

4-2013

Contract-Based Post-Sale Restrictions on Patented Products Following Quanta

Alfred C. Server

Follow this and additional works at: https://repository.uchastings.edu/hastings_law_journal



Part of the [Law Commons](#)

Recommended Citation

Alfred C. Server, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 HASTINGS L.J. 561 (2013).
Available at: https://repository.uchastings.edu/hastings_law_journal/vol64/iss3/1

This Article is brought to you for free and open access by the Law Journals at UC Hastings Scholarship Repository. It has been accepted for inclusion in Hastings Law Journal by an authorized editor of UC Hastings Scholarship Repository.

Articles

Contract-Based Post-Sale Restrictions on Patented Products Following *Quanta*

ALFRED C. SERVER* AND WILLIAM J. CASEY**

Supreme Court decisions regarding the doctrine of patent exhaustion have drawn a bright line for determining when patent exhaustion occurs. If a sale of a patented product is authorized, exhaustion occurs. If a sale is not authorized, there is no exhaustion and patent remedies remain available to the patent holder to enforce a breach of a contractual restriction placed by the patent holder on the buyer of its patented product. But a lack of precision in the Supreme Court's patent exhaustion jurisprudence has resulted in uncertainty regarding the scope and impact of patent exhaustion. Specifically, questions persist as to whether a patent holder can preserve its patent infringement remedies by placing a contract-based restriction on a buyer's use or disposition of its patented product as a condition of the sale of the product and whether breach of contract remedies remain available to a patent holder if an authorized first sale is made and exhaustion occurs.

The Supreme Court's failure to answer these questions in its latest decision regarding patent exhaustion has prompted the Authors of this Article to seek these answers through a review of the relevant case law, in order to provide guidance to the patent holder who intends to control the use or distribution of its patented product following a sale. On the basis of their review, which involves an analysis of the conflict between federal patent law and state contract law that occurs in the context of an authorized first sale of a patented product, the Authors contend that a patent holder is unable to preserve patent infringement remedies by conditioning the sale of its patented product, and that contractual remedies remain available in many cases even when patent exhaustion occurs. Further, the Authors propose a case-by-case approach to assessing whether a contract-based post-sale restriction on a patented product is enforceable under state contract law. This approach involves determining whether (i) an objective of federal patent law preempts enforcement of the contractual provision; (ii) the inclusion of the provision in a contract constitutes patent misuse; (iii) the provision violates federal antitrust law; and (iv) public policy considerations (that is, regarding public health and safety) militate in favor of enforcing the restriction. The Authors conclude by noting that the distinction between patent remedies and contract remedies has diminished in the wake of the Supreme Court's recent ruling that the proper test for the granting of an injunction upon a finding of patent infringement is the traditional four-factor test used for non-patent causes of action.

* Affiliated Scholar, University of California, Hastings College of the Law; J.D., Harvard Law School, 1994; M.D., Stanford University School of Medicine, 1977; Ph.D. (Neurosciences), Stanford University, 1976; A.B., Princeton University, 1970.

** J.D. Candidate, University of California, Hastings College of the Law, 2013; M.B.S., Keck Graduate Institute, 2006; B.S., Rose-Hulman Institute of Technology, 2004.

TABLE OF CONTENTS

INTRODUCTION.....	563
I. PATENT EXHAUSTION DOCTRINE	564
A. A BRIEF HISTORY OF THE DOCTRINE.....	564
B. <i>QUANTA</i>	575
1. <i>The Supreme Court's Decision</i>	575
2. <i>A Critique of the Decision</i>	579
a. <i>A Per Se Rule That Lacks a Clear and Compelling</i> <i>Policy Rationale</i>	579
b. <i>Formalistic Line Drawing</i>	581
c. <i>Critical Unanswered Questions</i>	582
C. STATUS OF <i>MALLINCKRODT'S</i> CONDITIONAL SALE DOCTRINE	583
1. <i>Facts in Mallinckrodt and the Federal Circuit's</i> <i>Holding</i>	583
2. <i>Counterarguments and the Impact of the Quanta</i> <i>Decision</i>	589
II. ENFORCEABILITY OF CONTRACT-BASED POST-SALE RESTRICTIONS THROUGH A BREACH OF CONTRACT REMEDY	596
A. IS ANY CONTRACT-BASED POST-SALE RESTRICTION ON A PATENTED PRODUCT ENFORCEABLE THROUGH A BREACH OF CONTRACT REMEDY?.....	597
1. <i>Is a Contract-Based Post-Sale Restriction on a</i> <i>Patented Product an Impermissible Attempt to</i> <i>Contract Around Patent Exhaustion?</i>	597
2. <i>Is a Contract-Based Post-Sale Restriction on a</i> <i>Patented Product Per Se Patent Misuse?</i>	611
3. <i>Is a Contract-Based Post-Sale Restriction on a</i> <i>Patented Product Void as Against the Public Policies</i> <i>Against Restraints on Alienation and Restraints of</i> <i>Trade?</i>	618
B. IF SOME CONTRACT-BASED RESTRICTIONS ARE ENFORCEABLE, WHICH ONES AND WHAT BENEFIT DO THEY CONFER?.....	625
1. <i>Approach to Assessing the Enforceability of a</i> <i>Contract-Based Post-Sale Restriction on a Patented</i> <i>Product</i>	625
2. <i>Assessment of a Representative Contract Restriction</i>	627
3. <i>The Relative Benefit of a Breach of Contract Remedy</i> <i>Post-eBay</i>	635
CONCLUSION	638

INTRODUCTION

In *Quanta Computer, Inc. v. LG Electronics, Inc.*,¹ the Supreme Court provided its latest interpretation of the patent exhaustion doctrine. The *Quanta* Court held that the authorized first sale of a patented product exhausts the patent rights substantially embodied in the product, eliminating patent infringement remedies with respect to the product based on those rights.² The Court left unanswered, however, the questions of whether a patent holder can preserve its patent infringement remedies by placing a contract-based restriction on the buyer of its patented product as a condition of sale and whether breach of contract remedies are still available to the patent holder if an authorized first sale exhausts patent infringement remedies. In this Article we address these questions, which require a balancing of the policy considerations that inform the federal patent laws against the dictates of state contract law.

In Part I, we discuss the nature and scope of the patent exhaustion doctrine. We begin with a brief history of the doctrine, as articulated by the Supreme Court, including a discussion of the various rationales that have been offered as justifications for patent exhaustion. We next review the Court's *Quanta* decision. Finally, we address the current status of the conditional sale doctrine, as articulated by the Federal Circuit in *Mallinckrodt, Inc. v. Medipart, Inc.*³ According to the conditional sale doctrine, a patent holder can preserve its patent infringement remedies by placing a condition, in the form of an explicit contract-based post-sale restriction, on the buyer of its patented product.⁴ If the conditional sale doctrine remains good law following *Quanta* and a patent holder can control the post-sale use or disposition of its product through a patent infringement remedy, the question of whether a breach of contract remedy is also available to the patent holder is relatively unimportant. If, on the other hand, the authorized first sale of a patented product exhausts patent infringement remedies, irrespective of any condition placed on the buyer, then a patent holder who intends to maintain control of its product following a sale must rely on the enforceability of a breach of contract claim. The Supreme Court in *Quanta* failed to discuss the Federal Circuit's *Mallinckrodt* decision, leaving questions as to the status of the conditional sale doctrine. However, on the basis of Supreme Court precedent regarding patent exhaustion and the structure of the Court's argument in *Quanta*, we conclude that the conditional sale doctrine is no longer good law. And even if one accepts, for the sake of argument, that the doctrine's status has yet to be fully resolved, there is sufficient uncertainty regarding its continued viability following *Quanta*

1. 553 U.S. 617 (2008).

2. *Id.* at 638.

3. 976 F.2d 700 (Fed. Cir. 1992).

4. *Id.* at 708–09.

to justify a comprehensive assessment of the enforceability of post-sale restrictions on a patented product through a breach of contract remedy.

In Part II of this Article, we undertake such an assessment. We review arguments against the enforceability of *any* contract-based post-sale restriction on a patented product under state contract law. We consider whether such a restriction (i) is an impermissible attempt to contract around patent exhaustion that is preempted under federal patent law; (ii) is per se patent misuse, or (iii) contravenes the public policies against restraints on alienation and restraints of trade. We conclude that some contract-based post-sale restrictions are enforceable under state law while others are not, depending on the nature of the restriction, and that such restrictions should be evaluated on a case-by-case basis under a rule of reason type analysis. Next, we provide an approach to assessing the enforceability of individual contract-based post-sale restrictions on a patented product under state law, which requires a determination of whether (i) an objective of federal patent law preempts enforcement of the contractual provision; (ii) the inclusion of the provision in a contract constitutes patent misuse; (iii) the provision violates federal antitrust law; and (iv) public policy considerations (e.g., regarding public health and safety) militate in favor of enforcing the restriction. We then apply this approach in analyzing a representative contract-based post-sale restriction on a patented product. We end this Section by considering the impact of the Supreme Court's recent decision in *eBay Inc. v. MercExchange, L.L.C.*⁵ regarding injunctive relief for patent infringement on the relative benefit to a patent holder of a breach of contract remedy as compared to a patent infringement remedy.

I. PATENT EXHAUSTION DOCTRINE

A. A BRIEF HISTORY OF THE DOCTRINE

The Supreme Court's 1852 decision in *Bloomer v. McQuewan*⁶ is generally acknowledged as the Court's first application of the patent exhaustion doctrine,⁷ also called the first sale doctrine.⁸ In that case, the holder of a patent right for the original patent term sold the right to

5. 547 U.S. 388 (2006).

6. 55 U.S. 539 (1852).

