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**

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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.

RULE 29.6 STATEMENT

Respondent Lexmark International, Inc., is not publicly held. Lexmark's parent company and 100% owner is Apex Swiss Holdings SARL, which also is not publicly held. Apex Technology Co., Ltd., a publicly held company, is the indirect owner of 51% of Apex Swiss Holdings. No other publicly held company owns 10 percent or more of Lexmark's shares.

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STATUTORY PROVISIONS

35 U.S.C. § 154(a)(1) provides:

> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

35 U.S.C. § 261 provides:

> Subject to the provisions of this title, patents shall have the attributes of personal property....
>
> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

35 U.S.C. § 271(a) 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.

INTRODUCTION

The Patent Act specifies the rights of patentees: "to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. § 154(a). If others do any of these "without authority" from the patentee, they infringe the patent. § 271(a).

Patent "exhaustion" occurs when the patentee and buyer agree to an unrestricted sale of a patented item. Such sales grant buyers full "authority" to use, sell, offer to sell, and import that item, and they deliver patentees a full reward for the invention embodied in it. Nothing in the Patent Act, precedent, or sound policy, however, mandates a one-size-fits-all approach that requires patentees to convey and buyers to pay for rights neither wants to exchange. When buyers and sellers agree to a lower-priced sale that limits a buyer's "authority" and the patentee's concomitant reward, such sales do not automatically exhaust *all* the patentee's rights. Rights that the patentee withheld and the buyer chose not to acquire were never transferred.

That is true for both domestic and foreign sales. Domestically, patentees and buyers may agree to convey limited "authority" within the scope of a patentee's rights. 35 U.S.C. §§ 154(a), 271(a). Internationally, the sale of a product under foreign law does not even implicate—much less extinguish—a patentee's rights under U.S. law. The distinctly territorial Patent Act establishes a patentee's right to exclude others "throughout the United States," to convey or deny authority "within the United States," and to bar imports "into the United States." *Id.* Those U.S. rights do not block foreign use of an invention before a sale, and the invention's foreign sale correspondingly does not extinguish any U.S. rights. If the parties agree, sales abroad *may* authorize use or sale in the United States, but nothing in the Patent Act suggests they *must* do so. Allowing patentees and buyers to exchange only the rights they want has facilitated healthy domestic and foreign trade in patented goods.

Yet Impression now proposes to change the law and impose an unalterable rule: every patentee-authorized sale of a patented article anywhere in the world, no matter what the agreed terms of sale, must transfer *all* U.S. patent rights over that article. Purchasers could not agree to acquire less, no matter how clearly and no matter what the economic and efficiency benefits—even if they intended to use the product only once, or only in a foreign country. Impression's position is based entirely on a patchwork of incomplete and out-of-context quotations that Impression has stitched into its preferred policy of worldwide automatic exhaustion. This Court's actual holdings, as Judge Taranto painstakingly explained for 10 judges below, do not support Impression's novel proposal.

Even if this Court were free to craft a federal common law of patents, Impression's mandatory-exhaustion proposal should be rejected. It would create illogical, market-distorting loopholes for licensees. It would excuse blatant and large-scale unauthorized sales, while ensnaring only the most innocent consumers as infringers. It would discourage sales in nations with weak patent systems by making those sales an automatic and mandatory grant of authority to import and sell patented products, including medicines, in the United States. And it would ask judges, rather than elected officials or trade negotiators, to reshape an international economy that has operated in reliance on existing doctrine for decades.

STATEMENT

A. Lexmark's Sale Of Patented Products.

Lexmark is a Kentucky-based manufacturer that develops, patents, and sells printers, toner cartridges, and associated software. Pet. App. 9a. It competes with larger companies like Hewlett-Packard in the commercial-printing market. To make its prices and products attractive to sophisticated, high-volume customers, "Lexmark offers buyers a choice" between single-use and unlimited-use commercial-grade cartridges. *Id.* at 10a. The latter are full price, not subject to any restrictions, and may be disposed of or reused as buyers see fit. Alternatively, for roughly 20 percent less, customers who have no interest in reusing spent cartridges may buy "Return Program" cartridges. These patented cartridges are designed and licensed for a single use, with a microchip that disables printing once all toner is consumed. *Id.* at 10a-11a. As the parties stipulated, the reduced price of the Return Program cartridges reflects the value of the property interest and use rights conveyed to the purchaser under the express terms of Lexmark's conditional sale contract and single-use license. JA86; Pet. App. 10a-11a.

Lexmark customers can choose whether to buy single-use cartridges. Customers who do so agree with Lexmark, in an "express and enforceable contractual agreement," to comply with the single-use license. Pet. App. 10a-11a. Those customers also agree that they will return the patented cartridge only to

Lexmark for remanufacturing or recycling.[1] The single-use design of each cartridge is clearly displayed, in multiple languages, on the outside packaging of a Return Program cartridge and on the cartridge itself. It is "undisputed that all end users receive adequate notice of the restriction supporting the discounted price before they make their purchases." *Id.* at 11a.

Lexmark's foreign-sold cartridges are also explicitly limited: the microchips are "regionalized" according to the geographic areas in which Lexmark does business. A cartridge sold in Europe, for instance, will not function in a printer sold in North America. JA36, 48. Regionalization helps Lexmark defend against piracy and gray-market suppliers by making it harder for third parties to arbitrage products between different global markets. JA36-37, 48. In addition, many foreign cartridges are sold under the same Return Program terms of sale as domestic cartridges. Pet. App. 10a, 13a.

B. Impression's Infringement.

Despite the express limitations on these sales, licenses, and the products themselves, third-party resellers like Impression acquire, hack, and resell Lexmark cartridges. Impression made two types of unauthorized sales at issue here: single-use cartridges initially bought in the United States and cartridges bought abroad.

In both instances, resellers acquire spent cartridges, hack their microchips to override the single-use

[1] In addition to meeting customer demand for lower-cost products tailored to their needs, the Return Program provides a reliable stream of cartridges for Lexmark's recycling program, ensures cartridges are properly recycled, and protects the quality and reputation of Lexmark's printer products. *E.g.*, JA45-47.

and/or regionalization settings, fill the cartridges with toner, affix their own labels, and sell the modified cartridges in the United States. Pet. App. 11a-12a. These steps exceed the scope of the rights Lexmark's customers acquired when they bought lower-priced, single-use cartridges or regionalized, foreign-sold cartridges. *Id.* at 11a, 13a.

Lexmark sued Impression (and other unauthorized resellers) for infringement. Every defendant, save Impression, admitted infringement and settled. Impression likewise admits that Lexmark's patents are valid and cover the cartridges it sells. Pet. App. 13a. Impression's only defense is that Lexmark "exhausted its U.S. patent rights in the cartridges by its initial sales of them." *Id.* According to Impression, it has the "authority" to hack and resell Lexmark's patented goods simply because Lexmark sold them to others, notwithstanding the limited authority Lexmark conveyed to buyers.

C. Decisions Below.

The district court rejected Impression's position that foreign sales exhausted Lexmark's U.S. patent rights, but adopted Impression's position that domestic sales did so despite the single-use agreement and license. Pet. App. 15a-17a. Impression stipulated to final judgment of infringement for its sales of foreign cartridges, and the parties cross-appealed. *Id.* at 14a-18a. After Impression agreed that its defenses were foreclosed by circuit precedent, the court of appeals took the case en banc. *Id.* at 8a, 18a-19a.

By stipulation, the parties narrowed this dispute significantly:

1. The lower price of single-use cartridges reflects the value of the limited property interest and use rights Lexmark conveyed. *Id.* at 11a.

2. The single-use agreements between Lexmark and its customers are valid and enforceable contracts. *Id.*

3. The "adequacy of th[e] notice is unchallenged," avoiding questions regarding "a downstream re-purchaser" that claimed "less than actual knowledge of such a restriction." *Id.* at 14a.

4. Impression does not contend the single-use restriction "exceeds the scope of the [patent]" or violated antitrust laws. *Id.*[2]

5. Impression "did not preserve an implied-license defense." *Id.* at 18a.

The court of appeals ruled for Lexmark on both the domestic and foreign questions. Judge Taranto's domestic-sales ruling for 10 judges reaffirmed "that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied." Pet. App. 8a. The Patent Act's text, this Court's holdings, widespread reliance interests, and the illogical disparity between licensee and patentee sales all precluded Impression's proposed move to mandatory automatic exhaustion.

As to foreign sales, the court unanimously held that sales outside the United States do not automatically terminate U.S. patent rights. It rejected Impression's position that *Kirtsaeng*'s application of the Copyright Act's statutory first-sale provision to foreign-*made* works silently determined the Patent Act's effect on

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[2] *Lexmark Int'l, Inc.* v. *Static Control Components, Inc.,* 134 S. Ct. 1377 (2014), involved Lanham Act standing and has no relevance here. *Contra* Pet. Br. 3-4.

foreign-*sold* articles. The territorial nature of the Patent Act and the Paris Convention's international patent regime, rather, meant that the sale of a patented product in another jurisdiction can, but does not necessarily, grant authority under U.S. patent law. Pet. App. 8a-9a. In that regard, a "buyer may still rely on a foreign sale as a defense to infringement" if a license authorized U.S. use or sale—a defense Impression did not raise. *Id.* at 9a, 18a.

Two dissenting judges would have broadened the circumstances under which domestic and foreign sales terminate U.S. patent rights. The dissent contended that patentees, unlike licensees, necessarily lose all patent rights when they sell a patented article in the United States, regardless of any express agreement. Pet. App. 105a-106a. For foreign sales, the dissent rejected Impression's automatic-exhaustion position, but would have held that a foreign transaction must have "explicitly reserved the United States patent rights" to avoid exhaustion. *Id.*

SUMMARY OF ARGUMENT

I. The Patent Act defines the parameters of the exhaustion doctrine. Patentees receive a particular set of distinct rights to "exclude others" from making, selling, offering to sell, using, or importing their invention, and an infringer is anyone who does any of those things "without authority." 35 U.S.C. §§ 154(a), 271(a). An infringement claim therefore asserts that the defendant lacked "authority" to act. The affirmative defense of exhaustion maintains that a prior sale conferred the requisite "authority." And because the rights to exclude and infringement remedy go hand-in-hand, a patentee's exclusive rights (§ 154) limit the scope of the "authority" (§ 271) it can withhold or convey.

