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 OF *AMICUS CURIAE* QUALCOMM INCORPORATED IN SUPPORT OF RESPONDENT

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QUESTIONS PRESENTED

Section 271(a) of the Patent Act provides that "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) (emphasis added). The questions presented are:

1. Whether the sale of a patented article subject to an express contractual agreement conveying only limited authority to use that article nonetheless automatically confers unlimited authority to sell, offer to sell, use, and import that article.

2. Whether every sale of a patented article outside the United States automatically confers unlimited authority to import, sell, offer to sell, and use that article in the United States.

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INTEREST OF *AMICUS CURIAE*[1]

Qualcomm Incorporated ("Qualcomm") is the leading innovator in the cellular communications industry. Qualcomm technology is in every smartphone in the world. Qualcomm pioneered the use of the technology forming the basis of third-generation ("3G") cellular standards.

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[1] The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to this brief's preparation or submission.

Then, nearly a decade before fourth-generation ("4G") cellular standards reached commercial development, Qualcomm pioneered the development of the "LTE" technology that forms the basis for 4G standards. As one observer recently explained:

> Most people think that they can watch *Game of Thrones* on their cell phone because Apple came out with a better phone. No, Apple gave you a larger screen and better display, but the reason [the video streams smoothly] is because Qualcomm and AT&T and others invested billions of dollars in making the wireless network and phones more efficient.

Thomas L. Friedman, *Thank You for Being Late* 80-81 (2016). Qualcomm continues to invest heavily in inventing and bringing to market new technologies that will deliver a 5G cellular standard capable of data speeds and efficiency far beyond current experience.

Qualcomm essentially acts as a research and development engine for the entire mobile industry. Qualcomm has more than 300 licensees, and its patent portfolio includes more than 100,000 patents and pending applications worldwide. Qualcomm currently commercializes its technology through two separate businesses: by licensing patents to cell phone manufacturers, and by selling chips.

All manufacturers of cell phones worldwide use and benefit from Qualcomm's patented inventions, and virtually all significant cell phone manufacturers worldwide have entered into royalty-bearing licenses to Qualcomm's patent portfolio, granting them rights to Qualcomm's extensive and diverse array of technologies.

A separate subsidiary of Qualcomm, Qualcomm Technologies, Inc. ("QTI"), designs and sells the complex chips that enable the communications functions in the cell phone, along with an array of additional functionality. The market for these chips is intensely competitive. Major chip suppliers in addition to QTI include Mediatek, Huawei, Spreadtrum, Intel, and Samsung LSI.

Qualcomm does not require licensees to purchase their chips from QTI. Cell phone manufacturers are free to choose among a variety of chip-makers, allowing chip suppliers to compete against QTI on a level playing field.

Although Qualcomm does not sell any product or enter into any license on terms that impose "single use" restrictions comparable to those at issue in this case, Qualcomm operates in an industry in which intellectual property is immensely costly to develop and creates great value for users of that intellectual property. Huge investments have been made and complex licensing relationships developed in reliance on existing law, including the law governing patent exhaustion. Any effort to revise patent exhaustion law to limit the freedom of contract among sophisticated parties may needlessly disrupt those relationships, longstanding industry practices, and the ability of innovators like Qualcomm to recover a reasonable return on their investments—and to continue such investments in the future.

SUMMARY OF ARGUMENT

I. For nearly 150 years, this Court has recognized that patentees have flexibility to convey a portion of their exclusive right to "make, use, and sell" the patented article without exhausting their patent rights in the portion not conveyed. See *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544 (1873).

In the printer industry, this legal flexibility has enabled a range of pricing models and consumer choices. Lexmark offers ink cartridges with terms that authorize reselling and refilling by third parties, and it offers the same ink cartridges at a lower cost accompanied by restricted use terms that prohibit resale or third-party refilling of the cartridges. Epson, a competitor, promotes printers that—while more expensive up front—use ink "tanks" that are fully refillable by the consumer, using ink purchased from Epson or competitors.

This diversity of business and pricing models with respect to printers and ink cartridges or ink is not a problem; it is a desirable form of competition. A similar diversity of choices in pricing structures is all the more important in other settings.

Neither petitioner nor any *amicus* identifies any substantial commercial problem or inequity in the market that counsels a change to the law. Instead, they invoke purely hypothetical "horribles." None of the harms that petitioner identifies have come to pass in the 150 years since this Court decided *Mitchell*.

II. Petitioner and its *amici* attempt to portray the rule they advocate as consistent with settled law. It is not. For 150 years, this Court has consistently held that sales of patented articles pursuant to post-sale use restrictions do not exhaust the patentee's rights with respect to unauthorized uses of those articles.

Petitioner asks this Court to upend long-settled law in aid of a party that undisputedly purchased and refilled ink cartridges *knowing* its activities were outside any right Lexmark ever granted to the original purchaser. The expansion of judicially created exhaustion law is wholly unwarranted.

III. Petitioner also seeks to upend exhaustion principles for foreign sales. This Court has long recognized that "[o]ur patent system makes no claim to extraterritorial effect * * * and we correspondingly reject the claims of others to such control over our markets." *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972). Petitioner urges the Court to deem foreign sales exhaustive of U.S. patent rights. That rule would transfer control over U.S. patent policy, governing U.S. sales of articles covered by U.S. patents, to foreign governments.

ARGUMENT

I. THIS CASE DOES NOT CALL FOR ANY CHANGE TO THE LAW OF PATENT EXHAUSTION

A. Due to the Pragmatic Nature of Patent Law, It Should Be Changed Only When Necessary, and Then Only Incrementally and Cautiously

The undisputed facts of this case are telling. No one denies that "Lexmark offers buyers a choice. A buyer may purchase a 'Regular Cartridge' at full price" without any restrictions on the cartridge's resale or reuse; or buyers can "purchase a 'Return Program Cartridge' at a discount of roughly 20 percent, subject to a single-use/no-resale restriction." Pet. App. 10a. It is common ground that the lower price of "Return Program Cartridges" reflects the lesser value of the property and use rights conveyed with such cartridges. *Id.* at 11a. Most telling of all, no one disputes that petitioner's business is built on inducing purchasers who elected the single-use license, and the resulting lower price, to violate their agreements. *Id.* at 9a-10a. Petitioner buys empty ink cartridges fully aware that the original purchaser obtained the cartridges under an agreement that licensed only a single use, and prohibited the cartridges' resale or refilling. *Id.* at 14a.