7. While *Bloomer v. McQuewan* is generally acknowledged as the Supreme Court's first application of the patent exhaustion doctrine, there was no actual authorized first sale in the case. The so-called authorized sale took place when a party that was granted the right under the applicable patent to construct and use a patented machine legally obtained title to the machine by constructing and using it pursuant to the granted right. *Id.* at 548.

8. See Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487, 491 (2011) ("The first significant body of distribution restraints law in the United States was the judge-made 'first sale' doctrine, often referred to as patent 'exhaustion,' which limited a patentee's ability to place restrictions on a patented good after it had been sold.").

construct and use machines covered by the patent.⁹ The purchaser of the patent right manufactured the machines during the original term and continued to use them during an extension of the patent term.¹⁰ The holder of the patent for the extended term sued the purchaser for infringement.¹¹ The Court rejected the patent infringement claim, ruling that the purchaser gained ownership of the machines made during the original term and, thereby, exhausted the right of the owner of the patent for the extended term to control the purchaser's use of the machines.¹² The Court reasoned that "when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly"¹³ created by Congress in enacting the federal patent laws. In the 160 years since the *McQuewan* decision, the Court has reconsidered the meaning and scope of the patent exhaustion doctrine on at least eighteen occasions. While a discussion of each of these cases is beyond the scope of this Article, they are listed for reference in Table 1.¹⁴ In this brief history of the doctrine, we focus only on those cases that are critical to the issues addressed in this Article.

Following its *McQuewan* decision, the Court's next significant endorsement of the exhaustion doctrine came in *Adams v. Burke*.¹⁵ The case involved an alleged territorial restriction on the use of patented coffin lids.¹⁶ Burke, an undertaker, purchased some of the coffin lids from the owner of the patent right to make, sell, and use them within a ten-mile radius of the city of Boston.¹⁷ Burke used the lids for their intended purpose in the town of Natick, which is seventeen miles from Boston.¹⁸ Adams, the assignee of the remaining patent rights, sued Burke for infringement based on Burke's use of the patented lids in the territory

9. *McQuewan*, 55 U.S. at 548.

10. *Id.*

11. *Id.*

12. *Id.* at 549–51.

13. *Id.* at 549.

14. Table 1 lists the Supreme Court cases that consider whether a restriction on a patented product is enforceable through a patent infringement remedy following an alleged transfer of title to the product. The term "patent holder" refers to the holder of the right conferred by the issuance of a U.S. patent (whether the original patentee, an assignee, or a conveyee) to exclude others from making and selling a product that is covered by or substantially embodies the applicable patent, as opposed to a licensee under the patent, such as a "manufacturing licensee" that has been granted the right by the patent holder to make and sell the patented product. The Supreme Court's decisions in *E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70 (1902), and *United States v. General Electric Co.*, 272 U.S. 476 (1926), are frequently included in discussions of the Court's patent exhaustion jurisprudence. These cases, however, solely addressed the enforceability of a restriction placed by a patent holder on a manufacturing licensee and did not consider a restriction placed on the buyer of a patented product. Moreover, *Bement* was a breach of contract case that did not involve a patent infringement claim.

15. 84 U.S. 453 (1873).

16. *Id.* at 453–54.

17. *Id.* at 454–55.

18. *Id.*

assigned to Adams.¹⁹ The Court rejected the infringement claim on the grounds that the authorized first sale of the coffin lids to Burke exhausted any patent rights with respect to the purchased lids.

The Court's brief opinion in *Adams* is noteworthy because it provided language that spawned a number of justifications for patent exhaustion, based on arguments that are often overlapping and, occasionally, in conflict. The *Adams* Court relied on the holding in *McQuewan* to conclude that "when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, . . . he parts with the right to restrict that use [because] [t]he article . . . passes without the limit of the monopoly."²⁰ This is a per se rule that holds that an authorized first sale of a patented product, which transfers title to the product to the buyer, moves the product outside of the scope of the patent monopoly and, therefore, exhausts the patent rights with respect to that product. As will be demonstrated in Part I.B, this bright-line rule was emphatically endorsed by the Supreme Court in its recent *Quanta* decision.

The Court in *Adams*, however, embellished the *McQuewan* "outside of the patent monopoly" rationale by focusing on the consideration received by an authorized seller in the sale of its patented product. As the Court stated,

the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.²¹

This language has been interpreted as reflecting the view that once a patent holder has received its reward for its invention through the sale of a product embodying that invention, the purpose of the federal patent statute to encourage innovation for the public good has been satisfied. As the Supreme Court noted in a subsequent decision referencing its *Adams* holding, "once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold."²² Exhaustion of the patent right following an authorized first sale for consideration is consistent with the view that the statutory monopoly conferred upon an inventor through the issuance of a patent should be limited and of no greater scope or duration than that required to meet the federal patent system's goal "to promote invention while at the same time preserving free competition."²³

The Supreme Court's language in *Adams* regarding a patentee's reward, however, has been interpreted differently by the courts over the

19. *Id.*

20. *Id.* at 456.

21. *Id.*

22. *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942).

23. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230-31 (1964).

years. According to one view, the single reward interpretation,²⁴ a patent holder who sells its patented product is entitled to a single payment at the time of the sale and, upon receipt of that consideration, its right to exert downstream control over the buyer's use or disposition of the product through the threat of a patent infringement claim ends as a result of patent exhaustion. The Supreme Court expressed this view in *Hobbie v. Jennison*,²⁵ endorsing "the true interpretation of the decision in *Adams v. Burke*."²⁶ In the words of the *Hobbie* Court, "when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and parts with the right to restrict that use."²⁷

However, an alternative interpretation has been suggested, most recently by the Federal Circuit in its decisions in *Mallinckrodt, Inc. v. Medipart, Inc.*²⁸ and *B. Braun Medical, Inc. v. Abbott Laboratories*.²⁹ According to that view, a patent holder can request a payment from its buyer that is less than the full value of the patent rights embodied in the product sold. By so doing, the patent holder is able to retain some of the rights in the product, which are made known to the buyer in the form of a contract-based restriction on the buyer's post-sale use or disposition of the product. A violation of this restriction by the buyer can be remedied through a patent infringement claim. As the Federal Circuit noted in its *Braun* decision, the exhaustion doctrine "does not apply to an expressly conditional sale In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee."³⁰ In essence, the patent holder can tailor the consideration demanded for the sale of its product to match the value of the rights transferred to the buyer. The question as to which of these conflicting interpretations of the consideration rationale for patent exhaustion (single reward versus tailored consideration) is correct is still being debated and is specifically addressed in Part II.B.2 below.

The Court in *Adams* offered yet another rationale for the patent exhaustion doctrine when it held "that the sale by a person [of a patented machine] who has the full right to make, sell, and use such a machine

24. The single reward interpretation of patent exhaustion is also discussed in Part II.B.2 *infra*.

25. 149 U.S. 355 (1893).

26. *Id.* at 361.

27. *Id.* at 361–62. In *Bloomer v. Millinger*, 68 U.S. 340, 350 (1863), the Supreme Court expressed a similar view in stating that patentees "are entitled to but one royalty for a patented machine, and consequently when a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, . . . and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold"; see *LG Elecs., Inc. v. Asustek Computer, Inc.*, No. C 01-00326 CW, 2002 WL 31996860, at *4 (N.D. Cal. Aug. 20, 2002) ("The [patent exhaustion] doctrine is designed to prevent a patentee from receiving a double royalty on a single patented invention.").

28. 976 F.2d 700 (Fed. Cir. 1992).

29. 124 F.3d 1419 (Fed. Cir. 1997).

30. *Id.* at 1426; see *infra* note 146.

carries with it the right to the use of that machine to the full extent to which it can be used.”³¹ In effect, the Court articulated the implied license rationale for patent exhaustion, which holds that the authorized first sale of a patented product is accompanied by an implied license to use and dispose of the product free from downstream control by the patent holder. This rationale has been repeated in subsequent Supreme Court opinions regarding patent exhaustion.³² However, the validity of this argument has been questioned,³³ and, as discussed in the following Part, the Supreme Court rejected the implied license rationale in *Quanta*.³⁴

The various justifications for patent exhaustion reflected in the Court’s opinion in *Adams* are echoed, albeit inconsistently, in subsequent Supreme Court decisions addressing the doctrine. In fact, the Court’s *Adams* opinion provides the first glimpse of the confusion as to policy rationale that has come to characterize the Supreme Court’s patent exhaustion jurisprudence. This confusion has been the source of significant uncertainty among commentators and the courts with respect to the proper application of the doctrine.

The Supreme Court’s next important ruling on patent exhaustion was issued in *Keeler v. Standard Folding Bed Co.*³⁵ In that case the Court held that the authorized first sale of patented beds by the owner of the rights to the patent in the state of Michigan exhausted all of the patent rights embodied in the beds.³⁶ The effect of the exhaustion was to bar a patent infringement claim brought by the owner of the patent rights in the state of Massachusetts against a buyer who purchased the beds in

31. *Adams v. Burke*, 84 U.S. 453, 455 (1873) (emphasis added).

32. See *United States v. Unis Lens Co.*, 316 U.S. 241, 249 (1942) (observing that an authorized sale is “both a complete transfer of ownership ... and a license to practice” the patented invention); see *infra* notes 71–79 and accompanying text discussing the Supreme Court’s decision in *Univis*; see also Brief for the United States as Amicus Curiae Supporting Petitioners at 9, *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (No. 06-937), 2007 WL 3353102 (“[A]n authorized sale of a patented article grants an implied-in-law license under patent law to practice the patent. As *Adams* explained, this Court’s first-sale cases rest on the principle that ‘the sale by a person who has the full right to make, sell, and use such a machine *carries with it* the right to the use of that machine to the full extent to which it can be used.’” (citation omitted)).