Sales can (and often do) convey full authority over patented articles, and the proceeds of such sales fully reward patentees for—and thus "exhaust"—their rights over those articles. Alternatively, as this Court held long ago, sales can convey less than full authority, in which case the patentee's (smaller) reward accounts only for the particular rights conveyed with respect to that item. *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544, 550 (1873). In all events, however, the Patent Act does not allow patentees to leverage their patents to secure rights that exceed the statutory grant. *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 304 U.S. 175, 181 (1938). That is exhaustion in a nutshell.

Impression is accordingly liable for infringement. All parties agree that the rights at issue were "within the scope of the Patent Act's express grant of exclusive rights over [Lexmark's] patented articles." Pet. App. 14a. And all agree that the lower price of Return Program cartridges "reflects the value of the [more limited] property rights and interests conveyed." JA86; JA92. Lexmark did not convey to its customers "authority" that its customers chose not to acquire.

Impression reads this Court's decisions to create an atextual rule that sales by patentees (but not licensees) must always convey full authority. But Impression's tortured explanations of this Court's holdings make clear that this senseless schism does not exist. Nor would Impression's revisionism serve any larger purpose. Impression's sky-would-fall predictions are belied by the courts' long-ago rejection of automatic exhaustion, which has not inhibited trade or commerce. Given the disruption Impression's approach would create for specific reliance interests and commerce generally, there is "no reason to depart from the application of § 271 … derive[d] from the statute and precedent." Pet. App. 60a.

II. Sales of U.S.-patented articles under foreign law do not implicate U.S. patent rights at all—much less automatically extinguish them.

Unlike an unrestricted domestic sale, the foreign sale of a U.S.-patented product does not reward the patentee for lifting any U.S. legal restrictions, because the U.S. patent never imposed any restrictions on the product's foreign sale or use to begin with. The Patent Act, and U.S. patents granted under it, have no extraterritorial force. *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972).

Rather, the Act speaks in expressly territorial terms: it confers rights "throughout the United States," bars importation "into the United States," and establishes liability for infringement "within the United States." 35 U.S.C. §§ 154(a)(1), 271(a). The absence of corresponding rights or limitations in foreign jurisdictions reflects obligations, spanning from the 1883 Paris Convention to recent U.S. trade agreements, under which the legal force of a patent issued in one country is confined within that country's borders. Nothing in the Act departs from this distinctly territorial regime to automatically confer U.S. rights based on a sale under foreign law.

Yet that is the novel policy Impression proposes here: any authorized foreign sale would always exhaust all U.S. patent rights. Even if the patentee and buyer expressly agreed to transfer only foreign rights, and even if the U.S. patentee valued U.S. rights much more highly than the foreign buyer, Impression would force the patentee to convey (and the buyer to pay for) U.S. patent authority. The only support Impression marshals for this extreme view is an 1885 district court ruling, a 2006 footnote about substantial embodiment, and a 2012 interpretation of the *Copyright* Act.

Those decisions never confronted the statutory limits or precedent at issue here. This Court's decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890), and a long line of decisions applying it, recognize the separate foreign and U.S. rights at issue when a party like Impression attempts to import and sell a patented article based only on a sale abroad. Those precedents, moreover, also recognize the patentee's ability—repeatedly obscured by Impression, but explicitly recognized by the court below—to expressly or impliedly license U.S. sale or use through a foreign transaction. Nor can the economic and foreign-policy consequences of automatic worldwide exhaustion—which are significant and contested—justify a decision by this Court that would remove the question from the political process.

The United States agrees with this understanding of the statute and precedent. Yet it proposes a compromise position that foreign sales would presumptively transfer U.S. rights. That policy preference, however, finds no support in the statutory text, this Court's precedent, or the logic of the Government's own acknowledgement of the fundamentally territorial nature of the international patent regime.

ARGUMENT

I. A PATENTEE SALE DOES NOT NECESSARILY CONFER UNLIMITED "AUTHORITY" TO SELL OR USE A PATENTED ARTICLE.

The Patent Act and this Court's exhaustion precedent allow patentees and their counterparties to allocate the separate and divisible rights Congress granted to inventors. Nothing requires that every sale of a patented article convey full authority under the patent. Rather, the exhaustion doctrine allows patentees and buyers to tailor a sale to convey only the authority the buyer wants to pay for. All agree this is true when patentees license their rights to others. No reason supports a different result when patentees themselves make and sell their inventions.

A. The Patent Act Governs The Exhaustion Doctrine.

The Patent Act "defines the framework" within which the exhaustion doctrine operates. Pet. App. 20a.

Section 154(a), which Impression never cites, delineates a patentee's "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. § 154(a)(1). The disjunctive text ("or") specifies that the rights are separate and distinct. See *Loughrin* v. *United States*, 134 S. Ct. 2384, 2390 (2014). Section 261 subsequently provides that "patents, *or any interest therein*, shall be assignable" and may be conveyed "to the whole or any specified part of the United States." 35 U.S.C. § 261 (emphasis added). The entire bundle of patent rights *or* any narrower "interest therein" can thus be divided and transferred. See *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873) (rights to make, sell, and use can be granted separately).

Section 271(a), which Impression does not address until page 36 of its brief, correspondingly provides that a patentee may enforce its rights to exclude through an infringement action: anyone who "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 patent term "infringes the patent" if he or she acts "without authority." See also, *e.g.*, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 514 (1917) (inventor's rights are those "he may assert against all the world through an infringement proceeding").

The patent exhaustion doctrine exists within these statutory confines. It is an affirmative defense to infringement through which a defendant claims to have acted with "authority" from the patentee. *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1765 (2013). Indeed, Congress and the courts have "consistently understood" infringement to mean "committing the identified acts without authority (synonymously, without consent or permission)." Pet. App. 21a. See Patent Act of 1790, ch. 7, § 4, 1 Stat. 109, 111 (liability involved proceeding "without the consent of the patentee"); W. Robinson, *The Law of Patents* § 890 (1890) (infringement is "the invasion of this exclusive right … by any person not duly authorized to do so by the patentee"). Because an infringement claim enforces § 154's rights to exclude, the "authority" that a patentee may withhold or convey derives from and is cabined by the statutorily-conferred rights.

This Court has long addressed questions of "patent exhaustion" in just this way. An infringer is anyone "who makes and uses or vends [a patented] machine to others to be used *without [the patentee's] authority or license*." *Seymour* v. *Osborne*, 78 U.S. (11 Wall.) 516, 555 (1871) (emphasis added). And § 154 sets the outer limits of conveyable authority. In *Motion Picture Patents*, for example, the Court repeatedly made clear that the task was statutory construction—whether § 154's "use" rights were "limited to the invention described in the claims of the patent," or reached the use of "materials or supplies not described in the patent." 243 U.S. at 510-18. Likewise, in *Bauer & Cie* v. *O'Donnell*, the Court construed the extent of "the right to vend secured in the patent statute" to determine "the intention of Congress." 229 U.S. 1, 17 (1913) (emphasis omitted).

These parameters of the exhaustion doctrine coalesce around an ordinary construction of the statute's plain terms. Because a patentee's rights from the outset are delimited in § 154, the patentee cannot withhold "authority" that it *never* had, like authority to set resale prices, *infra* § I.B.3. But that does not mean that, "counter-textual[ly]," a patentee automatically conveys all authority it *does* have with every sale and is left with no rights to exclude *in any respect*. The patentee's reward is tied to the "*particular* article" sold and the authority that accompanies that article. *Bowman*, 133 S. Ct. at 1766 (emphasis added).

B. This Court's Precedent And History Confirm The Patent Act's Flexible Exhaustion Regime.

This sensible understanding of the statute is reflected in the rule that emerges from this Court's exhaustion precedents: patentees can transfer some or all of their authority through a valid sale, but cannot expand their rights beyond the grant Congress provided. An unrestricted sale matches the "parties' likely expectations" by granting the buyer full "authority" over the thing purchased, including authority to use or resell. Pet. App. 40a. By releasing all of its statutorily-conferred exclusivity rights, the patentee conveys all "authority" and necessarily "receive[s] his reward" for the "particular [patented] article." *Bowman*, 133 S. Ct. at 1766. If, by contrast, a patentee denies "authority" through "clearly-communicated, otherwise-lawful restrictions," that "denial of authority leaves a buyer without the denied authority." Pet. App. 40a-41a. "Unless granting 'authority' is to be a legal fiction, a patentee does not grant authority by denying it." *Id.* at 41a.

1. Sales Agreements Can Transfer Some But Not All Authority Over Patented Articles.

A patentee's ability to tailor the transfer or release of patent rights has deep roots. "[T]he rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts." *Bement* v. *Nat'l Harrow Co.*, 186 U.S. 70, 91 (1902); see also 1 R. Milgram, *Milgrim on Licensing* § 2.31 (2016) ("not every purchase provides a free ticket to future use").

Wilson v. *Rousseau*, 45 U.S. (4 How.) 646 (1846), is an early decision reflecting the principle that ownership of a patented article does not necessarily include full authority under the patent. Congress had granted patentees the possibility of a seven-year renewal term, and provided that "the benefit of such renewal shall extend to assignees and grantees of the right to use the thing patented, to the extent of their respective interests therein." *Id.* at 677. "[T]hose who were in the use of the patented article at the time of the renewal" retained that right, "which[,] without the clause, would have been vested again exclusively in the patentee." *Id.* at 682. Focused on the "common use" of "patented articles or machines throughout the country, purchased for practical use in the business affairs of life," Congress granted this *additional* right. Unlimited authority did not automatically follow from mere ownership. *Id.* at 682-84. Rather, Congress qualified the "use" right and treated it as distinct from "the exclusive right to … make and vend," which remained the patentee's. *Id.* at 682.

