production and sale of their goods abroad. International exhaustion, by contrast, treats first sales alike, regardless of where the sale is made. Unlike the approach taken by the Federal Circuit—and advanced by Lexmark—international exhaustion does not penalize manufacturers for making and selling goods within the United States. That is good policy for American consumers, workers, and industry.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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