33. See Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CALIF. L. REV. 1, 31–32 (2001); John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 643, 687–91 (2004); see also *LG Elecs., Inc. v. Asustek Computer, Inc.*, C 01-00326 CW, 2002 WL 31906860 *3–4 (N.D. Cal. Aug. 20, 2002) (“The patent exhaustion doctrine . . . is derived from the statutory grant of exclusivity to the patentee. . . . The implied license doctrine, on the other hand, derives not from statute, but from principles of equity. . . . Although similar in effect, the doctrines require distinct analysis. To determine if a patent was exhausted, the court must assess whether the terms of the patentee’s sale remove the invention from the protection of the patent law. The determination of whether an implied license exists, however, is necessarily more fact specific. The court must determine whether the patentee’s acts led the accused infringer to believe it had acquired the right to practice the patented invention.”).

34. See *infra* Part I.B.1.

35. 157 U.S. 659 (1895).

36. *Id.* at 666.

Michigan but resold them in Massachusetts.³⁷ The significance of the case for our purposes is that it provides the first clear articulation by the Supreme Court of the question that is the focus of this Article, namely, is a contract-based post-sale restriction on a patented product enforceable through a breach of contract remedy, despite the absence of a patent infringement remedy as a result of exhaustion? In raising, but not answering, this question the *Keeler* Court stated the following:

[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.³⁸

We will revisit this language below in Part II.A of this Article.

The Court's decision in *Henry v. A.B. Dick Co.*³⁹ (overruled in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*⁴⁰) is a true outlier in the Supreme Court's patent exhaustion jurisprudence. The case involved the sale of a patented rotary mimeograph machine by the patentee in which the buyer was obligated, as indicated by a notice attached to the machine, to only use unpatented stencil paper and ink made by the patentee in the operation of the machine.⁴¹ Despite the authorized first sale of the patented machine, the Court held that the relevant patents were not exhausted and that the post-sale restriction placed on the buyer was enforceable through a patent infringement remedy.⁴² The Court distinguished its prior decisions in which an authorized first sale resulted in patent exhaustion as involving unconditional sales in which the seller placed no post-sale restriction on the buyer with respect to the product sold.⁴³ It relied on a variation of the implied license rationale for patent exhaustion to argue that a seller can retain some of its patent rights with respect to a product if the sale is made subject to a condition known to the buyer.⁴⁴ Quoting from a recognized treatise on patent law, the *Henry* Court held that "any person having the right to sell may at the time of sale restrict the use of his vendee within specific boundaries of time or place or method, and these

37. *Id.* at 667.

38. *Id.* at 666.

39. 224 U.S. 1 (1912).

40. 243 U.S. 502 (1917).

41. *Henry*, 224 U.S. at 11.

42. *Id.* at 24–25.

43. *Id.* at 19 ("In the cases cited above [including *Mitchell*, *Adams*, and *Keeler*], the statement that a purchaser of a patented machine has an unlimited right to use it for all the purposes of the invention, so long as the identity of the machine is preserved, was made of one who bought unconditionally, that is, subject to no specified limitation upon his right of use.").

44. *Id.* at 23–24.

will then become the measure of the implied license arising from the sale.”⁴⁵ In other words, while an unconditional authorized first sale of a patented product carries with it an unrestricted implied license granted to the buyer to use or dispose of the product and in that sense exhausts the patent right, an authorized first sale that is conditioned by means of an express restriction placed on the buyer limits the scope of the implied license and the extent of the exhaustion.

The *Henry* Court provided a second justification for its ruling by adopting the tailored consideration rationale for patent exhaustion, discussed above. Recall that, according to this rationale, a patent holder that sells its product can request a payment that is less than a full value of the patent rights embodied in the product and, thereby, retain some of its rights in the product that are made known to the buyer through an express condition of the sale. As the Court in *Henry* explained,

the patentee sold its machines at cost, or less, and depended upon the profit realized from the sale of other non-patented articles adapted to be used with the machine, and . . . it had put out many thousands of such machines under the same license restriction. Such a sale, while transferring the property right in the machine, carries with it only the right to use it for practicing the invention according to the terms of the license. To no other or greater extent does the patentee consent to the use of the machine. When the purchaser is sued for infringement by using the device, he may defend by pleading, not the general and unlimited license which is carried by an unconditional sale, but the limited license indicated by the metal tablet annexed to the machine. If the use is not one permitted, it is plainly an infringing use.⁴⁶

The Court in *Henry* bolstered its argument that a conditioned authorized sale limits patent exhaustion by citing its prior decisions in *Mitchell v. Hawley*⁴⁷ and *Bement v. National Harrow Co.*,⁴⁸ in which the Court had ruled that the product-related restriction under consideration was enforceable. However, the sales in those cases were not authorized by the patent holder. In fact, the *Henry* Court had to look to a prior Sixth Circuit decision in *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*⁴⁹ for a fact pattern similar to that in *Henry* in which the conditioning of an authorized first sale preserved a patent infringement

45. *Id.* at 24 (quoting 2 ROBINSON ON PATENTS § 824).

46. *Id.* at 26.

47. 83 U.S. 544 (1872).

48. 186 U.S. 70 (1902). Note that *Bement* was a breach of contract case that did not involve a patent infringement claim. It solely addressed the enforceability of a restriction placed by a patent holder on a manufacturing licensee and did not consider a restriction placed on the buyer of a patented product. The Court in *Henry* relied on it for the proposition that ““with few exceptions, . . . any conditions which are not in their very nature illegal with regard to this kind of [patented intellectual] 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. The fact that the conditions in the contracts keep up the [patentee’s] monopoly . . . does not render them illegal.” *Henry v. A.B. Dick Co.*, 224 U.S. 1, 30 (1912) (quoting *Bement*, 186 U.S. at 91).

49. 77 F. 288 (6th Cir. 1896).

remedy, and the same judge (Lurton) delivered the opinion of the court in both cases.

Although the Supreme Court's decision in *Henry* was overruled in *Motion Picture Patents*,⁵⁰ the so-called conditional sale doctrine endorsed in *Henry* was resurrected by the Federal Circuit in *Mallinckrodt and Braun*.⁵¹ There is uncertainty, however, as to the continued viability of the doctrine in the wake of the Supreme Court's *Quanta* decision. We discuss the status of the conditional sale doctrine and its relevance to the question of whether a contract-based post-sale restriction on a patented product can be enforced through a breach of contract remedy in Part I.C.

Following its decision in *Henry*, the Supreme Court issued four opinions regarding patent exhaustion that undermined and ultimately overruled its holding in *Henry*: *Bauer & Cie v. O'Donnell*,⁵² *Straus v. Victor Talking Machine Co.*,⁵³ *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,⁵⁴ and *Boston Store of Chicago v. American Graphophone Co.*⁵⁵ Aspects of these decisions are discussed elsewhere in this Article. Collectively, they are remarkable for the following shared features: In each of these cases the Court found that (i) the relevant patent was exhausted following an authorized first sale of a patented product, despite an express condition placed upon, and known to, the buyer in the form of a restriction as to the post-sale use or disposition of the product; (ii) as a result of the exhaustion, the post-sale restriction placed on the buyer was not enforceable through a patent infringement remedy; and (iii) the post-sale restriction under consideration, which placed either a tying or price-fixing obligation on the buyer, was void as constituting patent misuse and/or in violation of competition law.

The Supreme Court relied primarily on *McQuewan's* "outside the patent monopoly" rationale for patent exhaustion in deciding these four cases.⁵⁶ However, the Court in these cases addressed another consideration that has been used as a justification for patent exhaustion, namely, the public policies against restraints of alienation and restraints of trade. As the Court noted in *Straus*,

50. 243 U.S. 502, 518 (1917) ("It is obvious that the conclusions arrived at in this opinion are such that the decision in *Henry v. Dick Co.* . . . must be regarded as overruled.")

51. See William LaFuze et al., *The Conditional Sale Doctrine in a Post-Quanta World and Its Implications on Modern Licensing Agreements*, 11 J. MARSHALL REV. INTELL. PROP. L. 295 (2011).

52. 229 U.S. 1 (1913).

53. 243 U.S. 490 (1917).

54. 243 U.S. 502.

55. 246 U.S. 8 (1918).

56. *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852). The Court's position was, perhaps, best expressed in its *Bauer* decision when it stated that, following the authorized first sale of a patented product, the "right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act. This being so, the case is brought within that line of cases in which this court from the beginning has held that a patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act." 229 U.S. at 17.

[c]ourts would be perversely blind if they failed to look through such an attempt as this 'License Notice' thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest.⁵⁷

In *Motion Picture Patents*, the Court stated that

it is not competent for the owner of a patent by notice attached to its machine to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice and the cost, inconvenience and annoyance to the public which the opposite conclusion would occasion forbid it.⁵⁸

We discuss this policy rationale further in Part II.A.3.

*General Talking Pictures Corp. v. Western Electric Co.*⁵⁹ was the next important patent exhaustion case decided by the Supreme Court. American Telephone and Telegraph Company (the "Telephone Company") owned various patents that covered amplifiers used for home-use radio reception and for reproducing sound for movie equipment in theaters.⁶⁰ The Telephone Company authorized its agent to grant a nonexclusive license under its patents to American Transformer Company (the "Transformer Company") to manufacture and sell amplifiers covered by the patents for radio reception only.⁶¹ The license agreement was explicit in limiting the scope of the grant to sales to private radio users and not for commercial use in theaters.⁶² Despite the restriction, the Transformer Company sold amplifiers to General Talking Pictures Corporation ("GTP"), knowing that GTP intended to use the amplifiers in theaters.⁶³ GTP was made aware of the limitation on the Transformer Company's right to sell the amplifiers through a notice affixed to the machines indicating that they were for private use only.⁶⁴ Western Electric Company ("Western"), which had been granted the exclusive right to sell the covered amplifiers for commercial use in theaters, sued GTP for patent infringement.⁶⁵ The Court concluded that both the Transformer Company and GTP had infringed the patents at issue.⁶⁶ In manufacturing the amplifiers for, and selling them to, GTP for

57. 243 U.S. at 500-01.