This Court later held in *Mitchell* v. *Hawley* that a licensee could convey to a buyer no rights beyond those the licensee received from the patentee. 83 U.S. at 550; Pet. App. 39a-40a. The patent owner, Taylor, licensed Bayley to make and use, and to license others to use, patented machines in New Hampshire and Massachusetts, expressly limited to the original patent term. 83 U.S. at 548-50. Bayley made and sold four machines to Mitchell for use in Massachusetts. Taylor then got a seven-year extension, assigned all rights to Hawley, and Hawley sued Mitchell for using the four machines beyond the licensed original patent term. *Id.*

Mitchell was liable for infringement. The licensee (Bayley) was unquestionably authorized to sell the machines. But that sale could not convey to Mitchell unfettered authority to use them beyond the licensed term. *Id.* at 549-50. Rather, "the instrument of conveyance from the patentee" to the licensee expressly stated the temporal restriction. The licensee, therefore, could not "convey [to the purchaser] any better title than he own[ed]." *Id.* at 550. Although *Mitchell* addressed exhaustion in the context of a licensee-sale, the principles it applied were not particular to licensee sales. *Id.* at 547 (same principles apply where patentee "has himself constructed a machine and sold it … or authorized another to construct, sell and deliver it"). This Court subsequently invoked *Mitchell*'s "formulations in [*Keeler*, *infra*] a patentee-sale case." Pet. App. 43a.

In 1938, *General Talking Pictures* relied on *Mitchell* to "squarely h[o]ld … that a patentee could preserve its infringement rights against unauthorized uses by restricting manufacturing licensees' authority to sell for such uses." Pet. App. 43a. The field-of-use limits at issue licensed another company to make and sell patented amplifiers for private use only, but the licensee sold the amplifiers for commercial use. The purchaser had never obtained the patentee's permission to engage in non-commercial use. Lacking "authority" under the patent, *Gen. Talking Pictures*, 304 U.S. at 181, the purchaser was an infringer. Pet. App. 43a-44a.

"[R]estrictive license[s]," the Court reiterated on rehearing, were "clear[ly]" legal. *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 127 (1938). A patentee thus "may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'" *Id.* "Any use beyond the valid terms of a license is, of course, an infringement." *Id.* at 126. The patentee's license limited the authority conveyed to the licensee, and the licensee's customer was "liable because it has used the invention without license to do so." *Id.* at 127.

Just like this Court's precedents, moreover, the common law has also long recognized that agreements to transfer personal property can carry enforceable restrictions. See, *e.g.*, Pet. App. 57a-58a; *infra* at 48 n.9.

All of these authorities reflect the classic hornbook metaphor: if the patentee transfers one of three sticks to a customer, that customer cannot transform its one stick into three.

2. Sales Agreements May Convey Complete Authority Over Patented Articles.

Consistent with these decisions and the Patent Act, this Court has also long recognized that domestic sales or transfers without valid restrictions convey complete "authority" to sell or use a patented article.

Bloomer v. *McQuewan* and *Mitchell* spelled out this common-sense understanding more than 140 years ago. In *McQuewan*, the purchaser of two patented machines did not infringe by using the machines during the extended term because the "right to construct and use the[] machines, had been purchased and paid for *without any limitation* as to the time for which they were to be used." 55 U.S. (14 How.) 539, 553 (1853) (emphasis added). That "unrestricted right to use did not end when the earlier patent term ended, because the right to use did not come from the patent statute, which grants only rights to exclude, not rights to practice." Pet. App. 35a.

Mitchell confirmed this basic principle while enforcing a patentee's more limited conveyance. Sales "may be made by the patentee *with or without conditions*." 83 U.S. at 548 (emphasis added). But where the sale is "absolute, and without any conditions," exhaustion follows: "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 another kind." *Id.*; see also *id.* at 547 (discussing sales "without any conditions").

Time and again since, this Court has reiterated that an unrestricted transfer exhausts a patentee's authority over an article. In *Adams* v. *Burke*, for instance, after a sale of patented items "without condition or restriction," the purchaser's exhaustion defense barred infringement liability. 84 U.S. at 455; see also, *e.g.*, *Wilbur-Ellis Co.* v. *Kuther*, 377 U.S. 422, 425 (1964) (citing *Adams* and *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942), and distinguishing sales subject to a limited-use license from "sales … outright, without restriction"). Just as a patentee can grant an express license transferring some but not all authority to use patented articles, an unrestricted sale "grant[s] to the purchaser an 'implied license to use'" it. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964).

The Court's recent decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, likewise upheld an exhaustion defense where the license contract did not limit the authority transferred. The LGE license authorized Intel to sell products embodying the LGE patents with no condition limiting Intel's authority to sell only to particular customers or only for particular uses. 553 U.S. 617, 636-37 (2008). Instead, Intel's authority to sell was unrestricted and subject to "[n]o conditions." *Id.* at 637. In fact, the agreement expressly stated that "'nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply.'" *Id.* at 623. Because a "single, unconditional sale" in the United States exhausts a patentee's U.S. rights, the result in 2008 was the same as it was 150 years earlier: "patent exhaustion prevent[ed] LGE from further asserting its patent rights." *Id.* at 626, 637.

3. Sales Agreements May Not Expand Patentees' Statutorily-Conferred Rights.

The same statutory foundation that empowers a patentee to tailor the authority it conveys to buyers of patented products, 35 U.S.C. § 154, also defines the boundaries of the patentee's authority over patented products it sells, *Aro Mfg.*, 377 U.S. at 497. Although a patentee may convey all, some, or none of the "authority" over its invention, the patentee cannot go further and "extend the scope of the monopoly beyond that contemplated by the patent statute." *Gen. Talking Pictures*, 304 U.S. at 181. Put another way, "[t]he owner of a patent cannot extend his statutory grant by contract or agreement. A patent affords no immunity for a monopoly not fairly or plainly within the grant." *United States* v. *Masonite Corp.*, 316 U.S. 265, 277 (1942). Such attempted rights-expanding restrictions are without effect, and such sales accordingly exhaust patent rights.

In particular, the patent grant's right to exclude "use" of the invention does not extend to unpatented supplies or tie-ins. This Court briefly allowed tie-ins in *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912). But it soon held that the "language of the statute … is not concerned with and has nothing to do with the materials with which or on which the [patented] machine operates." *Motion Picture Patents*, 243 U.S. at 512. The Court construed the Act to distinguish between "the exclusive right to use the machine" and "the right to use it exclusively with prescribed materials." *Id.* That the infirmity in *Henry* was an unlawful tie-in is clear from *Motion Picture Patents* and cases that followed. See, *e.g.*, *IBM Corp.* v. *United States*, 298 U.S. 131, 137-38 (1936) (*Henry* "held that a tying clause could lawfully be extended to unpatented supplies for a leased patented machine" and was the impetus behind the ban on tying arrangements in § 3 of the Clayton Act); *Ill. Tool Works Inc.* v. *Indep. Ink, Inc.*, 547 U.S. 28, 33-34 (2006) (same).

Likewise, the patent grant's right to exclude others from "sell[ing]" the invention does not include the right to fix resale prices. *Bauer* held that "it was the intention of Congress to secure an exclusive right to sell, [but] there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold." 229 U.S. at 17; see also *Bos. Store of Chi.* v. *Am. Graphophone Co.,* 246 U.S. 8, 25 (1918) (price-fixing condition was "not within the monopoly conferred by the patent law"). A patentee can of course sell its product at whatever price it chooses, but not because of the patent grant; setting a price is a privilege that belongs to any seller. So if the patentee gives up the exclusive right to sell the invention, and a third party sells with the patentee's "authority," any effort by the patentee to control a downstream sales price falls beyond the scope of the patent grant.

This Court recognized as much in a pair of cases decided on the same day—*Masonite* and *Univis*. *Univis* held that, if a patentee "were permitted to control the price at which [a product] could be sold by others he would extend his monopoly …, and he would extend it beyond the fair meaning of the patent statutes and the construction which has hitherto been given to them." 316 U.S. at 252. And in *Masonite*, the "price-fixing combination … [wa]s illegal *per se* under the Sherman Act," and patent law rights did not "save[] the arrangement." 316 U.S. at 274-81.

Nothing in these precedents calls into question the right of patentees, purchasers, and licensees to exchange or withhold only some of the rights granted in § 154. To the contrary, these precedents confirm that a patentee's rights are limited to those enumerated in the Patent Act. Any effort to restrict the authority conveyed to purchasers or licensees is valid only if it is consistent with the patentee's statutory right to exclude others from engaging in that conduct.

The foregoing principles decide this case for Lexmark. "Impression has not contended that the particular restriction at issue … exceeds the scope of the Patent Act's express grant of exclusive rights over patented articles." Pet. App. 14a. Nor does Impression dispute that Lexmark has withheld authority to sell or to use Return Program cartridges more than once through clearly-communicated restrictions. Impression admits that the reward Lexmark received for those cartridges "reflects the value of the property rights and interests conveyed by Lexmark under the express conditional sale contract between the parties and the conditional single-use license conferred by Lexmark." JA86; JA92. Thus, Lexmark's reduced "reward" for the "particular article" sold—single-use Return Program cartridges—"reflect[s] the value" of the more limited conveyance of authority over those cartridges. *Bowman*, 133 S. Ct. at 1766. Because Lexmark's customers never acquired authority for subsequent uses or sales of the patented cartridges, the Patent Act gives Lexmark the right to enforce those retained patent rights against a party who, like Impression, "makes, uses, offers to sell, or sells" the cartridges "without authority." 35 U.S.C. § 271(a).

C. Additional Considerations Undermine Mandatory Exhaustion.

The exhaustion doctrine has persisted so long because of its flexibility and sensibility—particularly compared to Impression's alternative view. Pet. App. 59a-63a. There are thus compelling reasons, in addition to the controlling statutory text and precedent, to reaffirm it.

First, Impression's rule would erect an artificial and illogical division between licensing patentees and manufacturing patentees. It is undisputed that licensee-manufacturers must adhere to limitations patentees impose—for example, by selling patented articles subject to geographical limitations (*e.g.*, 35 U.S.C. § 261), temporal limitations (*e.g.*, *Mitchell*), or usage restrictions (*e.g.*, *General Talking Pictures*). It is also clear that, pursuant to those same authorities, the non-practicing patentee may sue for infringement when the limited authority it granted is exceeded. A patentee who makes and sells articles itself should have no less ability to sell articles subject to geographic, temporal, or use restrictions and to sue for infringement when that limited authority is exceeded. "[T]here is no sound reason[] and no Supreme Court precedent[] requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a; see also *infra* § I.D.2.

Second, permitting patentees to control their rights facilitates consumer choice. It allows customers to acquire only the rights (here, single- or unlimited-use cartridges) that best suit their needs. As the Government's own Antitrust Guidelines recently reiterated, moreover, "[f]ield-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible." Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.3 (Jan. 12, 2017).