Petitioner now asks this Court to alter decades of settled exhaustion precedent to endorse that business model—and to preclude Lexmark from offering customers the choice of restricted-right cartridges. But "[c]ourts must be cautious before adopting changes that disrupt the settled expectations of the inventing community." *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002). Patent law is pragmatic in that it promotes "risk" and "often enormous costs in terms of time, research, and development," in exchange for the possibility that inventors will capture a profit if their efforts succeed. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480 (1974). Because ensuring a reward in exchange for that assumption of risk is essential to the goals of patent law, any changes in law that would upset the availability of that reward must be made cautiously and incrementally. As this Court emphasized nearly 150 years ago, "[t]he vast pecuniary results involved in such cases, as well as the public interest, admonish [courts] to proceed with care, and to decide in each case no more than what is directly in issue." *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 455 (1873).

The commercial investments, relationships, and expectations at risk from any changes to patent law have multiplied exponentially over the last century. A far greater proportion of this nation's wealth consists of intellectual property and is dependent on an extensive and diverse network of licensing relationships and rights. See Ocean Tomo, LLC, *Annual Study of Intangible Asset Market Value from Ocean Tomo, LLC* (Mar. 4, 2015), http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/ (the "implied intangible asset value of the S&P 500," which includes IP, "grew to an average of 84% by January 1, 2015," and was expected to grow to 87% by the end of 2015); Marshall Phelps & David Kline, *Burning the Ships, Intellectual Property and the Transformation of Microsoft* 137 (2009) ("IP and other intangible assets today account for upwards of 80 percent of the market capitalization of all public companies in the world."). Patent licensing helps to pay for, and provides widespread access to, the inventions that are now the lifeblood of high-technology industries that generate revenues in the trillions of dollars. The cellular industry generated $3.3 trillion in global revenues in 2014.[2] Annually, industry invests billions of dollars in cellular research and development to make this all possible. Qualcomm alone invested approximately $5.5 billion in research and development in fiscal year 2015. Much of the revenue funding those investments comes from patent licensing.

Petitioner and its *amici* advocate a major change to the law of exhaustion—a change that threatens to deprive inventors of the reward for their investments and efforts. *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), has been the law for 25 years, and, as explained in Section II below, it traces its roots back to cases decided nearly 150 years ago. Exhaustion law is an area for cautious, incremental, fact-driven evolution, not for sweeping pronouncements that are likely to have unintended—and negative—consequences.

B. No Crisis in Commerce Requires a Change in the Exhaustion Doctrine

To justify their demand for a sweeping change in the exhaustion doctrine, petitioner and its *amici* conjure a parade of horribles that will supposedly result if *Mallinckrodt* remains the law. Petitioner asserts that car

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[2] The Boston Consulting Group, *The Mobile Revolution: How Mobile Technologies Drive a Trillion Dollar Impact* (Jan. 15, 2015), *available at* https://www.bcgperspectives.com/content/articles/telecommunications_technology_business_transformation_mobile_revolution.

manufacturers may "prevent[ ] used cars from being resold," while other manufacturers could forbid repairs and "eviscerate the repair market." Pet. Br. 42. One *amicus* asserts that *Mallinckrodt* could lead to a consumer being "liable for patent infringement" for "having a garage sale," Ass'n of Medical Device Reprocessors Br. 17, while another warns that *Mallinckrodt* "would permit a patentee to sell its pharmaceuticals 'only to be swallowed whole,' or a radio 'only for use on Sundays,'" Intellectual Property Profs. Br. 20-21.

These alarms are not merely speculative; they are counterfactual. *Mallinckrodt* has been the law for 25 years—while *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544 (1873), and *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 546 (1938), have been the law for 150 and 75 years, respectively—yet those problems have not materialized. Consumers are *not* being sued for having garage sales, or for using radios on Thursdays. Car sellers are *not* using patent rights to prohibit second-hand sales or third-party repairs. Consumers are *not* being ambushed by patent assertions from manufacturers or licensors upstream in the chain of commerce—the only parties against whom any exhaustion doctrine might provide any "protection."[3] Petitioner and its *amici* give *no single* real-world example of such an occurrence.

[3] *Amici* posit that the *Mallinckrodt* rule would allow a patentee to bring suit against a video game reseller. Intel Br. 27. While some *copyright* holders have sued unauthorized resellers of software, *e.g.*, *Vernor* v. *Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010), *amici* point to no case where a video game company has asserted *patents* against unauthorized resellers or downstream purchasers. As this Court has noted, there are "wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes." *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 346 (1908).

Market forces and simple common sense—not the exhaustion doctrine—prohibit patentees from taking the types of drastic steps that petitioner and *amici* fear. As petitioner admits, a car manufacturer *could* impose onerous restrictions if it wished—even if *Mallinckrodt* were overturned—by "decid[ing] only to lease, and not sell, articles embodying its patent." Pet. Br. 43. Yet they do not do so. There is simply no crisis in the real world weighing in favor of a change in the exhaustion doctrine.

C. The Current Rule Facilitates Efficient Allocation of Intellectual Property Rights by Flexible Free-Market Negotiation

The U.S. legal system broadly favors freedom of contract and private ordering of rights. "[T]he freedom of the individual right to contract when not unduly or improperly exercised [is] the most efficient means for the prevention of monopoly." *NYNEX Corp.* v. *Discon, Inc.*, 525 U.S. 128, 137 (1998) (citing *Standard Oil Co. of N.J.* v. *United States*, 221 U.S. 1, 62 (1911)). This Court has expressly recognized that patentees are free to convey by contract either "the whole or a portion of the franchise which the patent secures, depending upon the nature of the conveyance." *Mitchell*, 83 U.S. (16 Wall.) at 548. The value of granting patentees flexibility to allocate by contract only a "portion of the [patent] franchise" is on display in the facts of the present case.