58. 243 U.S. at 516.

59. 304 U.S. 175 (1938), *reh'g* at 305 U.S. 124 (1938).

60. *Gen. Talking Pictures*, 304 U.S. at 179.

61. *Id.* at 179-80.

62. *Id.* at 180.

63. *Id.*

64. *Id.*

65. *Id.* at 179.

66. *Id.* at 181-82.

commercial use, the Transformer Company was acting outside of the scope of its license grant.⁶⁷ Accordingly, the sale made by the Transformer Company was an infringing (and not authorized) sale that did not exhaust the patent infringement remedy that Western sought from the Transformer Company.⁶⁸ GTP, which had purchased the amplifiers with the knowledge that the sale by the Transformer Company was not authorized, infringed the patents through its commercial use of the amplifiers.⁶⁹

The Court's decision in *General Talking Pictures* is instructive for several reasons. First, it was the Court's clearest demonstration to date of an infringing sale of a patented product in a case addressing patent exhaustion. The business arrangement under consideration was carefully detailed by the Court so as to highlight the fact that the sale of the patented product was made by a manufacturing licensee acting outside of the scope of a validly restricted license grant.⁷⁰ Second, the Court distinguished between a restriction placed by a patent holder on its manufacturing licensee and a restriction placed on the buyer of a patented product. And third, the Court confirmed that only a first sale that is authorized by the holder of the patent right (as opposed to an infringing sale) triggers exhaustion that renders a post-sale restriction on the buyer of the patented product unenforceable through a patent infringement remedy.

Considering our view that *General Talking Pictures* is a pivotal case for interpreting the Supreme Court's patent exhaustion jurisprudence, it is particularly noteworthy that the Federal Circuit relied on the case in *Mallinckrodt* to resurrect the conditional sale doctrine originally endorsed in *Henry*. There is a clear distinction, however, between the infringing sale that occurred in *General Talking Pictures* and an authorized first sale accompanied by a condition on the buyer that occurred in both *Henry* and *Mallinckrodt*. As we will argue in Part I.C, Supreme Court case law makes clear that the former does not exhaust patent infringement remedies while the latter does. Suffice it to say at this point that through application of the principles set forth in *General Talking Pictures*, seemingly contradictory Supreme Court decisions regarding patent exhaustion can be reconciled, with the exception of *Henry* which was overruled by *Motion Picture Patents*.

67. *Id.*

68. *Id.*

69. *Id.* at 182.

70. 305 U.S. 124, 127 (1938) ("As the restriction was legal and the amplifiers were made and sold outside the scope of the license the effect is precisely the same as if no license whatsoever had been granted to Transformer Company. And as Pictures Corporation [GTP] knew the facts, it is in no better position than if it had manufactured the amplifiers itself without a license. It is liable because it has used the invention without license to do so.").

*United States v. Univis Lens Co.*⁷¹ was the Supreme Court's last significant patent exhaustion opinion prior to its *Quanta* decision. The case involved a licensing system by means of which the holder of patents relating to multifocal lenses for eyeglasses controlled the prices at which the lenses were sold.⁷² Univis Lens Company ("Univis") was licensed by the patent holder to manufacture and sell lens blanks to designated licensees of the patent holder for finishing and resale, at prices specified by the patent holder, for use in eyeglasses.⁷³ The federal government challenged the licensing system as an unlawful restraint of trade under the Sherman Act that was not within the protection of the patent laws.⁷⁴ The Supreme Court found for the government on the basis of its conclusion that the authorized first sale of the lens blanks by Univis exhausted the patent monopoly with respect to the lenses—rendering the resale price restriction placed on a buyer of the lenses void as a violation of antitrust law.⁷⁵ Central to the Court's ruling was its determination that the authorized sale of a lens blank, which embodied the essential features of the patented invention and whose only use was as a multifocal lens for eyeglasses when finished in accordance with the patent, exhausted the relevant patents with respect to both the blank and the finished lens, despite the fact that the finishing of the lens was to be performed by the buyer of the blank.⁷⁶

As in *Adams*, the Supreme Court in *Univis* relied on multiple justifications for patent exhaustion to rule that the post-sale restriction under consideration in the case was not enforceable through a patent infringement remedy. The *Univis* Court adopted *McQuewan*'s "outside of the patent monopoly" rationale in stating that the "first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."⁷⁷ In addition, the Court endorsed *Adams*'s focus on the consideration received by a patent holder from a product sale by noting that

71. 316 U.S. 241 (1942).

72. *Id.* at 243–44.

73. *Id.*

74. *Id.* at 242–43.

75. *Id.* at 250 ("The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying the invention. His monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article. Hence the patentee cannot control the resale price of patented articles which he has sold, either by resort to an infringement suit, or, consistently with the Sherman Act . . . by stipulating for price maintenance by his vendees." (citation omitted)).

76. *Id.* at 250–51 ("[W]here one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article.").

77. *Id.* at 252.

[o]ur decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.⁷⁸

Finally, the *Univis* Court looked to the implied license rationale for patent exhaustion to support its ruling in the case. In the words of the Court,

[a]n incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it, and upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold. Sale of a lens blank by the patentee or by his licensee is thus in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, and a license to practice the final stage of the patent procedure.⁷⁹

The Supreme Court's reliance on multiple rationales for patent exhaustion in its *Univis* decision was consistent with the Court's prior approach to justifying the doctrine and left the various rationales available for reconsideration by the Court in *Quanta*.

B. *QUANTA*

I. *The Supreme Court's Decision*

In *Quanta Computer, Inc. v. LG Electronics, Inc.*,⁸⁰ the Supreme Court issued its latest opinion on patent exhaustion. LG Electronics ("LGE") owned a portfolio of patents related to computer systems.⁸¹ LGE licensed its patents to Intel Corporation ("Intel").⁸² The license agreement authorized "Intel to make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of its own products practicing the [licensed] patents" (the "Licensed Intel Products").⁸³ The license agreement also had a clause that attempted to prevent the license from

78. *Id.* at 251.

79. *Id.* at 249 (citation omitted).

80. 553 U.S. 617 (2008).

81. *See id.* at 621–23. Three patents were at issue in the case. *Id.* at 621. U.S. Patent No. 4,939,641 ('641) covers a system that "ensur[es] that the most current data are retrieved from main memory by monitoring data requests and updating main memory from the cache when stale data are requested." *Id.* at 622 (citing *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1377 (Fed. Cir. 2006)). U.S. Patent No. 5,379,379 ('379) covers an efficient manner of coordinating "requests to read from, and write to, main memory." *Id.* (citing *LG Elecs.*, 453 F.3d at 1378). U.S. Patent No. 5,077,733 ('733) covers methods of rotating data traffic among multiple computer components to ensure no one component's usage dominates while giving heavy users priority. *Id.* at 622–23 (citing *Order Construing Disputed Terms and Phrases* at 37–38, *LG Elecs. v. Asustek Computer, Inc.*, No. C01-02187 (N.D. Cal., Aug. 20, 2002)).

82. *Id.* at 623.

83. *Id.* (internal quotation marks omitted).

extending to third party buyers.⁸⁴ But, the license agreement noted that it was not intended to modify the principles of patent exhaustion in any way.⁸⁵ In a separate master agreement, Intel agreed to provide written notice to its buyers that Intel's license from LGE did not extend to products made "by combining an Intel product with any non-Intel product."⁸⁶

Quanta Computer ("Quanta") purchased microprocessors and chipsets, each a Licensed Intel Product, from Intel and combined them with non-Intel memory and buses.⁸⁷ LGE's patents covered the combination, but Quanta combined the Intel and non-Intel products despite Intel's provision of the notice required by the master agreement.⁸⁸ LGE then asserted its patents against Quanta while Quanta argued that Intel's sale to Quanta exhausted any patent rights LGE had in the combined product.⁸⁹

The Court held that patent exhaustion applied and that LGE had no patent remedy it could use to seek redress against Quanta.⁹⁰ In discussing the exhaustion doctrine, the Court emphasized several of its precedents⁹¹ to reinforce the basic tenet that an authorized first sale of a patented product exhausts a patent holder's rights in the patent with respect to that product. First, the Court noted that following such a sale, post-sale restrictions on the use or disposition of the product are not enforceable through a patent infringement remedy.⁹² Next, the Court referenced *McQuewan's* "outside of the patent monopoly" rationale as the justification for patent exhaustion.⁹³ Finally, citing its decision in *Univis*, the Court emphasized that patent exhaustion applies "following the sale of an item . . . when the item sufficiently embodies the patent—even if it does

84. *Id.* ("[The agreement] stipulates that no license is granted by either party hereto . . . to any third party for the combination by a third party of Licensed Products of either party with items, components, or the like acquired . . . from sources other than a party hereto, or for the use, import, offer for sale or sale of such combination." (internal quotation marks omitted)).

85. *Id.* ("[N]otwithstanding anything to the contrary contained in this Agreement, the parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products." (internal quotation marks omitted)).

86. *Id.* at 624.

87. *Id.*

88. *Id.*

89. *Id.*

90. *Id.* at 638.

91. *See id.* at 625–28. In reviewing the history of the patent exhaustion doctrine, the Court in *Quanta* discussed its prior decisions in *McQuewan*, *Adams*, *Henry*, *Bauer*, *Motion Picture Patents*, and *Univis*.