Third, permitting tailored exchanges, as this Court's precedents do, implements the balance inherent in the constitutional directive to "Promote the Progress of Science and useful Arts." U.S. Const. art. I, § 8, cl. 8. The Patent Act, too, reflects "the policy of government to encourage genius" by "awarding … an enlarged interest and right of property in the invention itself." *Wilson*, 45 U.S. at 674-75. "[T]he essence of a patent grant is the right to exclude others from profiting by the patented invention," *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980), and the corresponding right to receive the reward serves as the incentive for innovation.

Finally, patentees and those who deal with them rely on this longstanding rule, which undergirds licensing agreements, pro-consumer pricing structures, and investment-backed expectations in innovation and distribution. Where precedent implicates reliance on "property (patents) and contracts (licensing agreements)," the Court should be wary of upsetting settled expectations. *Kimble* v. *Marvel Entm't, LLC,* 135 S. Ct. 2401, 2410 (2015). *Amici* have clearly shown the importance of existing rules. *E.g.*, Licensing Execs. Soc'y Br. 5-14; AIPLA Br. 12-14.

D. Impression's Automatic-Exhaustion Policy Is Legally Unsound.

Impression contends that every patentee-sale of a patented article automatically and always extinguishes all patent rights over that article. It arrives at this rigid rule only after contorting this Court's decisions, disregarding the Patent Act, and endorsing nonsensical outcomes.

1. There Is No Basis For Ignoring The Patent Act.

Impression contends that the court of appeals should not have "grounded" the exhaustion doctrine in the Patent Act. Pet. Br. 36-38; see also U.S. Br. 14-15. This is wrong.

Impression suggests that supposedly judge-made exhaustion principles operate as an extratextual "limit" on the Act. Pet. Br. 36-37; see also IP Profs.' & AAI Br. 9 ("judicial common law"). Although some of this Court's decisions have declined to expand patentees' statutorily-conferred patent rights, they have not imposed a "limit" on the rights that have been granted by statute. *Supra* § I.A. *Aro Manufacturing*, on which Impression relies, is clear: the cases "delimit[]" (not limit) "the scope of the patent grant," including that it does not encompass unlawful tie-ins. 377 U.S. at 497. That is irreconcilable with a sweeping mandate for a statute-free approach to exhaustion.

Both Impression and the Government urge the Court to ignore § 271(a)'s "without authority" language on the basis that it simply codified pre-1952 exhaustion precedent silently absorbed into the 1952 Patent Act. Pet. Br. 36-38; U.S. Br. 14-15. The court of appeals understood the statutory history but also recognized that both pre- and post-1952 infringement decisions turned on the conveyance of patentee "authority." See Pet. App. 20a-25a; *id.* at 21a ("Section 271(a)'s language embodies an understanding of 'infringement' that was long recognized even before Congress enacted § 271 as part of the 1952 recodification of the patent laws."); U.S. Br. 14-15 ("presence or absence of patentee consent was crucial to the determination whether infringement had occurred"). Both the statutory text and precedent indisputably require a patentee's "authority" or "consent," and this history does not suggest that a patentee provides "consent" or "authority" by withholding it.

2. Impression's View Of The Precedent Is Wrong.

The court of appeals, like this Court, cautioned that "[c]ontext is particularly important" in analyzing what earlier decisions do and do not hold. Pet. App. 39a. It then painstakingly explained why Impression misreads this Court's precedents. *Id.* at 27a-56a. Impression's analysis largely ignores the court of appeals' reasoning and the context of this Court's decisions.

a. Impression, the Government, and some *amici* claim that this Court mandated automatic exhaustion in the mid-1800s. That position stitches together quotations from several cases "taken out of context." Pet. App. 27a-56a.

Univis. First is *Univis*, a Sherman Act suit in which the Government sought to enjoin a sales and patent licensing system centered on resale price maintenance. Impression reads *Univis* expansively to "h[o]ld that after a patentee sells a patented article, the patentee may not subsequently exercise patent-based control." Pet. Br. 16-20; see also U.S. Br. 11. In reality, "the most the Court ruled … was that a vertical price-control restriction was ineffective to preserve patent rights after sales of articles embodying the patents." Pet. App. 37a, 54a-56a. Citing cases like *Bauer* and *Boston Store*, and patent misuse precedent later limited by Congress, this Court reaffirmed that control over resale prices is not a right within the scope of the patent grant. See, *e.g.*, 316 U.S. at 252 ("control[ling] the price … would extend his monopoly"); *id.* ("price fixing features of appellees' licensing system … are not within the protection of the patent law"). Indeed, underscoring that price-fixing was the issue, the Court separately addressed non-price features of the licensing system and held that, even "assum[ing] that such restrictions might [have been] valid" and "used for lawful purposes," they were too "interwoven with and identified with the price restrictions" to survive. *Id.* at 254.

Impression contends that 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. Br. 18-19. The court of appeals did no such thing, remarking instead that an analysis of "the substance of antitrust law[] is immaterial." Pet. App. 54a. The court of appeals noted the broad statements on which Impression focuses, *id.* at 29a, 37a, 54a-56a & n.11, but properly understood *Univis* to distinguish between a patentee's statutory right to exclude others from selling and the nonexistent right to fix resale prices. *Supra* § I.B.3.

That this Court in *Univis* addressed patent questions before it considered antitrust questions is immaterial. Pet. Br. 19-20. In *Masonite*, decided the same day, this Court considered the antitrust issue first, recognizing that the price-fixing combination was *per se* illegal under the Sherman Act unless excused by "Masonite's patents and … agency agreements." Only then did the Court ask whether the patents or agency arrangement changed the outcome. 316 U.S. at 274-83. The analytical sequence is irrelevant; what matters is whether the patentee purports to convey or withhold authority within the scope of the patent grant.[3]

Finally, Impression suggests that the court of appeals mischaracterized parts of *Univis* as *dicta*, noting that *Quanta* later said that "*Univis* governs this case." Pet. Br. 19-20. Impression's overreaching underscores the court of appeals' proper observation that "broad effect" should not be assigned to language

[3] The Court applied the same analysis in *Straus* v. *Victor Talking Machine Co.*, also explaining that the issue was whether the conditions were a means of retaining the patentee's rights or "a device unlawfully resorted to in an effort to profitably extend the scope of its patent." 243 U.S. 490, 497-98 (1917).

that must be read in context. Pet. App. 54a-56a & n.11. *Univis* governed *Quanta* on the question of substantial embodiment, which both cases confronted, not on mandatory exhaustion, which neither did. 553 U.S. at 631-35; see also Pet. App. 37a. *Univis* does not stretch nearly as far as Impression would like.

Quanta. Next, Impression (but not the Government) contends that *Quanta* is independently dispositive. Pet. Br. 20-25. But *Quanta* involved no restrictive condition, and was thus "at least two steps removed from the present case": "[t]here were no patentee sales, and there were no restrictions on the sales made by the licensee." Pet. App. 30a-37a. *Quanta* cited with approval "precedent such as *General Talking Pictures* that make clear that patentees are able to preserve their patent rights through restrictions on the sales they authorize[] licensees to make." *Id.* at 31a-32a. It then carefully analyzed the contractual agreements between LGE and Intel—a pointless exercise if no conditions could be imposed. *Id.* The Court concluded "that there simply were no … restrictions on LGE's grant to Intel of the authority to sell." *Id. Quanta* did not "reject[] the 'conditional sale' doctrine," Pet. Br. 23, because no conditional sales were at issue.[4]

[4] Impression also argues that the court of appeals' holding would, contrary to *Quanta*, allow patentees to create an "end-run around exhaustion." Pet. Br. 9, 13-14. But that circular argument presumes the answer Impression wants—*i.e.*, that "exhaustion" categorically does not allow limited sales. But *Quanta* merely understood that exempting method patents from the exhaustion doctrine would create an "end-run" no matter what: even after an unrestricted sale, as in *Quanta*, the patentee could simply sue for infringement under a method patent. 553 U.S. at 629-30.

Henry. To Impression and the Government, *Henry*'s overruling in *Motion Picture Patents* represented a sweeping repudiation of all restrictions on sales of patented goods. Pet. Br. 28-32; U.S. Br. 11-12. But subsequent decisions confirm that the problem in *Henry* was the tying restriction, and *Motion Picture Patents* merely decided that § 154 did not sweep unpatented products under the patent umbrella. *Supra* § I.B.3; Pet. App. 36a-37a, 53a-54a.[5]

Keeler. Impression and the Government also make much of a passage in *Keeler* v. *Standard Folding Bed Co.*, stating that "[w]hether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us" and that it is "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." 157 U.S. 659, 666 (1895). They take that passage to mean that a patentee-seller's only remedy sounds in contract rather than patent infringement. Pet. Br. 27-28; U.S. Br. 2, 16.

But that is not—and could not be—what the passage means. "[T]he word 'inherent' naturally ties the language to the modest point … that actually decided *Keeler*: with no contract restriction as part of the sale, an implied one cannot be found in patent law itself." Pet. App. 51a-52a; see also *Adams*, 84 U.S. at 457 (no unstated restriction "to be implied"); *Hobbie* v. *Jennison,* 149 U.S. 355, 363 (1893) (restriction will

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[5] The Government's related contention that this Court's tying and price-fixing decisions "did not depend on the particular *type* of post-sale restrictions at issue, but instead turned on the nature and extent of the exclusive rights conferred by U.S. patent law," U.S. Br. 15-16, is a *non sequitur*. Those decisions held that "U.S. patent law" did not encompass *these particular restrictions*, nothing more. *Supra* § I.B.3.

not be implied, but patentee can "bind every licensee or assignee, if he gives him the right to sell articles made under the patent, by imposing conditions which will prevent any other licensee or assignee from being interfered with"). And, as the court of appeals also explained, decisions like *Mitchell* and *General Talking Pictures* make clear that license or contract violations can in fact result in patent-law remedies. Pet. App. 51a-52a; *supra* § I.B.1. Put simply, Impression and the Government both concede that *license* contract restrictions, when violated, can be enforced as a matter of patent law. There is no reason to believe *Keeler* set up a different rule for sales contract restrictions.[6]

b. From these cases, Impression and the Government purport to extract an exhaustion rule keyed to the Court's use of the term "authorized sale." That term has a special meaning in their view: "any sale of a patented article by a patentee, even when the rights granted are expressly restricted, is automatically an 'authorized sale,' causing the patentee to lose all § 271 rights in the item sold." Pet. App. 33a. As the court of appeals rightly observed, this is question-begging, because the phrase itself does not answer the fundamental question of *what* a particular sale has authorized. *Id.* at 38a.