1. *The* Mallinckrodt *Rule Enables Competition Between Different Business and Pricing Models*

Flexibility in the current patent exhaustion doctrine has allowed parties across diverse industries to devise alternative pricing models that meet the needs of various customers.

In some industries, companies have long offered what is commonly called a "razor-blade" pricing model. Under that model, manufacturers sell capital equipment (in this case, the printer) relatively cheaply. The manufacturer (or the patentee) is able to do that because it later sells associated supplies (in this case, ink cartridges) at a relatively greater markup. The results in the consumer printer industry are readily observable: A few minutes on Amazon confirms that low-end printers can be purchased for almost trivial amounts,[4] while even fairly high-performance "home office"-grade laser printers are remarkably inexpensive.[5]

Ink cartridges for these printers are relatively expensive, but there is nothing inherently wrong with that trade-off. On the contrary, the "razor-blade" pricing model benefits low-volume users (*e.g.*, students and individual consumers) who want quality printing but will rarely need new ink cartridges.[6] A lower up-front cost for a printer coupled with higher ink cartridge costs may also be a desirable trade-off for a small business for which high up-front costs are a problem. For such purchasers, the "razor-blade" pricing model meets a need that would otherwise have to be addressed by obtaining a loan or accruing a balance on a credit card.

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[4] See, *e.g.*, *Canon MG6821 Wireless All-In-One Printer*, Amazon, https://www.amazon.com/Canon-MG6821-Wireless-Printer-Scanner/dp/B013C0ZBG2 (last visited Feb. 22, 2017) ($78.20).

[5] See, *e.g.*, *HP Laserjet Pro M452nw Wireless Color Printer*, Amazon, https://www.amazon.com/HP-Laserjet-Wireless-Printer-CF388A/dp/B01AUHADDG (last visited Feb. 22, 2017) ($207).

[6] See Ward S. Bowman, Jr., *Tying Arrangements and the Leverage Problem*, 67 Yale L.J. 19, 23-24 (1957) ("tying" of durable and consumable products can provide economic efficiency by using the consumable product "as a counting device," so consumers with higher demand pay more).

The "razor-blade" pricing model fills a particularly important need in the case of medical testing devices such as those at issue in *Mallinckrodt*. As with printers, the pricing model enables low-volume users to pay less than high-volume users. For example, the "razor-blade" model allows poorly funded rural hospitals to purchase cutting-edge medical equipment that might otherwise be unaffordable. The hospital purchases the equipment for a lower cost initially, and then purchases associated single-use supplies as needed to treat patients. That allows the hospital to pay less if it uses less and, at the same time, to delay payment until it provides services to patients and can receive reimbursement from insurers.

A seller of patented equipment cannot offer the "razor-blade" pricing model unless it is confident it will be able to recoup forgone profits on sales of the lower priced initial product, such as a printer, through the sale of associated supplies, such as ink cartridges.[7] Petitioner's rule would threaten that confidence.

Variations of the "razor-blade" pricing model are possible. Lexmark, for example, seeks to recoup its costs and recover a profit either through more sales of "restricted," single-use ink cartridges at a lower price, or through fewer sales of "unrestricted" cartridges (since third-party refilling will reduce the total number of ink cartridges sold) at a higher price. As the parties here have stipulated, Pet. App. 11a, and as the Federal Circuit

[7] See David Evans, *The Antitrust Economics of Free*, 7 Competition Pol'y Int'l 71, 74 (2011) ("If a razor manufacturer gives away the razor and makes up the losses on the blades, a competitor could sell the blades at a lower price since it does not need to absorb the losses on the razors. A razor manufacturer can make money from its free razor policy only if it can use patents, product design, or other devices to prevent consumers from buying from a competitor.").

explained in *Princo Corp.* v. *ITC*, 616 F.3d 1318 (Fed. Cir. 2010), the price is adjusted to reflect "the value of the 'use' rights conferred by the patentee," *id.* at 1328. A single-use ink cartridge is sold for less because the purchaser has only bargained and paid for the right to use the associated intellectual property once. An unrestricted cartridge costs more because the purchaser has paid for an unlimited, exhaustive license to the necessary patent rights. If the law is changed in a manner that makes single-use restrictions unenforceable, the initial price of refillable supplies will rise, depriving low-volume or cash-strapped users of a desirable alternative.

An alternative to the "razor-blade" model and its variations is "pay up front" pricing. Under that model, a manufacturer of a patented product prices the product to make a reasonable profit on the investments necessary to develop, manufacture, and market that equipment. Necessary supplies are priced at a level that provides a profit on those supplies. Epson, for example, promotes consumer printers with consumer-fillable ink "tanks" under this model.[8] The initial cost of a comparable printer is much higher, but this pricing model is likely advantageous to a different set of customers who can afford to purchase a higher-cost printer at the outset.

2. *The* Mallinckrodt *Rule Facilitates Competition in Quality and Reputation*

The flexibility provided by the current law has allowed parties across industries to compete on quality and reputation as well as price. In this case, the printer, cartridges, and ink are parts of a whole system designed to

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[8] See Wilson Rothman, *Review: Epson Kills the Printer Ink Cartridge*, Wall St. J. (Aug. 4, 2015), https://www.wsj.com/articles/review-epson-kills-the-printer-ink-cartridge-1438683871.

deliver one end product—quality printing. If a patentee is unable to ensure that all components of the system are of the desired quality, its reputation as to the whole system may suffer. As the Federal Circuit rightly observed, "a company in Lexmark's position could have a plausible legitimate interest in not having strangers modify its products and introduce them into the market with the quality of modifications (including ink refills) not subject to Lexmark's control: lower quality of remanufactured cartridges could harm Lexmark's reputation." Pet. App. 60a. If the printer jams or the ink smears, consumers are likely to curse the company whose nameplate is on the front of the printer, regardless of who supplied the cartridge.[9]

"Courts and legal commentators have long recognized that franchise tying contracts are an essential and important aspect of the franchise form of business organization because they reduce agency costs and prevent franchisees from freeriding—offering products of sub-standard quality insufficient to maintain the reputational value of the franchise product while benefitting from the quality control efforts of other actors in the franchise system." *Queen City Pizza, Inc.* v. *Domino's Pizza, Inc.*, 124 F.3d 430, 440-441 (3d Cir. 1997); see, *e.g.*, *Mozart Co.* v. *Mercedes-Benz of N. Am., Inc.*, 833 F.2d 1342, 1351 (9th Cir.