92. *See id.* at 625–26. The Court noted that after briefly permitting the enforcement of post-sale restrictions through a patent infringement remedy in *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), it overruled that decision in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

93. *Id.* at 625 ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly." (quoting *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1853))).

not completely practice the patent—such that its only and intended use is to be finished under the terms of the patent.”⁹⁴

Before addressing whether the sale under consideration in the case was an authorized first sale that exhausted the patent, the *Quanta* Court considered whether exhaustion applies to method claims and whether the Licensed Intel Products substantially embodied the patents. First, the Court held that patent exhaustion does apply to method claims.⁹⁵ It based this holding on Court precedent,⁹⁶ as well as the policy rationale that clever claim drafters would draft method claims to avoid exhaustion.⁹⁷ Second, the Court held that an “authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold.”⁹⁸ Since only common processes or standard parts were required to practice the LGE patents after Intel’s sale of the Licensed Intel Products, the Court found that Intel’s microprocessors and chipsets substantially embodied the LGE patents.⁹⁹ Further, the Court addressed when substantial embodiment occurs by noting that the inventive part of the patents in this case was in the design of the Licensed Intel Products and not their combination with memory and buses.¹⁰⁰

Finally, the Court addressed whether Intel’s sale was an authorized sale that exhausted the patent and held that the sale was authorized and exhaustion did apply.¹⁰¹ In coming to this determination, the Court rejected LGE’s argument that Intel was not authorized to sell Licensed Intel Products to buyers for “use in combination with non-Intel products.”¹⁰² Instead, the Court noted that the license agreement did not restrict

94. *Id.* at 628.

95. *Id.* at 629 (“[T]his Court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method.”).

96. *Id.* (“In *Ethyl Gasoline Corp. v. United States*, for example, the Court held that the sale of a motor fuel produced under one patent also exhausted the patent for a method of using the fuel in combustion motors. Similarly, . . . *Univis* held that the sale of optical lens blanks that partially practiced a patent exhausted the method patents that were not completely practiced until the blanks were ground into lenses.” (citation omitted)).

97. *Id.* at 629–30. (“Eliminating exhaustion for method patents would seriously undermine the exhaustion doctrine. Patentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus. . . . By characterizing their claims as method instead of apparatus claims, or including a method claim for the machine’s patented method of performing its task, a patent drafter could shield practically any patented item from exhaustion.”).

98. *Id.* at 631 (quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942)).

99. *Id.* at 633 (“Like the *Univis* lens blanks, the Intel Products constitute a material part of the patented invention and all but completely practice the patent. Here, as in *Univis*, the incomplete article substantially embodies the patent because the only step necessary to practice the patent is the application of common processes or the addition of standard parts. Everything inventive about each patent is embodied in the Intel Products.”).

100. *Id.* at 635 (“In this case, the inventive part of the patent is not the fact that memory and buses are combined with a microprocessor or chipset; rather, it is included in the design of the Intel Products themselves and the way these products access the memory or bus.”).

101. *Id.* at 635–37.

102. *Id.* at 636.

Intel's ability to sell to buyers intending to combine the Licensed Intel Products with non-Intel parts.¹⁰³ Further, Intel provided to third party buyers the notice that was required by the master agreement, and even if they did not, the breach of the master agreement would not have breached the license agreement.¹⁰⁴ Thus, the Court found the sale to be authorized by the license agreement.¹⁰⁵

It is noteworthy that the Court in *Quanta* rejected LGE's argument that Quanta had no right to combine the Licensed Intel Products with non-Intel products because the license agreement between LGE and Intel disclaimed any license to third parties (including Quanta) to practice the LGE patents by combining the Intel products with non-Intel components.¹⁰⁶ According to the *Quanta* Court, this argument was relevant to the reasoning that, in the absence of an explicit disclaimer such as the one in the license agreement, Quanta would have been granted an implied license under LGE's patents to use the Licensed Intel Products with non-Intel products, but in the presence of such an explicit disclaimer, the implied license to Quanta was limited to use of the Intel products only with other Intel products.¹⁰⁷ From the Court's perspective, however, the question at issue in the case (and Quanta's argument in support of its unrestricted use of the Licensed Intel Products) was not one of implied license, but of patent exhaustion.¹⁰⁸ In essence, the Supreme Court in *Quanta* rejected the implied license rationale for patent exhaustion in favor of the per se rule originally set forth in *McQuewan* that an authorized first sale of a patented product places the product outside of the scope of the statutorily created patent monopoly.

103. *Id.*

104. *Id.* at 636–37.

105. *See id.* (“LGE overlooks important aspects of the structure of the Intel-LGE transaction. Nothing in the License Agreement restricts Intel’s right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts. It broadly permits Intel to “make, use, [or] sell” products free of LGE’s patent claims. To be sure, LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents. But neither party contends that Intel breached the agreement in that respect. In any event, the provision requiring notice to Quanta appeared only in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement. Hence, Intel’s authority to sell its products embodying the LGE Patents was not conditioned on the notice or on Quanta’s decision to abide by LGE’s directions in that notice.” (alteration in original) (citations omitted)).

106. *Id.* at 637.

107. *Id.*

108. *Id.* (“LGE points out that the License Agreement specifically disclaimed any license to third parties to practice the patents by combining licensed products with other components. But the question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion. And exhaustion turns only on Intel’s own license to sell products practicing the LGE Patents.” (citation omitted)).

2. *A Critique of the Decision*

The Supreme Court's *Quanta* decision has been the subject of numerous commentaries¹⁰⁹ and scholarly reviews.¹¹⁰ Foremost among the criticisms that have been leveled at the decision are the following: (i) The *Quanta* decision endorses a per se rule for patent exhaustion, in the absence of a clear and compelling policy rationale; (ii) the decision rests upon formalistic line drawing that permits a patent holder, through an appropriate business arrangement and careful contract drafting, to circumvent patent exhaustion; and (iii) the Court's opinion in the case leaves unanswered critical questions regarding the fate of *Mallinckrodt's* conditional sale doctrine and the enforceability of a contract-based post-sale restriction on a patented product through a breach of contract remedy.

a. *A Per Se Rule That Lacks a Clear and Compelling Policy Rationale*

The Supreme Court in *Quanta* concluded that “[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control post-sale use of the article.”¹¹¹ This bright-line rule mandates the exhaustion of any patent substantially embodied in a product following the product’s authorized first sale by the patent holder or its licensee. While application of the rule may present a challenge as to which patent is exhausted by the sale,¹¹² the rule has simplicity and finality to commend it.

109. See Eileen McDermott, *How Quanta Will Change Licensing*, MANAGING INTELL. PROP., July/Aug. 2008, at 74; Chris Holman, *Quanta and Its Impact on Biotechnology*, HOLMAN’S BIOTECH IP BLOG (June 11, 2008), <http://holmansbiotechblog.blogspot.com/2008/06/quanta-and-its-impact-on-biotechnology.html>.

110. See generally Hovenkamp, *supra* note 8; Thomas G. Hungar, *Observations Regarding the Supreme Court’s Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, 49 IDEA 517 (2009); LaFuze et al., *supra* note 51; Jason McCammon, *The Validity of Conditional Sales: Competing Views of Patent Exhaustion in Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008), 32 HARV. J.L. & PUB. POL’Y 785 (2009); Jared Tong, Comment, *You Pay for What You Get: The Argument for Allowing Parties to Contract Around Patent Exhaustion*, 46 HOUS. L. REV. 1711 (2010).

111. *Quanta*, 553 U.S. at 638.

112. See McDermott, *supra* note 109, at 76 (“Jeffrey Kushan of Sidley Austin, who represented LG in the case, says that the Court failed to grasp the crux of the issue. ‘One thing that was not appreciated in the Court’s decision was the relationship between the products and the patents at issue. They didn’t connect the dots on independent patent embodiments,’ says Kushan. He adds that the Court’s assertion that, since the chips ‘substantially embodied’ the method patents, they were subject to exhaustion, is simply unclear. ‘We don’t know what “substantially embodied” means,’ says Kushan. ‘We don’t know how much has to be embodied—that’s an area of confusion. It doesn’t have an objective footing.’”); Holman, *supra* note 109 (“I foresee difficulty as courts attempt to apply the ‘substantially embodied’ standard. For example, the Court suggests that in applying the doctrine to a patent claiming a ‘combination invention,’ the purchased product would have to incorporate all claim limitations to ‘substantially embody’ the patent But for other patents, wherein the inventive element resides in only certain claim limitations (such as the LGE patents), the court will need to identify the ‘inventive’ claim limitations and determine whether a product comprising those limitations

The *Quanta* Court's restatement of the law of patent exhaustion has been criticized, however, as perpetuating a draconian per se rule against post-sale vertical restraints¹¹³ that runs counter to the trend in competition law to evaluate such restraints with greater subtlety and to view them more favorably. As one commentator stated,

[t]he Supreme Court missed an opportunity to make the law of post-sale restraints more coherent in its recent *Quanta Computer* decision, where it reverted to a strict application of the first sale rule not clearly related to any policy of furthering competition or innovation. Until *Quanta*, the case law over the last two generations had consistently pursued two themes: a benign attitude toward vertical restraints and a belief that IP rights are not inherently monopolistic. The *Quanta* decision is a reversion to an older form of patent "exceptionalism" that viewed post-sale restraints on patented articles as inherently suspicious.¹¹⁴

This concern regarding the Supreme Court's latest statement on patent exhaustion in *Quanta* is exacerbated by the Court's recurring failure to articulate a clear and compelling policy rationale in support of the doctrine. As noted in Part I.A, the basis for this policy-related objection to the Supreme Court's patent exhaustion jurisprudence has its roots in the Court's earliest decisions regarding the doctrine. And the Court in *Quanta* did little to resolve this problem. In fact, the Court's opinion in *Quanta* is remarkable for its lack of any substantive discussion of the justification for patent exhaustion.¹¹⁵ While the *Quanta* Court rejected the implied license rationale for the doctrine, it accepted without reexamination *McQuewan's* "outside of the patent monopoly" argument and then cited favorably subsequent decisions in *Adams*, *Motion Picture Patents*, and *Univis*, each of which simply endorsed some variant of the *McQuewan* argument.¹¹⁶ The relevance, for our purposes, of the Court's

'embodies' the patent. The court might also need to address the question of whether the purchaser's use of the product required 'creative or inventive decisions,' or whether any additional parts added to the product to arrive at the patented invention are 'standard.'")