Moreover, nothing in the phrase "authorized sale" distinguishes sales contracts between the patentee and a buyer from license contracts between the patentee and a licensee. Both reflect compensation to the patentee for relinquishing some or all of the rights granted by § 154. Yet Impression and the Gov-

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[6] Indeed, as this Court noted in *Bowman*, and as is true in this case, an express license can be a part of or accompany a sales transaction. *Bowman*, 133 S. Ct. at 1764, 1767 n.3.

ernment believe the transfer of patent rights via sales contract must relinquish all rights, while the transfer of patent rights via license contract can withhold some portion of those rights. As noted above, there is no practical reason to distinguish between the two. *Supra* § I.C. And certainly there is no way to extract such a distinction from the phrase "authorized sale." Pet. App. 37a-38a.

c. Impression and its *amici* offer no tenable understanding of the decisions that do not fit their position—most notably, *Mitchell* and *General Talking Pictures*.

Impression and the Government argue that *Mitchell*'s description of "conditions" on the sale of a patented article referred only to sales in which title did not pass until performance of a condition precedent. Pet. Br. 32-35; U.S. Br. 16-17. But that term was not so limited in *Mitchell*, where the licensee had title to what it made yet lacked unrestricted use rights. 83 U.S. at 549. Nor has this Court or Congress ever understood the term "conditions" so restrictively. See, *e.g.*, Pet. App. 42a n.9; *Quanta*, 553 U.S. at 637 ("[n]o conditions limited Intel's authority to sell"); see also 35 U.S.C. § 271(d)(5) (sale may be "conditioned" on purchase of another product).

Nor is there any merit to Impression's assertion that *Mitchell* "simply reaffirms" that "transfer of title of the patented good has always been the linchpin of exhaustion." Pet. Br. 35 (emphasis omitted). The passing of title to a physical product is decidedly *not* the "linchpin of exhaustion," because purchasers of patented products who held title *to the product* have been held liable for infringement when the patentee retained some or all of its statutory rights. See, *e.g.*, *Gen. Talking Pictures*, 304 U.S. at 186 (Black, J., dissenting) (infringing purchaser had title to amplifiers).

That is also clear from, for example, *Mitchell*'s statement about "the owner of the machine, whether he built it or purchased it, *if* he has also acquired the right to use it during the lifetime of the patent." 83 U.S. at 547 (emphasis added); see also *Bloomer* v. *Millinger,* 68 U.S. (1 Wall.) 340, 350 (1864) (same).

Impression's and the Government's attempt to discount *General Talking Pictures* is equally implausible. That decision makes clear that a patentee may authorize a licensee to make and sell patented articles in certain ways, while otherwise retaining the right to sue for infringement. *Supra* § I.B.1. There is no principled basis for distinguishing this Court's clear holding on the ground that a patentee may not achieve in one step (by making and selling itself) what it can achieve in two (by licensing limited patent rights to a third party that may sell subject to those limitations). Pet. App. 26a.

Impression and the Government argue that *General Talking Pictures* stands for a perverse rule: a patentee who licenses others to make and sell limited-use patented articles can sue buyers for patent infringement, but *only if* the licensee sells those articles in contravention of its limited authority. Pet. Br. 38-41; U.S. Br. 17-22. In other words, an innocent purchaser who buys from a misbehaving limited licensee would be an infringer. A purchaser who buys from a compliant licensee-seller, but knowingly ignores such limitations, would not.

Impression's and the Government's position collapses under its own weight. Framing the case in statutory terms, the patentee conveys to a licensee the right to make and sell amplifiers for home use, but retains the right to exclude commercial uses. 35 U.S.C. § 154. There are then two possibilities: the licensee makes and sells only for home use (as it should) or for commercial use (as it should not). To Impression and the Government, the patentee can sue a commercial user for infringement in the latter circumstance but not the former. Pet. Br. 38-41; U.S. Br. 17-22. But what the *licensee* did or did not do has no bearing on the transaction's starting point: the *patentee* always retained the right to exclude others from commercial use. The same rationale therefore applies in either case: the patentee conveyed authority only for home use, not commercial use, and retained its right to exclude others from commercial use through an infringement suit. Indeed, it takes Alice-in-Wonderland reasoning to think that two transactions designed precisely to effect the *withholding* of commercial-use authority magically become a *conveyance* of that authority.

The logic of *General Talking Pictures* is not so convoluted. It is actually quite straightforward: the licensee-seller had no ability to transfer authority the patentee never conveyed. *Mitchell*, 83 U.S. at 550; *Quanta*, 553 U.S. at 636 (citing *Gen. Talking Pictures*).

Finally, the Government's most recent description of *General Talking Pictures* reflects its ever-evolving contortions to reach a preferred rule of automatic exhaustion. Previously, the Government tried in this Court to secure an automatic-exhaustion rule. See, *e.g.*, U.S. Br. at 32, *Gen. Talking Pictures*, 1938 WL 39344 (patentee should not be permitted "to control the use of the patented article" either "by license or by the terms of sale"). The Justice Department then tried to convince Congress. 4 *Verbatim Record of the Proceedings of the Temporary National Economic Committee* 641-42 (July 17, 1939) (asking Congress to "unconditionally outlaw" limitations on, among other things, the production and use of patented articles); see Br. in Opp. 17. All of these efforts failed.

Now the Government no longer openly disagrees with *General Talking Pictures* but tries to recast the case to fit its view. But that exercise has also been a moving target. Notwithstanding its arguments in this case, for example, the Government told this Court in *Quanta* that *General Talking Pictures* "necessar[ily]" led to the "seeming anomaly in allowing a patentee to achieve indirectly—through an enforceable condition on the licensee—a limitation on use or resale that the patentee could not itself impose on a direct purchaser." Br. for the U.S. as *Amicus Curiae* at 14, *Quanta*, No. 06-937 (Aug. 2007). And the Government has even shifted positions in *this case*, abandoning a "doctrinal defense of the licensee-sale/patentee-sale distinction" offered below after Judge Taranto dismantled that argument as, among other things, "wrong as a matter of basic patent law." Pet. App. 46a-49a. Such shifting efforts to justify an automatic exhaustion rule betray the rule's shortcomings.

3. Impression's Policy Arguments Are Unpersuasive.

The imagined policy arguments in favor of one-size-fits-all exhaustion are not implicated by the decision below and are otherwise misplaced.

First, Impression argues that the court of appeals' decision would "foreclose" secondary and repair markets. Pet. Br. 41-43. But it cites no evidence to support its dire prediction, nor is there any reason to think such evidence exists. The court of appeals reaffirmed its own decades-old precedent, which was itself based on this Court's cases dating back even further. Pet. App. 59a-60a. Commerce has gotten along just fine, and there is no reason to think that would change with reaffirmance of that rule.

Second, Impression overlooks the practical limitations imposed by the marketplace. As this Court has recognized, "[n]o sane farmer … would buy [patented seed] without some ability to grow soybeans from it." *Bowman*, 133 S. Ct. at 1768. Unduly restrictive agreements will ill-serve patentees who discover that "sane" purchasers will not pay for useless or overly-restricted products. That is why plenty of "used car dealers," Pet. Br. 42, and countless other secondhand and repair businesses function perfectly well under the current regime: in the auto context, for example, consumers sensitive to repair cost and resale value would not tolerate sales agreements that purported to limit those activities.[7]

Third, Impression and the Government argue that "a patentee could demand royalties for the use or resale of articles … at multiple downstream points." U.S. Br. 10. But as the Government acknowledges, *id.* at 32, concern for downstream consumers is fully present—in fact, demonstrably *worse*—under its reading of *General Talking Pictures*. In the Government's view, downstream purchasers risk infringement, but only if the licensee has violated the license terms—which the purchaser will not realistically know. *Id.* (admitting "uncertainties" in its rule).

Fourth, concerns about notice, contract enforceability, and consumer expectations are not implicated by this case. The court of appeals limited its holding to "clearly communicated, otherwise-lawful restrictions." Pet. App. 40a. That is because the parties

[7] Indeed, Lexmark's decision to offer customers a choice between single- and unlimited-use cartridges reflects such market realities.

stipulated that the single-use limitations represent valid and enforceable terms of sale, for which each counterparty had valid notice. *Id.* at 11a, 14a. In any event, in the extremely unlikely—indeed, counterfactual—event that an unknowing downstream purchaser were sued, it would have multiple remedies, including the *bona fide* purchaser doctrine, *id.* at 14a, and indemnification under the UCC, U.S. Br. 32.

Finally, warnings about "double recovery" are neither relevant to this case—where Impression stipulated that Lexmark's reward for single-use cartridges reflects the value of the authority it conveyed—nor otherwise realistic. Lexmark's pricing structure does not produce double recoveries for the same reason that a patentee who leases a product does not reap more than one "reward" just because it might be paid more than once, or more in total than if it sold the product without restrictions. There is no reason that a patentee's "single reward" must come in the form of one payment at the time of sale. See, *e.g.*, Duffy & Hynes Br. 15-16.

As the court of appeals recognized, sound policy considerations support the flexible exhaustion doctrine it reaffirmed, *supra* § I.C, and Impression's arguments for a rigid rule provide "no reason to depart from the application of § 271 … derive[d] from the statute and precedent." Pet. App. 60a.

II. SALES OUTSIDE THE UNITED STATES DO NOT AUTOMATICALLY CONFER "AUTHORITY" UNDER U.S. PATENT LAW.

Impression repeatedly attacks a holding the court of appeals never made: that "a foreign sale can *never* exhaust U.S. patent rights." Pet. Br. 10, 50, 51, 53 (emphasis added). This suggests that the court of appeals imposed a rigid rule barring foreign sales from ever conveying U.S. rights. That suggestion is wrong. The court merely held that a foreign sale does not convey U.S. rights by default. Pet. App. 64a (rejecting "rule that U.S. rights are waived … simply by virtue of a foreign sale"). All parties agree that a patentee may expressly or implicitly transfer or license its U.S. patent rights through a foreign sale. *Id.* Under the decision below, sales under foreign law may—not must—authorize importation and sale under U.S. law. *Id.* at 64a-66a.