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[9] See Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 Harv. L. Rev. 945, 947 (1928) ("Irregular and unauthorized departures from uniformity in any respect tear this pattern of thought and emotion which has been woven with so much trouble and cost, and tend to reduce the minds of the public to the confusion which preceded the marketing campaign. The same irrational causes which lead a consumer to select a given article may as easily divert him away from it to a competitor.").

1987) (similar).[10] These same considerations should not be forgotten in the context of exhaustion and restricted license grants.

Petitioner's proposed rule would inhibit dynamic competition based on the quality and performance of the whole printer-cartridge-ink system. Though petitioner claims to be advocating for "free competition," Pet. Br. 42, it is actually advocating for a rule that would *preclude* existing competition between business models and stifle innovation—contrary to the goals of patent law. Competition in "whole system performance" likely delivers valuable benefits to consumers in the case of printers, but competition to deliver the highest level of safety, reliability, and precision can be a matter of life or death in the case of medical devices and testing equipment. It should be encouraged, not hampered, by patent law.

3. *The* Mallinckrodt *Rule Encourages Private Contractual Ordering That Avoids Unnecessary Litigation*

The *Mallinckrodt* rule also avoids unnecessary uncertainty and litigation. Like the cases of this Court that preceded it, *Mallinckrodt* permits patentees to "contract as they choose." 976 F.2d at 703. That does not merely allow patentees to innovate and compete on pricing and business model; it also allows them to establish their relationships and rights with clarity. In Qualcomm's experience, sophisticated parties are able to reach clear agreements on what their licenses and sales cover and

[10] See Alan J. Meese, *Antitrust Balancing in a (Near) Coasean World: The Case of Franchise Tying Contracts*, 95 Mich. L. Rev. 111, 117-119 (1996); Warren S. Grimes, *When Do Franchisors Have Market Power?*, 65 Antitrust L.J. 105, 145-147 (1996); Benjamin Klein & Lester F. Saft, *The Law and Economics of Franchise Tying Contracts*, 28 J.L. & Econ. 345, 346-348 (1985).

what they do not, avoiding uncertainty and unnecessary litigation.

Petitioner would displace that private, contractual ordering with a judicially created exhaustion rule. In petitioner's view, even the most carefully negotiated, voluntary agreements must be displaced by a one-size-fits-all "substantially embodies" standard: The authorized sale of an article would exhaust patent rights, without regard to what might have been agreed by contract, whenever the article "substantially embodies" the patent. Pet. Br. 14. But that standard cannot approach the clarity and certainty that industry needs and that carefully negotiated contracts provide. Determining whether a particular article "substantially embodies" one, dozens, or hundreds of myriad inter-related patented technologies will often require highly technical, case-specific inquiries—inquiries that parties may very reasonably wish to moot by careful contractual allocation of rights. See Christopher M. Holman, *Unpredictability in Patent Law and Its Effect on Pharmaceutical Innovation*, 76 Mo. L. Rev. 645, 666-667 (2011). Petitioner seeks to render parties helpless to define the scope of transferred rights in advance through voluntary, contractual agreements, replacing contractual certainty with a judicially developed and less certain "substantially embodies" standard instead.

D. Overruling *Mallinckrodt* Would Reward Dishonest Behavior Without Helping Consumers

Petitioner has built a business on knowingly inducing purchasers of Lexmark ink cartridges to resell them to petitioner for refilling, in direct violation of the terms under which the original purchasers bought those cartridges. This Court has always been careful not to stretch the exhaustion doctrine to protect such willful misconduct. For example, in *General Talking Pictures*, the Court did not find exhaustion where the "sales made * * * to petitioner were outside the scope of its license and not under the patent," which "[b]oth parties knew * * * at the time of the transactions." 304 U.S. at 180. Likewise, in *Bowman* v. *Monsanto Co.*, the Court found that exhaustion was no defense to infringement where a farmer "devised and executed a novel way to harvest crops from [patented soybean seeds] without paying the usual premium." 133 S. Ct. 1761, 1764-1765 (2013). This Court should not reach a different result here.

The Federal Circuit has observed that, where only a limited or conditional license has been granted, "it is more reasonable to infer that a negotiated price reflects only the value of the 'use' rights conferred by the patentee." *Princo*, 616 F.3d at 1328. Here, there is no need for inference: The parties *stipulated* that the original purchaser, in electing to purchase a lower priced "Return Program Cartridge," paid a price that included *only* the value of the limited, single-use IP rights provided by "the express terms of the conditional sale contract and conditional single-use license." Pet. App. 11a. Petitioner's business model is intentionally built upon expropriating the value of a multi-use license for which Lexmark has *never* been paid. Equity thus does not favor petitioner.

Nor will granting petitioner immunity for such conduct benefit consumers. As discussed above, if an expanded exhaustion doctrine makes it impossible for Lexmark to enforce the use limitations associated with the "Return Program Cartridge" option, Lexmark will have no choice but to price its printers or its cartridges (or both) at significantly higher prices so that it recovers *all* of its costs and earns *all* of its profits at the time of the initial sale of a toner cartridge. See pp. 9-12, *supra*. Forcing the elimination of the "Return Program Cartridge" pricing option will harm low-volume consumers and consumers without significant capital for upfront expenditures. It will benefit no one.

Even petitioner will at best see transient benefits from the rule it advocates. Petitioner's business model is to arbitrage the discount that Lexmark grants to customers who accept the license restrictions associated with "Return Program Cartridges" by persuading initial purchasers to violate those restrictions. If that program and its discounted pricing option vanishes, petitioner's free-riding business opportunity will vanish as well.

E. The Unsteady Policy Foundations of the Exhaustion Doctrine Cannot Justify the Doctrine's Further Expansion

As respondent explains in greater detail, the exhaustion doctrine is a judicially created exception to the general rule—embodied in the Patent Act itself—that patentees may subdivide and separately convey the sticks that make up their "bundle of patent rights." Resp. Br. 12-14. The judicially created exhaustion doctrine should not be expanded unnecessarily at the expense of statutory text, particularly given the doctrine's now uncertain policy underpinnings. While the doctrine itself has persisted, none of the shifting rationales offered for it has proven universally applicable or durably convincing.