113. See Hovenkamp, *supra* note 8, at 539 ("[The *Quanta* opinion endorses] a draconian rule that prohibits every post-sale restraint without any inquiry into the nature or likely effects of the challenged restriction."); *id.* at 541 ("The worst problem of the first sale rule is that it lacks subtlety. To be sure, there is a set of technical rules that determines when a qualifying 'sale' of a patented . . . good has occurred. However, once such a sale is found enforcement of the post-sale restraint is denied automatically, with no consideration of the restraint's purpose or effect."); *id.* at 546 ("The Supreme Court[s] . . . position in *Quanta* seems excessively draconian, yielding a per se rule against a practice that was not clearly shown to be more harmful than its alternatives."); see also McCammon, *supra* note 110, at 796 ("Indeed, much of the language in the [*Quanta*] opinion cuts in favor of a broad reach for patent exhaustion (something close to a *per se* rule) and against a reasonableness inquiry.")

114. Hovenkamp, *supra* note 8, at 492 (footnote omitted).

115. See *id.* at 502 ("The [*Quanta*] opinion failed to articulate any rationale for the doctrine other than naked precedent and stare decisis. The Court largely ignored the historical concern with restraints on alienated or the later concerns with competition policy."); *id.* at 540 ("Without stating any policy argument for its preservation, the Supreme Court nevertheless soundly reaffirmed the first sale doctrine in its 2008 *Quanta* decision."); see also *infra* note 327.

116. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625–28, 637 (2008).

failure to provide a clear justification for patent exhaustion is that it adds to the challenge of answering a central question addressed in this Article—that is, does the enforcement of a post-sale restriction on a patented product through a breach of contract remedy constitute an impermissible attempt to “contract-around” the underlying purpose of the patent exhaustion doctrine? As will be argued in Part II, answering this question involves a balancing of the policy considerations that underlie the exhaustion doctrine against the dictates of contract law. The failure by the Supreme Court to offer a clear and compelling justification for patent exhaustion complicates this balancing effort, which is required when pitting the judge-made doctrine of patent exhaustion¹¹⁷ against state contract law.

b. Formalistic Line Drawing

A second criticism of the Supreme Court’s *Quanta* decision is that the Court endorsed formalistic line drawing that permits a patent holder, through an appropriate business arrangement and careful contract drafting, to circumvent patent exhaustion. The rule in *Quanta* is that the authorized first sale of a patented product by the patent holder or its licensee exhausts any patent substantially embodied in the product sold.¹¹⁸ In *General Talking Pictures*, the Court held that patent exhaustion is avoided where a manufacturing licensee sells a product outside of the scope of its license from the patent holder.¹¹⁹ Under that circumstance, the patent holder can pursue a patent infringement remedy against a buyer who ignores a post-sale restriction relating to the product. The Court’s holdings in these two cases allow a patent holder, whose direct sales are by definition authorized¹²⁰ and, therefore, would trigger exhaustion, to preserve its patent infringement remedies by granting a restricted license to another party to make and sell its product. As one commentator explained,

Quanta appears to permit a patent holder to impose post-sale restrictions on purchasers if those sales are made by a licensee, even though the patent holder would not be able to impose the same restrictions on a direct purchaser. Thus, for example, *Quanta* would seem to bar a patent holder from selling a product under the condition that purchasers are only permitted to use the product for personal, non-commercial uses, and then suing purchasers who violate this

117. In Hovenkamp, *supra* note 8, the author provided the following comment on the difficulty of developing a clear and compelling policy rationale for a judge-made patent law doctrine: “[O]ne significant disadvantage that judges face is that they decide disputes one at a time and often in a single doctrinal context. This severely limits their opportunity to articulate a coherent policy about multifaceted issues such as competition policy and the encouragement of innovation.” *Id.* at 494.

118. *Quanta Computer*, 553 U.S. at 638.

119. *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181–82 (1938).

120. Hungar, *supra* note 110, at 538 n.108 (“To be sure, the patent holder by definition cannot make an unauthorized sale.”).

condition for patent infringement. However, in *Talking Pictures* (1938) the Supreme Court held that a patent holder can accomplish essentially the same result when the product is sold by a licensee. In *Talking Pictures*, the patent owner authorized a licensed manufacturer to sell a patented product solely for private use; the licensee was barred from selling the product to commercial users. Nevertheless, some purchasers used the product commercially, and the Supreme Court held that because the sales were not authorized under the license patent exhaustion did not apply; the patent owner was permitted [to] sue the commercial purchasers for patent infringement. In *Quanta*, the Supreme Court cited *Talking Pictures* with approval, apparently clearing the way for a patent owner to restrict the use of a product by sales through a licensee in a manner that would not be permitted if the patent owner sold the product directly.¹²¹

The above interpretation of the scope of the exhaustion doctrine and the impact of the Court's holding in *General Talking Pictures* has been challenged, however, as reflecting "formalistic line drawing"¹²² that "make[s] little economic sense."¹²³ The Federal Circuit relied on this argument in *Mallinckrodt* to support its resurrection of the conditional sale doctrine,¹²⁴ which provides an alternative and less convoluted means for a patent holder to preserve its patent infringement remedies through conditioning a direct sale of its patented product by placing an express restriction on a buyer with respect to the use or disposition of the product. We explore this line of reasoning in Part I.C as part of a broader assessment of the continued viability of the conditional sale doctrine following the Supreme Court's *Quanta* decision.

c. *Critical Unanswered Questions*

A final criticism of the Supreme Court's *Quanta* decision is that it left in its wake critical unanswered questions regarding the fate of *Mallinckrodt's* conditional sale doctrine and the enforceability of a contract-based post-sale restriction on a patented product through a breach of contract remedy. The *Quanta* Court failed to raise the first question and raised but failed to answer the second. We devote the remainder of this Article to providing answers to these two questions.

121. Holman, *supra* note 109, at *3-4.

122. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 705 (Fed. Cir. 1992) ("That the viability of the restriction should depend on how the transaction is structured was denigrated as 'formalistic line drawing' [W]e discern no reason to preserve formalistic distinctions of no economic consequence").

123. Holman, *supra* note 109, at *4 ("This [ability of a patent holder to circumvent patent exhaustion only through an intervening manufacturing licensee] is clearly an anomalous outcome, and seems to make little economic sense. If this sort of restriction is permissible when accomplished through a licensee, why not let the patent owner achieve the same result directly?").

124. See *Mallinckrodt*, 976 F.2d at 705.

C. STATUS OF *MALLINCKRODT*'S CONDITIONAL SALE DOCTRINE

In *Mallinckrodt, Inc. v. Medipart, Inc.*,¹²⁵ the Federal Circuit resurrected the conditional sale doctrine originally endorsed by the Supreme Court in *Henry*. However, the continued viability of that doctrine following *Quanta* has been questioned.¹²⁶ The relevance of *Quanta*'s impact on *Mallinckrodt*'s conditional sale doctrine for the purposes of this Article is as follows: A central question addressed in the Article is whether a patent holder can rely on a breach of contract remedy to enforce a post-sale restriction on a patented product. This question takes on special significance if there is meaningful doubt as to whether the conditional sale doctrine is good law. If a patent holder has the option of pursuing a patent infringement remedy or a breach of contract remedy in the context of a violation of a post-sale restriction by the buyer of a patented product, it will almost certainly pursue the patent infringement remedy, as was the case in both *Mallinckrodt* and *Quanta*. In the absence of a patent infringement remedy, however, reliance on a breach of contract claim becomes essential if the patent holder is to exercise some ability to control its patented product following a sale. Accordingly, a comprehensive analysis of the enforceability under contract law of post-sale contractual restrictions, as provided in this Article, is justified.

1. *Facts in Mallinckrodt and the Federal Circuit's Holding*

Mallinckrodt, Inc. ("Mallinckrodt") owned a number of patents that covered a medical device used for the delivery of radioactive or therapeutic material in the form of an aerosol mist for the diagnosis or treatment of diseases of the lung.¹²⁷ It manufactured the devices and sold them to hospitals with an attached notice and a package insert that indicated that the device was for a single use only.¹²⁸ Despite the notice, certain hospitals shipped used devices to Medipart, Inc. ("Medipart") for "reconditioning," whereupon Medipart cleaned the devices and returned them to the hospitals for reuse, without testing for radioactive or

^{125.} *Id.*

^{126.} See Hungar, *supra* note 110, at 529–30 ("In the *Quanta* opinion, the Supreme Court did not explicitly overrule or even cite *Mallinckrodt*, and accordingly, questions have arisen regarding the continued vitality of that case and its Federal Circuit progeny, with various commentators vigorously asserting both sides of the question. A careful examination of the manner in which the *Quanta* case was litigated and decided, however, sheds considerable light on that question, and indicates that there is no longer any room for continued adherence to the *Mallinckrodt* line of cases."); LaFuze, *supra* note 51, at 317 ("In failing to mention the *Mallinckrodt* case and the conditional sale doctrine in the *Quanta* opinion, the Supreme Court left the status of the conditional sale doctrine unclear. Several ways of reconciling the opinion with the doctrine exist Ultimately, leaving the scope of the conditional sale doctrine intact is the best way for courts to 'promote the [p]rogress of [s]cience and the useful [a]rts.'" (alterations in original)).