Impression's position goes much further: any authorized foreign sale always exhausts all U.S. patent rights. Pet. Br. 44. Buyers and patentees could *never* agree—no matter how clearly or efficiently—to transfer only foreign rights.

Thirteen judges have considered that position in this case, and thirteen have rejected it. Their unanimity is unsurprising; only elected officials, not judges, are in a position to adopt a policy authorizing worldwide reimportation. The judicial agreement below also reflects the paucity of support Impression musters: an 1885 district court ruling, a 2006 footnote about substantial embodiment, and a 2012 interpretation of the Copyright Act. None even addresses, much less explains, why every foreign sale necessarily and automatically conveys full U.S. authority, the parties' contrary intention notwithstanding. And none overcomes the overwhelming support for the court of appeals' decision in the text of the Patent Act, the international commitments of the United States, the precedent of this Court, and the conceptual underpinnings of the exhaustion doctrine itself.

A. The Text Of The Patent Act Precludes A Rule Of Automatic Worldwide Exhaustion.

1. The Patent Act expressly limits the rights granted under a U.S. patent to the geographic confines of the United States. It confers rights "throughout the United States," bars importation "into the United States," and establishes liability for infringement "within the United States." 35 U.S.C. §§ 154(a)(1), 271(a). These statutory rights contain no exceptions for articles first sold abroad.

Exhaustion, rather, "has long been keyed to the idea that the patentee has received its reward" for surrendering its *U.S.* rights. Pet. App. 76a; *supra* § I.A. When a sale "exhausts" patent rights, "the patentee … receives the consideration" for an item's use and "parts with the right to restrict that use." *Adams,* 84 U.S. at 456. The sale "eliminates the legal restrictions on what authorized acquirers 'can do with an article embodying or containing an invention'" whose sale the patentee authorized. *Helferich Patent Licensing, LLC* v. *N.Y. Times Co.*, 778 F.3d 1293, 1301 (Fed. Cir. 2015) (quoting *Bowman*, 133 S. Ct. at 1766 & n.2); see Pet. App. 71a-73a.

But the *foreign* sale of a product patented in the United States does not "eliminate[] the legal restrictions" imposed by the U.S. patent, *Helferich*, 778 F.3d at 1301, because the U.S. patent imposed no legal restrictions on the product's sale or use abroad in the first place. The lack of extraterritorial exhaustion under the Patent Act reflects the lack of extraterritorial reach of the Patent Act. See *Deepsouth Packing,* 406 U.S. at 531. Patents granted here give patentees no right to exclude others from making, using, selling, or importing the invention elsewhere. "[B]ecause U.S. patent law has no effect outside U.S. territory, the buyer in a foreign jurisdiction can already make, use, sell, and offer for sale the invention claimed in the U.S. patent without the need for any permission from the U.S. patent holder." J. Erstling & F. Struve, *A Framework for Patent Exhaustion from Foreign Sales*, 25 Fordham Intell. Prop. Media & Ent. L.J. 499, 525 (2015) (footnote omitted). Impression claims that Judge Taranto's opinion allows a U.S. patentee to "circumvent patent exhaustion" by "selling its goods outside the United States." Pet. Br. 10, 58. But overseas sales cannot circumvent U.S. patent law because U.S. patent law has no force overseas.

A foreign sale, therefore, is the mirror-image of a U.S. sale. It delivers no "reward" "for the sale of … patented goods" under U.S. law. Pet. Br. 11; see U.S. Br. 27 ("patentee is entitled to collect one … premium for forfeiting his exclusive right *under U.S. law*") (emphasis added). Rather, the foreign sale compensates a patentee for relinquishing distinct rights, granted under a foreign patent (if any), that otherwise would prevent the buyer's use in that country. Because foreign patent rights and enforcement reflect "different policy judgments about the relative rights of inventors, competitors, and the public," U.S. Br. 26 (quoting *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 455 (2007)), the value conferred by foreign and U.S. patents varies greatly, Pet. App. 78a-79a; *id.* at 134a (dissent description of "country-to-country differences in patent laws"). A "foreign sale, standing alone," therefore, "is not reasonably viewed as providing the U.S. patentee the reward guaranteed by U.S. patent law." *Id.* at 81a. Even the dissent agreed "there is reason to doubt that the rights holder has been fully compensated for a foreign sale." *Id.* at 133a.

2. Yet Impression insists any sale anywhere in the world must convey authority for U.S. importation and resale. Even when an agreement expressly prohibits importation, the Patent Act's right to exclude "imports into the United States" would be ineffective merely because of a foreign sale. Pet. Br. 47 n.12. This flies in the face of Congress's 1994 Patent Act amendment—implementing the express U.S. commitment under the TRIPS agreement, *see* TRIPS art. 28.1, Apr. 15, 1994, Marrakesh Agreement—authorizing patentees to bar importation of a patented invention into the United States. 35 U.S.C. §§ 154(a)(1), 271; Pub. L. No. 103-465, §§ 532-33, 108 Stat. 4809, 4983-90 (1994).

Impression points to nothing in the Patent Act that overcomes this clear statutory exclusion. It claims "the Patent Act does not expressly address patent exhaustion, much less define its geographic scope." Pet. Br. 46. This is backwards. Because the Act as a whole is explicitly territorial, there is no reason to infer silent authorization for extraterritorial exhaustion. To the extent judge-made law informs the Act's meaning at all, it can do so only within the statute's textual confines.

Impression also contends that mandatory worldwide exhaustion is consistent with the territorial scope of the Act. The Copyright Act is also territorial, it maintains, yet *Kirtsaeng* recognizes a worldwide first-sale doctrine. Pet. Br. 53. Despite the Copyright Act's particular territorial limitations, *Kirtsaeng* did not confront the distinct and more stringent limitations of the Patent Act. *Supra* at 38-39. To the contrary, requiring foreign sales to exhaust U.S. patent rights effectively requires foreign purchasers to pay for U.S. authority they may not want or value. Having required this foreign transfer *as a matter of U.S.*

law, Impression's rule unavoidably applies U.S. law to foreign transactions. Such an expansionist approach is at odds with the limited sphere of U.S. patent law, which this Court has construed to "operate only domestically and … not extend to foreign activities." *Microsoft Corp.*, 550 U.S. at 455. Cf. *Deepsouth*, 406 U.S. at 531 ("Our patent system makes no claim to extraterritorial effect," and "we correspondingly reject the claims of others to such control over our markets.") (citing *Boesch*, 133 U.S. at 703).

B. The United States' International Agreements Are Inconsistent With Automatic Worldwide Exhaustion.

Binding U.S. commitments under international agreements reflect the territorial limits of the Patent Act. Adopting mandatory worldwide exhaustion would undermine those commitments, future negotiations, and "Congress's understanding that exhaustion principles do not preclude enforcement of … reservations of rights." U.S. Br. 29.

The United States and 175 other signatories to the 1883 Paris Convention for the Protection of Industrial Property have agreed to respect the "independence of patents." See *id.* at 26. Under this agreement, the legal force of a patent issued in one country is limited to that country. See Paris Convention for the Protection of Industrial Property, art. 4*bis* (Mar. 20, 1883) ("Patents applied for in the various countries of the Union … shall be independent of patents obtained for the same invention in other countries ….").

This independence has fostered considerable variation in the duration, scope, and available compensation for patent grants in different countries. M. Boulware et al., *An Overview of Intellectual Property Rights Abroad*, 16 Hous. J. Int'l L. 441, 489-91 (1994).

Correspondingly, the value of patent rights, even in the same invention, varies significantly across borders. See F. Abbott, *First Report (Final) on the Subject of Parallel Importation*, 1 J. Int'l Econ. L. 607, 619 (1998). These differences render patent law "especially territorial." Pet. App. 86a.

Against this background of national independence, the United States has consistently declined to treat transfers of foreign rights as equivalent to, or disposing of, U.S. patent rights. The United States successfully resisted mandatory international exhaustion in NAFTA negotiations. *See* V. Chiappetta, *The Desirability of Agreeing to Disagree*, 21 Mich. J. Int'l L. 333, 350-55 (2000). In the 1994 Uruguay Round of multilateral trade negotiations, the United States opposed international exhaustion. See Abbott, *supra*, at 609. The Uruguay Round negotiators ultimately failed to reach agreement on the issue, and so the Agreement explicitly left it for individual countries to decide. TRIPS art. 6 ("[N]othing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.").

Other bilateral U.S. treaties affirmatively bar international exhaustion. Agreements with Morocco, Australia, and Singapore—negotiated after the Uruguay Agreement—provide that "the exclusive right of the patent owner to prevent importation … without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory." See, *e.g.*, United States-Morocco Free Trade Agreement, art. 15.9.4 (June 15, 2004).

These trade agreements specifically bar the type of unauthorized imports Impression seeks to excuse. Impression nonetheless contends the agreements are irrelevant, notwithstanding their plain text, because implementing legislation stated the agreements do not "amend or modify" U.S. law. Pet. Br. 54.

The point, however, is that the agreements *reflect* U.S. law: there is no reason to suppose Congress and the President ignored or misrepresented U.S. exhaustion law by preserving U.S. patentees' right to exclude patented articles sold abroad. These agreements are "predicated on the assumption" that sales abroad do *not* automatically exhaust U.S. patent rights. U.S. Br. 27-28; Pet. App. 87a-89a.[8]

Likewise, the appropriations riders Impression cites, Pet. Br. 55, merely defer further consideration of exhaustion for future legislation. They plainly do not alter the existing text of the Patent Act or bilateral agreements. U.S. Br. 28. If anything, the fact that Congress has legislated in this area, yet the United States is *not* among the minority of "24 countries [that] have adopted rules of international patent exhaustion," Pet. Br. 55, counsels against judicial interference with legislative and diplomatic processes.