Section 271(a) of the Patent Act declares that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention * * * infringes the patent." 35 U.S.C. § 271(a) (emphasis added). "[W]ithout authority" means "without consent or permission." Pet. App. 25a. When a patentee expressly and lawfully restricts the scope of permissible uses at sale, uses that exceed the grant are made "without consent or permission."[11]

Similarly, 35 U.S.C. § 154(a)(1) provides that patentees have "the right to exclude others from making, using, offering for sale, *or* selling the invention throughout the United States." *Ibid.* (emphasis added). As respondent points out, the statutory text's disjunctive phrasing demonstrates that patentees have separate and distinct rights in their patents (*i.e.*, to make or use or sell them) and can choose to alienate all or a part of that bundle of rights. Resp. Br. 12.

In its ordinary application, the exhaustion doctrine is in no tension with the texts of § 271(a) or § 154(a)(1); it simply implements the unexceptionable presumption that an unconditional authorized sale of a product includes all the seller's (or authorizing licensor's) patent rights in the product. But extending the judicially created doctrine in a manner that would overrule the text and sense of these statutory provisions can be justified—if at all—only based on the most compelling of historical and theoretical reasons. No such compelling reasons exist.

1. *Modern Economic Theory Has Rejected the "Double-Charging" Rationale*

The original and oft-repeated policy justification for exhaustion has been a desire to preclude "double charging" by patentees. See, *e.g.*, *Bloomer* v. *Millinger*, 68

[11] Petitioner asserts that the "focus of patent exhaustion is not whether the *buyer* has been expressly or impliedly authorized to * * * use a product in a certain way," but the *seller's* authority to make the sale. Pet. Br. 37. That turns statutory text on its head. Section 271(a) asks whether the person who "*uses*" the patented invention has "authority" to do so. 35 U.S.C. § 271(a) (emphasis added). It does not speak to or query the authority of the party that sold the product to the user.

U.S. (1 Wall.) 340, 350 (1864) (the patentee is "entitled to but one royalty for a patented machine"); *Bowman*, 133 S. Ct. at 1766 ("'[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article.'" (quoting *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942)) (alteration in original)). The concern was that the patentee would capture the full monopoly profit at the first sale of a patented article but would continue to extract additional profits through subsequent royalty demands for different uses or against downstream purchasers.

Economic theory, however, teaches that "double charging" to expand a monopoly profit is impossible absent special circumstances, such as where the later demand for additional payment comes as a "surprise." "In the 1950s, this leverage theory of monopoly tying was largely discredited by Chicago School writers," who explained that "in any multi-stage distribution chain there is but a single monopoly profit to be earned." Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. Ann. Surv. Am. L. 487, 514-515 (2011). The initial purchaser or licensee will not be willing to pay as much for the patented article in the first instance if it anticipates further downstream charges or restrictions.

This Court has endorsed that view. In *Leegin Creative Leather Products, Inc.* v. *PSKS, Inc.*, 551 U.S. 877 (2007), the Court relied on precisely this reasoning to overturn the former *per se* prohibition on agreements between resellers to set resale prices. *Id.* at 889. So have lower courts. See, *e.g.*, *Port Dock & Stone Corp.* v. *Oldcastle Ne., Inc.*, 507 F.3d 117, 124 (2d Cir. 2007) ("[W]hen a monopolist has acquired its monopoly at one level of a product market, its vertical expansion into another level of the same product market will ordinarily be for the purpose of increasing its efficiency, which is a prototypical valid business purpose."); *Town of Concord, Mass.* v. *Bos. Edison Co.*, 915 F.2d 17, 23 (1st Cir. 1990) ("As several members of the Supreme Court have pointed out, a 'widely accepted' (albeit 'counterintuitive') economic argument supports the conclusion of many commentators that 'there is but one maximum monopoly profit to be gained from the sale of an end-product.'" (citing *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 36 (1984) (O'Connor, J., concurring))). As a result, practices that were once deemed *per se* violations of the Sherman Act, such as vertical agreements restricting prices or allocating markets, are now reviewed under fact-specific rule-of-reason analysis instead. See *Leegin*, 551 U.S. at 898.

Fear of "double charging" as a justification for the exhaustion doctrine, then, is a mere fossil remnant of an economic theory that is now extinct in antitrust law.

2. *The* Univis Lens *Antitrust Rationale Is Equally Undermined by the Economic Implausibility of "Double Charging"*

The driving motive behind *United States* v. *Univis Lens*, 316 U.S. 241 (1941), was closely related to the "double-rent" rationale. Univis was using patent license terms to impose pricing rules on sales of its lens blanks. *Id.* at 245. It licensed manufacturers to make and sell lens blanks, but imposed license terms to require the manufacturer-licensees to sell to other licensees at a fixed price. *Ibid.* Under then-existing law, vertical pricing restraints were seen as socially harmful and therefore proscribed as *per se* unlawful. In holding the restriction unenforceable, the Court was determined not to let the patent grant provide a defense for that otherwise illegal conduct. *Id.* at 250-254.

However—perhaps because of the change in economic thinking about vertical pricing agreements described above—the antitrust/anti-price-fixing rationale for the exhaustion doctrine has not resurfaced since *Univis*. There is no reason for the *Univis* rationale to persist as an artifact unique to patent law. At the very least, petitioner provides no compelling reason for extending *Univis*'s fact-specific result to a new universe of contexts. Further, as the court below correctly observed, *Univis* "relied in part on strongly restrictive patent-misuse decisions that were repudiated by Congress after *Univis* was decided," in the 1952 Patent Act and 1988 amendment of the Patent Act. See Pet. App. 55a n.11.

3. *The Goal of "Avoiding Consumer Annoyance" Has No Real-World Foundation*

Petitioner argues that, unless this Court overrules *Mallinckrodt* and announces an absolute exhaustion doctrine, "businesses—and even consumers—[will be forced] to expend resources discerning whether their use is permitted by the terms of sale." Pet. Br. 43. Similarly, the United States invokes not facts, but *Keeler* v. *Standard Folding-Bed Co.*, 157 U.S. 659 (1895), to assert that "'[t]he inconvenience and annoyance to the public' if patent rights are not exhausted by the first authorized sale [are] 'too obvious to require illustration.'" U.S. Br. 43 (quoting *Keeler*, 157 U.S. at 667).