^{127.} *Mallinckrodt*, 976 F.2d at 701–02.

^{128.} *Id.* at 702.

biological contamination.¹²⁹ Mallinckrodt filed suit against Medipart, alleging patent infringement and inducement to infringe for its role in violating the post-sale restriction placed on the device.¹³⁰ Medipart argued that the authorized first sale of the devices by Mallinckrodt to the hospitals exhausted Mallinckrodt's patent infringement remedies, relying on the Supreme Court's decisions in *Motion Picture Patents* and "the *Bauer* trilogy"—*Bauer*, *Straus*, and *Boston Store*.¹³¹ The issue for the Federal Circuit was whether a conditioned authorized first sale of a patented product triggers patent exhaustion.

A threshold question is why the Federal Circuit in *Mallinckrodt* failed to find for the alleged infringer on the basis of the fact that the Supreme Court's decision in *Motion Picture Patents* had overruled its prior holding in *Henry* that a conditioned authorized first sale did not result in patent exhaustion. The answer to that question can be found in the lack of precision that has characterized the Supreme Court's patent exhaustion jurisprudence. Four problems are of particular note. First, both before and after its decision in *Henry*, the Court has used the words "without condition" or "unconditional" to describe the type of authorized first sale that triggers patent exhaustion.¹³² This was especially confusing when the Court used these qualifying words in a case in which it had concluded that an authorized first sale of a patented product had rendered a restriction that the patent holder had attempted to place on a buyer's use or disposition of the product as a condition of the sale unenforceable through a patent infringement remedy. For example, in *Motion Picture Patents*, the case that overruled *Henry*, the Court held that the sale under consideration was an authorized first sale that exhausted the applicable patent and rendered the restriction placed on the buyer with respect to the product unenforceable under patent law.¹³³ Nonetheless, in summarizing its prior holding in *Bauer* upon which it relied, the Court in *Motion Picture Patents* stated that "the right to vend is exhausted by a single, *unconditional* sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of

¹²⁹ *Id.*

¹³⁰ *Id.*

¹³¹ *Id.* at 704.

¹³² See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) ("[T]he right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it."); *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 455 (1873) ("[The patented coffin lids under consideration were] sold . . . without condition or restriction."); *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 547 (1872) ("[A] patentee, when he has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it . . . without any conditions, and the consideration has been paid to him for the thing patented, the rule is well established that the patentee must be understood to have parted to that extent with all his exclusive right, and that he ceases to have any interest whatever in the patented machine so sold and delivered."); see also *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 663 (1895) (quoting the above language from *Mitchell*).

¹³³ *Motion Picture Patents*, 243 U.S. at 507, 515–16.

every restriction which the vendor may attempt to put upon it.”¹³⁴ However, the sale under consideration in *Bauer* (as in *Motion Picture Patents*) was conditioned.¹³⁵ The Court’s use of such qualifying language in *Motion Picture Patents* raised questions as to the meaning of the words “without condition” or “unconditional” and whether it was still possible for a patent holder to preserve its patent infringement remedies through some type of conditioning of the sale of its patented product to a buyer.

Second, the Supreme Court’s reliance on multiple justifications for patent exhaustion, as discussed in Part I.A, permitted a court to select from the various rationales the one that most effectively supported the court’s ruling in a case. With respect to the conditional sale doctrine, reliance on the implied license rationale for patent exhaustion provided courts with useful arguments in support of the doctrine. The view that the sale of a patented product is accompanied by an implied license to use or dispose of that product conflates the act of selling and the granting of a license. A court that adopted this view could rely on the favorable treatment by the courts of restrictions placed on a licensee in arguing that a restriction in the context of a conditioned authorized first sale should be enforceable under patent law. Moreover, the enforceability of such a restriction through a patent infringement remedy was consistent with the perspective that an express condition placed upon the buyer of a patented product limited the scope of the implied license and the extent of patent exhaustion. The Supreme Court in *Henry* relied on the reasoning set forth in this paragraph in providing its only endorsement, albeit time-limited, of the conditional sale doctrine.¹³⁶

Third, a review of the Supreme Court’s patent exhaustion jurisprudence indicates that the Court has failed to emphasize the important distinction between a restriction placed by a patent holder on its manufacturing licensee and a post-sale restriction placed by a patent holder on the buyer of its patented product. The former is relevant to a determination as to whether there has been an authorized first sale. The latter may be unenforceable through a patent infringement remedy as a result of patent exhaustion. Understanding the difference between the two types of restrictions is essential for an appreciation of the distinction between a conditioned authorized first sale by a patent holder, such as occurred in *Henry*, and an infringing sale by a manufacturing licensee, such as the one under consideration in *General Talking Pictures*. In both instances, the Court found that the sale did not result in patent exhaustion and that the post-sale restriction was enforceable against the buyer through a patent infringement remedy. However, only the sale in *General Talking Pictures* was without the authorization of the patent

134. *Id.* at 516 (emphasis added).

135. *See supra* Part I.A.

136. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 23–24 (1912).

holder. Moreover, the Court's conclusion that a conditioned authorized first sale avoids patent exhaustion was subsequently rejected in *Motion Picture Patents*, while the Court's position on the infringing sale in *General Talking Pictures* has not changed. By failing to articulate the critical difference between the two types of product sales, the Court allowed for the perpetuation of the view that both types of sales should be treated in the same way from a patent exhaustion perspective.

Finally, the Court has not always been clear in its exhaustion cases as to whether the post-sale restriction under consideration was unenforceable under patent law, irrespective of the nature of the restriction or because it violated some other law or policy. It is noteworthy in that regard that in many of the exhaustion cases listed in Table 1, the post-sale restriction under review was considered a violation of antitrust or patent misuse law.¹³⁷ The uncertainty resulting from the Court's failure to clearly explain the role that the nature of the restriction had in its finding of patent exhaustion generated confusion as to the scope of the exhaustion doctrine.

Without referencing the Supreme Court's decision in *Henry* and the fact that it was overruled in *Motion Picture Patents*, the Federal Circuit in *Mallinckrodt* relied on the above-described ambiguities resulting from the Supreme Court's patent exhaustion jurisprudence to conclude that the conditional sale doctrine was alive and well. The *Mallinckrodt* court cited prior Supreme Court case law for the proposition that patent exhaustion was only triggered by an unconditional sale,¹³⁸ and noted that the "principle of exhaustion of the patent right did not turn a conditional sale into an unconditional one."¹³⁹ In addition, the court in *Mallinckrodt* endorsed the concept that the sale of a patented product carries with it a license with respect to that product that is the basis for the implied license rationale for patent exhaustion.¹⁴⁰ In so doing, the Federal Circuit rejected the statement of the district court in the case, which had ruled in favor of patent exhaustion, that "policy considerations require that no conditions be imposed on patented goods after their sale and that Mallinckrodt's restriction could not 'convert[] what was in substance a sale into a license.'"¹⁴¹

137. As seen below in Table 1, the Supreme Court's decisions in *Bauer*, *Straus*, *Motion Picture Patents*, *Boston Store*, *Ethyl Gasoline*, *Univis*, and *Masonite* involved either a tying or price-fixing obligation that the Court ruled was unenforceable under federal patent law and, in some instances, void.

138. The Federal Circuit in *Mallinckrodt* cited *Adams*, *Mitchell*, and *Keeler* as "cases in which the Court considered and affirmed the basic principles that unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device." *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706-07 (Fed. Cir. 1992). See *supra* note 132.

139. *Mallinckrodt*, 976 F.2d at 706.

140. *Id.* at 703.

141. *Id.* (alteration in original).

By viewing a sale as comparable to a license, the *Mallinckrodt* court could rely on prior Supreme Court decisions in *Bement* and *United States v. General Electric Co.*¹⁴² that approved the enforcement of a product-related restriction in the context of a patent license agreement,¹⁴³ despite the fact that neither of these cases involved an authorized first sale or addressed the enforceability of a restriction placed by a patent holder on the buyer of its patented product.¹⁴⁴ Consistent with the implied license rationale, the Federal Circuit noted that a patent holder's right to exclude others from making, using, or selling its patented product can be waived in whole, through an unconditional sale, or only in part, by placing a product-related restriction on a buyer as a condition of the sale.¹⁴⁵ In the latter instance, the scope of the implied license that accompanies the sale of the patented product is limited, as is the extent of the exhaustion of the patent holder's right to exclude others through an action for patent infringement.¹⁴⁶

The Federal Circuit in *Mallinckrodt* also rejected the lower court's argument that the Supreme Court's ruling in *General Talking Pictures*—which required an unauthorized sale by a manufacturing licensee for the avoidance of patent exhaustion—supported the conclusion that the authorized first sale by Mallinckrodt of its patented device to hospitals eliminated patent infringement remedies.¹⁴⁷ In fact, the Federal Circuit

142. 272 U.S. 476 (1926).

143. See *Mallinckrodt*, 976 F.2d at 703 (“As in other areas of commerce, private parties may contract as they choose, provided that no law is violated thereby: ‘[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 [patented] article, will be upheld by the courts.’” (alterations in original)); *id.* at 704–05 (“As was said in *United States v. General Electric Co.*, the patentee may grant a license ‘upon any condition the performance of which is reasonable within the reward which the patentee by the grant of the patent is entitled to secure.’” (citation omitted)).