C. The Precedents Of This Court And The Lower Courts Reject Automatic Worldwide Exhaustion.

The precedents addressing the effect of a foreign sale on U.S. patent rights, like the text of the Patent Act, confirm the court of appeals' rejection of mandatory exhaustion. Assuming its preferred conclusion, Impression cites a solitary *domestic* exhaustion case in asserting that "when the U.S. patentee authorizes the sale abroad, it receives its 'tribute,' exhausting its

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[8] Nor is there any reason to believe *Kirtsaeng* rendered the agreements ineffective as to patented products. Pet. Br. 54. As discussed below, the statutory and trade agreement language at issue in *Kirtsaeng* differs significantly from the Patent Act and Paris Convention.

rights to that item." Pet. Br. 49-50 (quoting *Keeler*, 157 U.S. at 667) (citation omitted). In fact, only a single federal court decision has ever reached that conclusion—and it did so before this Court reached the opposite conclusion and without confronting the critical differences between U.S. and foreign patent rights. The weight of relevant judicial authority overwhelmingly supports the conclusion that patentees and foreign buyers may choose to convey U.S. authority in a foreign sale, but do not automatically and necessarily do so.

1. The court of appeals followed this Court's sole decision addressing foreign exhaustion. *Boesch* v. *Graff* held that the buyer of a patented burner in Germany lacked authority under U.S. patent law to import and sell the burner in the United States. 133 U.S. 697 (1890). The foreign sale, this Court held, did not extinguish the U.S. patentee's rights under U.S. law to exclude others from making and selling the product here. *Id.* at 702. The Court expressly distinguished the buyer's right to "make and sell" the article in Germany "under the laws of that country" from "the rights of patentees under a United States patent." *Id.* at 703.

Impression contends that "*Boesch* is entirely consistent with an international exhaustion rule." Pet. Br. 51. It notes that the German seller was not authorized by the U.S. patentee to sell the burner. That was true, but irrelevant. Although the seller had the right to sell in Germany "under the laws of that country," his purchasers "could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent." 133 U.S. at 703. The distinct nature of the foreign and U.S. patent rights at issue, *supra* at 38-39, could hardly be clearer. As the Government explained in

Quanta, *Boesch* held that "a sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent." U.S. Br. 9 n.2, *Quanta*, 2007 WL 3353102 (citing *Boesch*, 133 U.S. 697).

Impression emphasizes (Pet. Br. 51-52) the Court's statement that the German buyer sought to "import th[e] [burners] to and sell them in the United States, without the license or consent of the owners of the United States patent." 133 U.S. at 702. What was lacking, however, was not consent to sell in Germany, but in the United States, where U.S. law gave the patentee authority to exclude the imports regardless of the lawfulness of the German sales. *Boesch* therefore answers the precise question raised by Impression: a lawful sale abroad does not without more give the purchaser "authority" under 35 U.S.C. § 271(a) to make, sell, and import the invention here. Pet. App. 77a-78a.

2. Impression nevertheless relies on two inapposite precedents—*Quanta* and *Kirtsaeng*—that neither cite *Boesch* nor address international exhaustion.

a. *Quanta* did not concern foreign exhaustion at all. It addressed the domestic sale of articles that are not covered by, but substantially embody, a U.S. patent. The Court did not discuss any foreign patent or *Boesch*, despite LGE's contention that foreign exhaustion was a question for remand. Pet. App. 66a n.14. All parties in *Quanta*, plus the Government, told the Court that foreign sales were not at issue. See U.S. Br. 9 n.2, *Quanta*, 2007 WL 3353102 (distinguishing domestic sales at issue from "sale under a foreign patent in that foreign country").

Yet footnote 6 of the Court's opinion, according to Impression, resolves this case: it "establishes" that because a foreign-sold article may "practice a U.S. patent," any patentee-authorized foreign sale "exhaust[s] U.S. patent rights." Pet. Br. 49 (citing 553 U.S. at 632 n.6).

This revisionist interpretation (which the Government does not adopt) does not remotely resemble the issue *Quanta* addressed in footnote 6. That footnote addressed a specific argument, central to *Quanta* but far removed from this case, about when the sale of a product that substantially embodies a patent can exhaust that patent. In that context, the Court rejected the argument that non-infringing foreign use defeats a substantial-embodiment claim. Resp. Br. at 21 n.10, *Quanta*, 2007 WL 4244683. The Court held that embodiment turns on whether an article practices, not infringes, the patent. And an article can practice a patent anywhere. 553 U.S. at 632 n.6. Impression baldly conflates "practicing" a patent (a practical question of how the invention operates) with "infringing" a patent (a legal question of whether someone uses the invention without authority). The footnote said nothing whatsoever about exhaustion or foreign sales. Pet. App. 66a-67a n.14.

b. Impression likewise exaggerates *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), claiming it "resolves this question." Pet. Br. 45. Nothing in *Kirtsaeng*'s interpretation of the Copyright Act, however, indicates that this Court radically but silently reinterpreted the foreign reach of the Patent Act. On this point, again, the majority (Pet. App. 67a-75a), dissent (*id.* at 130a), and Government (at 29-31) all reject Impression's position.

The question in *Kirtsaeng* was whether importation of copyrighted textbooks manufactured and sold by the copyright holder outside the United States infringed the copyright holder's rights under 17 U.S.C.

§ 106(3), or was instead protected by the Act's first-sale provision, § 109(a). Section 109(a) turns on whether a work sold abroad was "lawfully made under" the Copyright Act. The Court declined to interpret "lawfully made" to mean "U.S.-made." Neither § 109(a)'s text, 133 S. Ct. at 1358-60, nor history, *id.* at 1360-62, imposed a "geographical limitation" on the first-sale provision. The Court then confirmed that its reading was consistent with the common-law first-sale doctrine—including Lord Coke's 1628 discussion of restraints on alienation of chattels. *Id.* at 1363-64. Textbooks printed consistent with the Copyright Act and sold in Thailand, the Court concluded, could be resold by the purchaser in the United States free of copyright restrictions. *Id.* at 1362; Pet. App. 66a.

Contrary to Impression's position, *Kirtsaeng* plainly does not "resolv[e] this question" under the Patent Act. Pet. Br. 45.

First, its holding rested principally on § 109's distinct text and legislative history, Pet. App. 69a-73a, which Impression skips entirely. Significant differences with the Patent Act confine *Kirtsaeng* to the copyright context. This Court has generally refused to treat the Copyright and Patent Acts as "identical." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). And the statutes diverge on the specific question at issue. The owner of a copy of a copyrighted work does not need "authority" from the copyright holder to sell or import that copy in the United States; it can sell "without the authority of the copyright owner" under § 109(a). *Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. 135, 142 (1998); Pet. App. 71a-72a. This directly contradicts the Patent Act's prohibition on sale or import "without authority." 35 U.S.C. § 271(a).

The territorial independence of patents established by the Paris Convention, moreover, requires inventors to obtain, maintain, and enforce a patent in each jurisdiction where they seek protection. This differs dramatically from the harmonized copyright regime established by the Berne Convention: copyright is not conferred by the positive law of individual countries, but inheres in the writing itself upon creation. See *Golan* v. *Holder*, 565 U.S. 302, 308-11 (2012). It is unsurprising, therefore, that *Kirtsaeng* never mentioned patent law or *Boesch*. Pet. App. 68a-69a. Patent and copyright decisions are hardly interchangeable. *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 346 (1908); Pet. App. 73a-76a.

Second, *Kirtsaeng*'s failure to identify "geographical distinctions" in the "'common-law doctrine' against restraints on alienation" is not dispositive, *contra* Pet. Br. 46. The Patent Act is replete with territorial restrictions this Court found missing from the Copyright Act. *Supra* at 38-39. In addition, the Patent Act contains a freestanding provision explicitly empowering patentees to exclude imports. 35 U.S.C. § 271(a). And to the extent any common-law rule barring cross-border restraints on alienation ever existed,[9] *Boesch* departed from it more than a century ago. In *Kirtsaeng*, by contrast, the Court found a *lack* of stat-

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[9] Lord Coke's statement, by its terms, is consistent with Lexmark's position: while "giv[ing] or sell[ing]" a patentee's "*whole interest*" in an article eliminates the patentee's control over that article, a transfer of less than that "whole interest" does not. *See*, *e.g.*, *Chaffee* v. *Bos. Belting Co.*, 63 U.S. (22 How.) 217, 224 (1859) (avoiding infringement requires that users both "had … title …, and were rightfully in the use of [the patented article] under that title."). In any event, neither Impression nor *Kirtsaeng* examined the evolution of the common law and its significant revisions recognizing restrictions on chattels. Pet. App. 57a-58a (collecting examples).

utory "language, context, purpose, or history" geographically limiting copyright's first-sale provision, and noted this was consistent with ancient common-law principles. 133 S. Ct. at 1363-64; Pet. App. 56a-57a. Here the statute and precedent amply rebut any contrary common-law authority. Pet. App. 56a-57a. Whatever value Lord Coke's 1628 treatise may have had in confirming *Kirtsaeng*'s non-territorial interpretation of the Copyright Act's statutory first-sale doctrine, it finds no purchase in the Patent Act's territorial scope. Pet. App. 73a-74a.

Third, the "copyright-related consequences" that animated *Kirtsaeng* are largely absent from the patent realm. Pet. App. 69a-71a. Concerns about libraries and museums have no apparent analog. 133 S. Ct. at 1364-67. User uncertainty is far less acute given the shorter and more determinable 20-year life of a U.S. patent relative to the variable duration of a copyright. And the "absurd result" that a rights holder could sell a foreign-made copy yet retain perpetual control, *id.* at 1366, is likewise absent under patent law. These differences between patent and copyright—many of which are quite independent of exhaustion considerations—render futile Impression's effort to "harmonize" the treatment of "[p]roducts … protected by both intellectual property laws." Pet. Br. 48. *Kirtsaeng* neither attempted nor accomplished any such harmonization.

3. Lower-court decisions, largely ignored by Impression, confirm *Boesch*'s controlling view of international exhaustion. Judge Taranto's opinion extensively reviewed the post-*Boesch* decisions, which reflect both "the *Boesch* principle that foreign laws do not control domestic patent rights," and that a license may "g[i]ve permission for importation" according to "the particular circumstances and language of foreign sales." Pet. App. 97a. The dissent's reading of the precedent was largely consistent. *Id.* at 127a (collecting cases in which "the authorized foreign seller clearly reserved U.S. rights, [and] there was no exhaustion"); U.S. Br. 24 (U.S. patentees "long permitted … to reserve their U.S. rights when making … foreign sales").

Indeed, for over a century, U.S. courts have consistently followed *Boesch* and rejected Impression's mandatory-exhaustion position. These decisions, like the one below, recognize authority to use, sell, or import in the United States based only on an express or implied license. *Dickerson* v. *Matheson*, 57 F. 524, 527-28 (2d Cir. 1893), and *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897), both relied on *Boesch* in finding infringement and barring importation despite lawful and authorized foreign sales. Pet. App. 91a-92a.