However, as the Federal Circuit correctly recognized, "*Mallinckrodt* has been the governing case law since 1992 and has been reiterated in subsequent precedent * * * yet we have been given no reliable demonstration of widespread problems not being solved in the marketplace." Pet. App. 60a. In fact, such "annoyance to the public" has never been illustrated by a single actual case in the 120 years since *Keeler* was decided.

That is not surprising. For direct purchasers who buy goods subject to clearly disclosed and perhaps expressly negotiated field-of-use restrictions—and for downstream purchasers such as petitioner who take with full notice of limits to the license grant—there is of course no need to "expend resources [to] discern[ ] whether their use is permitted."

As to hypothetical downstream repurchasers who purchase *without* notice of license limitations (a fact pattern not presented in this case), no party or *amicus* has identified a single instance of a manufacturer or licensor suing such a downstream good-faith purchaser for infringement. Whatever the reason, experience has proven that the threatened "inconvenience and annoyance" is not "too obvious to require illustration." To the contrary, it is too non-existent to permit illustration.

In fact, we all purchase innumerable products in complete ignorance of (and without "expending resources" to determine) what patents owned by third parties our "use" of the product may infringe, and no "inconvenience and annoyance" to us as consumers results. Simply put, the threat of "inconvenience and annoyance" if the law of exhaustion is not changed is a mere phantasm.

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In short, none of the principal policy rationales that have been offered for the exhaustion doctrine have proved durable. By contrast, both the text of the patent statute and the general value of stability and respect for settled expectations in the pragmatic patent law have—and they counsel against changes to the exhaustion doctrine absent a demonstrated and compelling need. In asking this Court to extend the exhaustion doctrine further, in the absence of both need and coherent policy rationale, petitioners threaten to cut the doctrine loose from any of its moorings and convert exhaustion into a "doctrine without a cause."

II. PETITIONER SEEKS A SWEEPING CHANGE TO EXISTING LAW

Petitioner and its *amici* assert that they are asking this Court only to reaffirm longstanding rules. In fact, they ask this Court to overturn more than a century of precedent. This Court has long recognized that, while *unrestricted* sales of patented articles exhaust a patentee's rights in the article sold, *restricted* sales do not. Petitioner asks this Court to sweep away that distinction and upend settled law.

A. Patent Exhaustion Always Has Been Limited to Unrestricted Sales

1. Nearly 150 years ago, this Court held that a patentee may sell or license patented articles "*with or without conditions*." *Mitchell*, 83 U.S. (16 Wall.) at 547-548 (emphasis added). If a patentee sells the article "without any conditions, or authorize[s] another to construct, sell, and deliver it, or to construct and use and operate it, without any conditions," the patentee exhausts its rights. *Id.* at 547. "[W]here the sale is absolute, and without any conditions * * * the purchaser may continue to use the implement or machine purchased until it is worn out * * * in the same manner as if dealing with property of any other kind." *Id.* at 548.

Conversely, a "conveyance or license, subject to certain restrictions and limitations," confines the purchaser's rights and the scope of exhaustion. *Mitchell*, 83 U.S. (16 Wall.) at 548. In *Mitchell* itself, the patentee licensed a manufacturer to make, use, "and vend to others the right to make and use" the patented felting machines, "but expressly stipulated in the instrument of conveyance" that the right "to use the said machines" would not extend "beyond the expiration of the original term" of the patent, even if the patent term were extended for an additional seven years. *Id.* at 548-549. The defendants in that case, who had purchased the machines, argued that "they [were] by law authorized to continue to use the * * * machines" after the original term expired "as they had the right to do * * * when the purchase was made." *Id.* at 549-550. This Court rejected the defendants' argument: Because the license "expressly stipulate[d] that [the manufacturer] shall not in any way or form dispose of, sell, or grant any license to use the said machines beyond the expiration of that term of the patent," the manufacturer "was not empowered to give a license which should extend beyond that limitation" and could not "give [its] purchasers the right to use the [machines] * * * beyond the term of the original patent." *Id.* at 550.

Courts and commentators alike rapidly understood *Mitchell* to mean precisely what it says: A patented article *only* "passes out of the exclusive right which is secured by the patent" when "a specimen of [the] patented invention is sold * * * *without any restriction* on the ownership or use of the thing conveyed." Albert H. Walker, *Text-Book of the Patent Laws of the United States of America*, ch. XII § 301 (1883) (emphasis added); see William C. Robinson, *The Law of Patents for Useful Inventions*, ch. V § 813 (1890) ("[A] license may * * * curtail the rights of purchasers of the patented article from the licensee, by limiting his power to sell it except for use within a specified area or for a certain purpose."); *Chambers* v. *Smith*, 5 F. Cas. 426, 427 (C.C.E.D. Pa. 1870) (sale "qualified by an express restriction as to the place in which it should be used" did not exhaust patent rights); *Aiken* v. *Manchester Printer Works*, 1 F. Cas. 245, 247 (C.C.D.N.H. 1865) (sales of patented implements "may be made by the patentee with or without conditions").

Petitioner and the United States attempt to distinguish *Mitchell*, claiming that it addresses only "conditional sales," which they define as sales in which "title" will transfer only after some later condition is met. Pet. Br. 33-35 (claiming that a sale "without any conditions" meant "a sale in which title had been transferred" without imposing conditions precedent); see U.S. Br. 16-17 (similar). "[I]f title has not yet transferred to the purchaser," petitioner asserts, "there is no completed sale that triggers exhaustion." Pet. Br. 33.

But that proposed reading of *Mitchell* cannot be reconciled with what *Mitchell* actually says. The "condition" in *Mitchell* was not a condition on the sale and transfer of title. It was a limitation on the right to "use" that would be complied with (or violated) only years after the sale. See *Mitchell*, 83 U.S. (16 Wall.) at 549; Resp. Br. 31. This Court recognized that the licensee's customers were "purchasers"; they merely had not acquired "the right *to use* the [patented felting machines] * * * beyond the term of the original patent." *Id.* at 550 (emphasis added).

The same error infects petitioner's contention that the Court has, since *Mitchell*, "refused to enforce * * * post-sale restrictions on the purchaser's use of the article." Pet. Br. 26-27 (citing *Adams*, 84 U.S. (17 Wall.) at 453; *Keeler*, 157 U.S. at 659). In both cases petitioner invokes, the patentee restricted the licensee's authority to selling the patented product in a limited geographic area, but in neither case was any limitation imposed with respect to where the licensed product might be *used*. *Adams*, 84 U.S. (17 Wall.) at 456; *Keeler*, 157 U.S. at 659. In both cases, the Court held that downstream purchasers (*i.e.*, the licensees' customers) were not bound by the geographic restrictions because the restrictions purported to bind only the licensee. *Adams*, 84 U.S. (17 Wall.) at 457; *Keeler*, 157 U.S. at 666. Neither case invoked exhaustion to permit a purchaser to use a product in a manner inconsistent with an express and categorical limitation on the scope of use authorized by the original seller or licensor.

2. This Court's decision in *General Talking Pictures* reaffirmed *Mitchell* in no uncertain terms. In that case, the patentee had licensed a company to "manufacture and sell the patented amplifiers for radio amateur reception, radio experimental reception, and home broadcast reception," but gave the licensee "no right to sell the amplifiers for use in theaters as a part of talking picture equipment." 304 U.S. at 180. The licensee nonetheless sold amplifiers to the defendant "to be used in the motion picture industry." *Ibid.* The defendant argued that the sale was exhaustive, and the exclusion of commercial motion-picture uses therefore ineffectual. "The owner of a patent cannot," he urged, "restrict the use made of a device manufactured under the patent after the device has passed into the hands of a purchaser in the ordinary channels of trade and full consideration paid therefor." *Ibid.*

This Court rejected that argument because "[t]he sales * * * were outside the scope of [the] license." *Gen. Talking Pictures*, 304 U.S. at 180-181. Citing *Mitchell*, this Court held that the licensee "could not convey to [the defendant] what both knew it was not authorized to sell."

Id. at 181-182 (citing *Mitchell*, 83 U.S. (16 Wall.) at 550).[12] It thus held the defendant "infringe[d] the patents embodied in the amplifiers when it leased them for use as talking picture equipment in theaters." *Id*. at 182.

The United States (Br. 20-21) can distinguish *General Talking Pictures* only by rewriting it. The United States claims that exhaustion was defeated in *General Talking Pictures* only because the licensee knew its sale was not permitted by its license and, as a result, did not qualify as an "*authorized* sale." *Id*. at 20. According to the United States, "*General Talking Pictures* does not suggest that, if the hypothetical licensee *obeyed* * * * [a] restriction in its sales contracts, a buyer (or subsequent repurchaser) who violated that restriction could be liable for patent infringement." *Id.* at 21. In other words, the United States argues that, so long as the licensee *believes* that a sale is for authorized purposes, then the buyer is at liberty to use the equipment for *any* purpose.

That argument does not merely lead to absurd results. It also defies the reasoning of *Mitchell* and *General Talking Pictures*. Under the United States' position, a buyer is subject to an action for patent infringement if, as in *General Talking Pictures*, it purchases from a licensee that knows the sale exceeds the scope of its license to sell. But if the buyer *deceives* the licensee into believing it will use the device consistent with a license restriction, for example, the sale is exhaustive and the buyer confronts no liability under the patent laws for continued and flagrant unauthorized use. The position is so illogical as to be self-refuting.

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[12] The Court referred to what the licensee and purchaser "knew," but only to show that the petitioner was not "'a purchaser in the ordinary channels of trade.'" *Gen. Talking Pictures,* 304 U.S. at 181.

Precedent refutes it in any event. *Mitchell* itself rejected any claim that the licensee's knowledge mattered (setting aside certain defenses not at issue here). Because a licensee cannot convey that which it does not own, a licensee with limited rights cannot convey greater rights to a buyer. "[N]o one can convey * * * any better title than he owns." *Mitchell*, 83 U.S. (16 Wall.) at 550; see *Gen. Talking Pictures*, 304 U.S. at 181. A licensee's mistaken belief that it is selling for an authorized use cannot make a later, unauthorized use "authorized" within the meaning of the Patent Act.

The United States' position is as unworkable as it is wrong. In the United States' view, a patentee that wants to protect its rights may impose "restrictions accompanying a sale [that] could be enforced through a breach-of-contract action." U.S. Br. 43. The United States presumably intends that each patentee require its licensee to enter into contracts with downstream purchasers to limit permissible uses and designate the patentee a third-party beneficiary with enforcement rights. That would shift enforceable limits from patent law to contract law. But the government nowhere explains what conceivable policy goal that achieves.

The predictable result, however, is the most wasteful litigation of all—"litigation about where to litigate." *Bowen* v. *Massachusetts*, 487 U.S. 879, 930 (1988) (Scalia, J., dissenting) ("Nothing is more wasteful than litigation about where to litigate."). Whether the case belongs in federal court (as an infringement action) or state court (as a contract claim) would, in the United States' view, turn on whether or not the licensee *knew* the sale exceeded the scope of its license. The United States nowhere identifies another area of law where the proper forum depends on something so difficult to resolve as a seller's subjective state of mind.

B. *Quanta* Did Not Upend Longstanding Principles

Petitioner argues that *Quanta* "rejected the 'conditional sale' doctrine." Pet. Br. 23 (citing *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 623 (2008)). But *Quanta* applied and reaffirmed the principles that *Mitchell* and *General Talking Pictures* announced.

In *Quanta*, the patentee (LG) licensed Intel to sell products practicing LG's patents. 553 U.S. at 623. A separate agreement required Intel to notify its customers that LG had *not* licensed Intel to sell products for use in combination with non-Intel products. *Id.* at 623-624. This Court held that Intel's sales of patented devices exhausted LG's patent rights nonetheless. *Id.* at 636. The Court's holding, however, turned on the fact that "[n]othing *in the License Agreement restrict[ed]* Intel's right to sell its [products] to purchasers who intend to combine them with non-Intel parts." *Ibid.* (emphasis added). There was a notice requirement in a separate agreement, but no corresponding limitation on the actual grant of rights to Intel in the license agreement. See *id.* at 623-624, 626. Had LG crafted a license that actually restricted Intel's right to sell products for use with non-Intel products, that condition would have protected LG's patent rights.