The federal courts have consistently understood *Boesch* to reflect the distinct nature of U.S. and foreign patent rights. *Daimler Mfg. Co.* v. *Conklin*, 170 F. 70, 72 (2d Cir. 1909), enjoined a car buyer, who had purchased in Germany, from using the car in the United States. The German sale—as in *Boesch*—could take the car "out of the monopoly of the German patent," but not "the monopoly of the American patentee who has not sold." *Id.*; Pet. App. 93a-94a. *Griffin* v. *Keystone Mushroom Farm*, 453 F. Supp. 1283, 1284-87 (E.D. Pa. 1978), likewise respected the distinct "bundle of rights" under Italian and U.S. patent law. The lawful purchase of U.S.-patented machines in Italy did not exhaust U.S. patent rights, even though the Italian seller also controlled the U.S. rights. Pet. App. 95a-96a. These decisions specifically reject Impression's effort to dismiss *Boesch* as a narrow decision about "unauthorized" foreign sales. Pet. Br. 52. See also *Fuji Photo Film Co.* v. *Jazz Photo*

Corp., 394 F.3d 1368, 1376 (Fed. Cir. 2005) (rejecting "unauthorized sales" interpretation of *Boesch*); *Jazz Photo Corp.* v. *ITC*, 264 F.3d 1094 (Fed. Cir. 2001).[10]

Other decisions merely reflect the position—undisputed other than by Impression—that foreign sales may transfer U.S. patent rights. *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 75-80 (2d Cir. 1920), for instance, cited *Boesch* and *Daimler* in enforcing a worldwide license. The "language used in the agreements" conveyed an unlimited license that covered U.S. use of transcontinental airplanes. Pet. App. 94a-95a; see also *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 937-38 (D.N.J. 1983) (rejecting infringement claim because U.S. patentee consented to U.S. importation); Pet. App. 96a-97a.

Against this weight of authority, Impression cites *Holiday* v. *Mattheson*, a 130-year-old outlier that predated *Boesch* and sheds no light on the foreign-exhaustion question presented here. 24 F. 185, 185 (C.C.S.D.N.Y. 1885); Pet. App. 86a. It confronted the exhaustion question in terms of domestic law without addressing the territorially distinct patent rights implicated by the foreign and U.S. sales at issue. The point of *Holiday*'s ruling, according to Impression, is that the "same exhaustion rule governing authorized domestic sales *also* applies to authorized sales abroad." Pet. for Cert. 28. But Impression cites no authority for such broad-brush equivalence, because no authority exists. Unsurprisingly, the lower-court decisions discussed above have instead looked to *Boesch* for the applicable rule.

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[10] *See also A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923) (citing *Boesch* and rejecting automatic worldwide *trademark* exhaustion).

Impression dismisses, without explanation, each of the post-1952 precedents discussed above. Pet. Br. 50. The federal courts' understanding of exhaustion since the Patent Act of 1952, however, sheds light on statutory text that Impression otherwise ignores. See Pet. App. 95a-97a and U.S. Br. 24-25 (considering post-1952 precedents). And Impression acknowledges that other pre-1952 decisions contradict its mandatory-exhaustion rule. Pet. Br. 50-51 (citing *Matheson* and *Tinling*, *supra*). In fact, the Government indicates there is "*no case* in which a U.S. court has refused to honor an express reservation" in a foreign sale. U.S. Br. 24-25 (emphasis added). Impression's cursory citation of *Kirtsaeng*, *Univis*, and *Quanta*—none of which confronts the territorial and independent nature of national patent rights—is no response.

D. The Consequences Of Mandatory Worldwide Exhaustion Preclude Its Judicial Imposition.

Judicial imposition of worldwide exhaustion would cause significant economic disruption. Requiring U.S. patentees who sell abroad to part with U.S. patent rights would force them to charge a worldwide price or restrict where they sell. Either outcome would harm consumers in under-developed nations, not to mention inventors. *Kirtsaeng* itself acknowledged that extending copyright exhaustion to foreign sales would "make it difficult, perhaps impossible" for copyright owners to continue selling at different prices in different foreign markets, according to demand and purchasing power. 133 S. Ct. at 1370. Such concerns are only exacerbated in the patent context, where life-saving drugs and critical technological infrastructure are at stake. The Paris Convention's territorial regime fosters the marketing of useful inventions around the world. Impression envisions a single worldwide market for drugs, medical devices, microchips, and more. Pet. App. 97a-101a. The untold differences between distinct national markets, however, doom any effort toward trade harmonization by judicial directive. Certainly no evidence remotely justifies this Court departing from the United States' commitments under existing international agreements and its consistent position in international negotiations. *Supra* at § II.B.

The risk of unintended consumer infringement that troubles Impression, by contrast, is entirely unsubstantiated. Pet. Br. 56-57. It is also the objection least tied to exhaustion. This risk, to the extent it exists, is a consequence not of exhaustion doctrine, but of the Patent Act's strict-liability standard. Pet. App. 98a; U.S. Br. 31. Impression marshals no evidence that patent enforcement against innocent consumers imposes significant economic costs or, indeed, occurs at all. Its prescriptions would provide little comfort in any event: even under Impression's mandatory-exhaustion regime, avoiding infringement would still demand due diligence to assure that patentees had "authorized" the sale of each patented component (and Impression and its *amici* warn that modern products may have thousands). *Supra* § I.D.3; see U.S. Br. 31-32. The Uniform Commercial Code provisions for indemnification and good-faith purchasers, and patent-law damages limitations, already mitigate such imagined concerns. U.S. Br. 32. Any remaining concerns are best addressed under the rubric of an implied (or express) license defense not raised by Impression here—as the decision below took pains to emphasize. See, *e.g.*, Pet. App. 73a, 90a, 98a.

Concerns regarding commercial transactions, moreover, ignore how the law and the marketplace address these issues. No retailer or supplier that sues or misleads its customers will long remain in business. See Auto Care Ass'n Br. 6 (infringement suits generally do not target consumers). Carmakers, for example, have every interest in securing broad licenses that protect their customers and maintain a robust used-car market and resale value. *See* G. Rub, *The Economics of* Kirtsaeng v. John Wiley & Sons, Inc., 81 Fordham L. Rev. Res Gestae 41, 48-49 (2013). In light of existing exhaustion precedents, manufacturers and resellers alike—including *amici* in this case, *e.g.*, Costco Br. 7-14—already protect cross-border supply chains and intellectual property through contracts, licenses, warranties, indemnification, and insurance.[11] Automatic worldwide exhaustion would dramatically alter these settled relationships and expectations. And to what end? As in the consumer context, the supposed burden of tracing the provenance of patented components in products sourced abroad is a function of patent-infringement law generally, not exhaustion specifically.

As for manufacturing and innovation, Impression's concerns are entirely speculative. Territorial exhaustion creates no "perverse incentive" to offshore U.S. manufacturing. Pet. Br. 58. The place of *sale*, not manufacture, is what matters under the Patent Act—even granting the fantastical assumption that exhaustion law could dictate siting decisions for global manufacturing concerns.

Any negative impact on innovation, likewise, is purely speculative. *Id.* Allowing inventors their full

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[11] Contracts are ineffective to protect the interests of patentees, however, given the ease with which an unauthorized reseller or importer could avoid the necessary privity. Impression and its *amici* cannot explain how contract remedies against a foreign direct purchaser could police unauthorized U.S. importation and resale.

reward encourages innovation in precisely the manner envisioned by the Constitution. *Supra* § I.C. Where, as here, existing precedent has been in place for years, and parties rely on it to structure their affairs, courts should be especially wary of disrupting settled expectations. *Kimble*, 135 S. Ct. at 2410. To the extent Impression's policy goals are creditable, they are for the political branches to pursue.

E. The Government's Rule Of Presumptive Exhaustion Is Wrong And Unprincipled.

Compared to Impression's mandatory rule, the Government's *presumptive* version of worldwide exhaustion would at least mitigate some of the harsher policy consequences described above. U.S. Br. 32-33. That presumption, however, is little more than a naked policy preference—both textually and doctrinally unjustified.

Having argued vehemently against a presumptive rule domestically, the Government points to nothing in the text, structure, or history of the Patent Act that supports its preferred default here. Nor is there anything: the territorial nature and distinct value of national patents under the Act and the Paris Convention—which the Government emphasizes, *id.* at 26—support the opposite rule. Because a sale abroad "does not constitute an exercise of patent rights under U.S. law," and may not fetch a price "necessarily calibrated to reward the … relinquishment of those U.S. rights," *id.* at 27, there is no reason to presume the parties intended any effect on U.S. patent rights. A multinational license cannot be implied by silence. It is simply illogical to presume most patentees intend a sale anywhere to authorize use and sale everywhere.

Neither *Boesch* nor the decisions applying it articulate the Government's preferred presumption. *Boesch* did not address reservation of rights at all, but treated the difference between German and U.S. law as dispositive. See *supra* § II.C. And none of the three lower-court decisions on which the Government relies (at 25) actually demands an "express" reservation. The discussion of contractual reservations in *Curtiss* was dictum, because that case involved an express *authorization*. 266 F. at 75, 77. *Sanofi* likewise mentioned "written restrictions upon … sale," but treated the unrestricted contractual authorization as dispositive consent for U.S. use. 565 F. Supp. at 938. And *Holiday* v. *Mattheson*, as discussed above, is a pre-*Boesch* decision that erroneously applied domestic exhaustion principles without considering whether they might apply differently in another jurisdiction. In any event, it did not articulate an express-reservation requirement, speaking only of "circumstances which *imply*"—not expressly restrict—buyers' rights. 24 F. at 186 (emphasis added). Given the lack of legal support for the Government's preferred rule, this Court should not countenance it.

Should the Court entertain this presumption, however, it should at least remand for consideration of Lexmark's reservation of its U.S. rights, as the Government agrees. U.S. Br. 34. Lexmark's cartridges are "regionalized" by design, labeling, and marketing. And many are sold abroad under the Return Program's single-use terms, which explicitly reserve U.S. rights under the Government's standard.

CONCLUSION

For the foregoing reasons, the Court should affirm the judgment of the court of appeals.

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