If this Court in fact had meant to hold otherwise—despite relying on both *Mitchell* and *General Talking Pictures*—it would have said so. The Court's silence on these cases speaks loudly to the carefully bounded scope of its holding.

III. FOREIGN SALES OF PATENTED ARTICLES SHOULD NOT EXHAUST U.S. PATENT RIGHTS

A. Foreign Sales Do Not Implicate U.S. Patent Rights

Patent law is distinctly territorial. "Our patent system makes no claim to extraterritorial effect * * * and we correspondingly reject the claims of others to such control over our markets." *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972); Resp. Br. 41.[13]

Consequently, the right to use or sell articles outside this Nation is governed by foreign law. See Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, art. 4, cl. 1, *opened for signature* July 14, 1967, 21 U.S.T. 1538 ("Patents applied for in the various countries of the Union * * * shall be independent of patents obtained for the same invention in other countries.").[14] Thus, the return patentees earn on their foreign sales under foreign patents is a question of foreign law.

Conversely, however, it is U.S. patent law that governs the right to use or sell articles covered by U.S. patents in the U.S. See 35 U.S.C. § 154; *Microsoft Corp.*

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[13] See *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195 (1857) ("[T]he patent laws * * * do not, and were not intended to, operate beyond the limits of the United States," and "the use * * * outside of the jurisdiction of the United States is not an infringement of [a patentee's] rights."); James R. Farrand, *Territoriality and Incentives Under the Patent Laws: Overreaching Harms U.S. Economic and Technological Interests*, 88 J. Pat. & Trademark Off. Soc'y 761, 763 (2006) ("From the earliest days of U.S. patent law, the prohibition on infringement has been limited to infringing activities taking place *within the United States*.").

[14] See Graeme B. Dinwoodie, *et al.*, *International and Comparative Patent Law* § 1.03 (2002) ("[T]he starting point for any study of international patent law [is that] patent laws operate territorially, and patent rights are thus national in scope.").

v. *AT&T Corp.*, 550 U.S. 437, 454-455 (2007). The scope of a patentee's return on U.S. sales of objects covered by U.S. patents is distinctly a matter of U.S. law. See *Keeler*, 157 U.S. at 665 ("[T]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws.").

This Court has carefully guarded those territorial boundaries. In *Boesch* v. *Graff*, for example, the Court held that the sale in Germany, under a German patent, of a product embodying an equivalent U.S. patent did not exhaust the U.S. patentee's rights. 133 U.S. 697, 703 (1890). Sales of patented products in the U.S., the Court explained, "cannot be controlled by foreign laws." *Ibid.* Petitioner contends that *Boesch* does not apply because, in that case, someone other than the U.S. patentee made the authorized sale abroad. Pet. Br. 51-53. But, as this Court has explained, *Boesch* turned on the fact that "neither the patentee nor any assignee had ever * * * given any license to use the patented article *in any part of the United States*." *Keeler*, 157 U.S. at 665 (emphasis added). The German sale may have exhausted rights under the German patent in Germany under German law, producing the full return Germany chose to provide. But the U.S. patentee was nonetheless entitled to receive a royalty for U.S. sales covered by U.S. patent law as a consequence of holding U.S. patents. The foreign sale did not give him that reward and did not exhaust his patent rights.

B. Petitioner's Approach Would Transfer Control Over U.S. Patents to Foreign Governments

Treating foreign sales as even presumptively exhaustive of U.S. patent rights threatens to transfer control over U.S. patent policy, governing U.S. sales of articles covered by U.S. patents, to foreign governments. Not every system accords patent holders the same rights—including the right to decide whether to sell and on what terms—provided by U.S. law. If sales made abroad could exhaust U.S. patent rights, *foreign* law could determine the return U.S. companies would get for sales in the U.S. otherwise governed by U.S. patents.

The prospect of foreign sales under foreign law governing and exhausting U.S. rights is particularly problematic given the frequency with which, and the degree to which, U.S. and foreign patent policies diverge. Qualcomm has experienced what scholars and the U.S. government have warned of—that foreign governments have sometimes succumbed to the temptation to use their domestic competition laws to "effectively compel[ ] technology transfers * * * as part of a strategy for promoting" local economic development. Justin Malbon, *et al.*, *The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights* § 7.43 (2014); see also U.S. Dep't of State, *2014 Investment Climate Statement* 7-8 (June 2014), http://www.state.gov/documents/organization/228504.pdf (similar). They may require such transfers to promote the interests of preferred "national champions." U.S. Dep't of State, *supra*, at 8. Sometimes the coercion is done openly; other times, the compulsion is more subtle.

One can debate the wisdom of such an approach, even in developing countries. But the territorial nature of patent law has always guaranteed that, even if a foreign nation pursues such policies within its own borders, it cannot extend its policies into the United States. A country may coerce a patentee into transferring broad rights to local companies for use in local markets. But that should have no effect on the patentee's ability to earn a return on its U.S. patents on sales and uses in the U.S. That is a matter of U.S. policy.

Petitioner's contrary rule threatens that territorial integrity. If articles sold abroad, or by foreign licensees, exhaust U.S. patent rights, then foreign law can control the return U.S. patentees earn on sales or uses in the U.S. under their U.S. patents. For example, a foreign government might force a U.S. patentee to sell chips to its favored "national champion" on terms the patentee would not accept voluntarily and that do not reflect the value of the patentee's U.S. patent rights. Yet if that coerced foreign sale is held to exhaust the patentee's U.S. rights, the patentee could not prevent those chips, even if they are made and sold outside the U.S., from being imported and used in the U.S. in derogation of its exclusive right to its technologies, granted by U.S. patent law, for U.S. uses. Such a conflation of the effects of foreign and U.S. patent law—and boundaries—is precisely what *Boesch* rejected. This Court should reject it again here.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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