144. See *supra* notes 14, 48; *infra* note 161.

145. *Mallinckrodt*, 976 F.2d at 703 (“The enforceability [under the patent law] of restrictions on the use of patented goods derives from the patent grant, which is in classical terms of property: the right to exclude. This right to exclude may be waived in whole or in part.” (citation omitted)); *id.* at 708 (“Unless there is some definite provision in the sale to the contrary, it can properly be assumed that as part of the bargain the sale of a device incorporating a patented composition (composed, as here, of unpatented elements) authorizes the buyer to continue to use the device so long as the latter can and does use the elements he purchased from the patentee or licensor.” (quoting the Court of Claims in *General Electric*, 572 F.2d at 784, as support for the Federal Circuit's endorsement of the conditional sale doctrine)).

146. This argument, based on the implied license rationale for patent exhaustion, mirrors the one made by the Supreme Court in *Henry*. See *supra* Part I.A. Moreover, the Federal Circuit in *B. Braun Medical, Inc. v. Abbott Laboratories*, in restating its holding in *Mallinckrodt*, proffered the tailored consideration rationale for patent exhaustion, also discussed in Part I.A as justification for the preservation of patent exhaustion remedies in the context of a conditioned authorized first sale of a patented product. According to this rationale, which complements the implied license rationale, “[the] exhaustion doctrine . . . does not apply to an expressly conditional sale In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the ‘use’ rights conferred by the patentee.” *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997).

147. *Mallinckrodt*, 976 F.2d at 705.

viewed the lower court's reliance on a distinction between an infringing sale by a manufacturing licensee and a conditioned authorized first sale in determining whether exhaustion has occurred as formalistic line drawing. In the words of the Federal Circuit,

[t]he district court interpreted [the holding in *General Talking Pictures*] as requiring that since the hospitals purchased the [patented] device from the patentee Mallinckrodt, not from a manufacturing licensee, no restraint on the purchasers' use of the device could be imposed under the patent law. However, in *General Talking Pictures* the Court did not hold that there must be an intervening manufacturing licensee before the patent can be enforced against a purchaser with notice of the restriction. The Court did not decide the situation where the patentee was the manufacturer and the device reached a purchaser in ordinary channels of trade.

The [patented] device was manufactured by the patentee; but the sale to the hospitals was the first sale and was with notice of the restriction. Medipart offers neither law, public policy, nor logic, for the proposition that the enforceability of a restriction to a particular use is determined by whether the purchaser acquired the device from a manufacturing licensee or from a manufacturing patentee. We decline to make a distinction for which there appears to be no foundation. Indeed, Mallinckrodt has pointed out how easily such a criterion could be circumvented. That the viability of a restriction should depend on how the transaction is structured was denigrated as "formalistic line drawing" in *Continental T.V., Inc. v. GTE Sylvania, Inc.*, the Court explaining, in overruling *United States v. Arnold, Schwinn & Co.*, that the legality of attempts by a manufacturer to regulate resale does not turn on whether the reseller had purchased the merchandise or was merely acting as an agent of the manufacturer. The Court having disapproved reliance on formalistic distinctions of no economic consequence in antitrust analysis, we discern no reason to preserve formalistic distinctions of no economic consequence, simply because the goods are patented.¹⁴⁸

Adopting this position enabled the Federal Circuit in *Mallinckrodt* to cite the Supreme Court's decisions in *Mitchell* and *General Talking Pictures* as support for the conditional sale doctrine,¹⁴⁹ despite the fact that in each of these cases the sale was made by a manufacturing licensee that lacked the authority to make the sale.¹⁵⁰

Finally, the Federal Circuit in *Mallinckrodt* rejected the lower court's reliance on the Supreme Court's holdings in *Motion Picture Patents* and the *Bauer* trilogy for the proposition that, following an authorized first sale, no post-sale restriction on a patented product is enforceable through

148. *Id.* (citations omitted).

149. *Id.* at 707 ("In *Mitchell v. Hawley* the accused infringer had purchased a patented machine that was licensed for use only during the original term of the patent grant. After the patent term was extended the defendant argued that by virtue of his purchase he had acquired title free of the license condition. The Court disagreed, upholding the restriction."); *id.* at 701 ("[I]f Mallinckrodt's restriction was a valid condition of the sale, then in accordance with *General Talking Pictures Corp. v. Western Electric Co.*, it was not excluded from enforcement under the patent law." (citation omitted)).

150. See *supra* note 14; *infra* Table 1.

a patent infringement remedy.¹⁵¹ In the view of the Federal Circuit, the cases cited by the lower court only “established that price-fixing and tying restrictions accompanying the sale of patented goods were *per se* illegal. These cases did not hold—and it did not follow—that all restrictions accompanying the sale of patented goods were deemed illegal.”¹⁵²

The Federal Circuit concluded its opinion in *Mallinckrodt* by stating that the restriction placed by Mallinckrodt on the hospitals that purchased its patented device was enforceable under patent law provided that it was not a violation of any applicable law or policy consideration.¹⁵³ In the words of the Federal Circuit,

the district court erred in holding that the restriction on reuse was, as a matter of law, unenforceable under the patent law. If the sale of [Mallinckrodt’s patented device] was validly conditioned under the applicable law such as the law governing sales and licenses, and if the restriction on reuse was within the scope of the patent grant or otherwise justified, then violation of the restriction may be remedied by action for patent infringement.¹⁵⁴

2. Counterarguments and the Impact of the *Quanta* Decision

The Federal Circuit’s holding in *Mallinckrodt* in support of the conditional sale doctrine is open to a number of counterarguments that do not depend on the Supreme Court’s latest decision on patent exhaustion in *Quanta*. First, the Court’s only decision that endorsed the conditional sale doctrine (in *Henry*) was overruled seventy-five years prior to the *Mallinckrodt* court’s resurrection of the doctrine.¹⁵⁵ And the Federal Circuit in *Mallinckrodt* relied on many of the same arguments that had been made by the Supreme Court in its *Henry* decision.¹⁵⁶ The Federal Circuit conveniently neglected to mention the *Henry* decision in its *Mallinckrodt* opinion. Instead, it chose to limit the scope of the Supreme Court’s holdings in *Motion Picture Patents*, which had overruled *Henry*,

151. *Mallinckrodt*, 976 F.2d at 704 (“The district court’s holding that Mallinckrodt’s restriction to single patient use was unenforceable was, as we have remarked, based on ‘policy’ considerations. The district court relied on a group of cases wherein resale price-fixing of patented goods was held illegal [citing *Bauer, Straus, and Boston Store*], and that barred patent enforced tie-ins [citing *Motion Picture Patents*].”); *id.* at 706 (“The district court[] stat[ed] that it ‘refuse[s] to limit *Bauer* and *Motion Picture Patents* to tying and price-fixing not only because their language suggests broader application, but because there is a strong public interest in not stretching the patent laws to authorize restrictions on the use of purchased goods.’” (final alteration in original)).

152. *Id.* at 704. Note that, as another example of the lack of precision in patent exhaustion jurisprudence, the actual question at issue was not whether a post-sale restriction is illegal, but whether it is unenforceable through a patent infringement remedy, based on the exhaustion of the applicable patent as a result of an authorized first sale.

153. *Id.* at 709.

154. *Id.*

155. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917). See *supra* note 50.

156. See *supra* Part I.A and the various references to the Supreme Court’s *Henry* decision throughout *supra* Part I.C.

and its companion cases (*Bauer, Straus, and Boston Store*) by arguing that those cases did not reject every post-sale restriction on a patented product, but only those that violated antitrust or patent misuse law, such as price-fixing or tying obligations. However, as the district court in *Mallinckrodt* correctly noted, in its refusal to limit the reach of those cases to price-fixing and tying restrictions, the language in those cases suggested a broader application of the doctrine of patent exhaustion.¹⁵⁷ While it is true that a number of the restrictions rejected in the Supreme Court's early exhaustion cases were considered problematic under a theory of patent misuse or as an antitrust violation, the majority of the arguments in support of patent exhaustion following the first authorized sale did not rely on the objectionable nature of the restriction at issue. Instead, the case was made that the authorized sale of the patented product by or on behalf of the patent holder for consideration moved the product outside of the scope of the statutorily defined patent monopoly and rendered post-sale restrictions unenforceable under patent law.¹⁵⁸

Following the lead of the Supreme Court in *Henry*, the Federal Circuit in *Mallinckrodt* placed considerable weight on the fact that a number of the prior decisions by the Court in which an authorized first sale was held to result in patent exhaustion involved unconditional sales and that the words "without conditions" or "unconditional" frequently qualified the Court's explanation of the type of sale that triggered exhaustion.¹⁵⁹ As noted above, such language was used in the Court's decision in *Motion Picture Patents* in overruling *Henry*, despite the fact that the sale in that case was in fact conditioned. While this seemingly inappropriate use of the term "unconditional" may simply reflect a lack of precision by the Court in its early patent exhaustion rulings, another explanation has been suggested:

In *Mitchell*, the Court did allude to the notion of an unconditional sale, observing that the patent right is exhausted when the patentee 'has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it . . . without any conditions.' But at that time, a 'conditional' sale would have been understood as an agreement to sell where title would not convey until performance of a condition precedent. See, e.g., *Harkness v. Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as a "mere agreement to sell upon a condition to be performed" in which title does not pass until the condition precedent is performed).

That narrower understanding of "conditional" is consistent with this Court's other patent-exhaustion cases, which explain that the doctrine is triggered "if a person legally acquires a title to" a patented item; when a patented item is "lawfully made and sold" or "passes to the hands of the purchaser"; or upon "the purchase of the article from one

157. See *supra* note 151.

158. See *supra* Part I.A.

159. *Mallinckrodt*, 976 F.2d at 706-07.

authorized by the patentee to sell it” See *Motion Picture Patents*, 243 U.S. at 515–516 (describing as an “unconditional sale” a sale made subject to restrictions on resale price). Thus, under this Court’s cases, if a purchaser acquires title to an item embodying the patented invention through a sale authorized by the patentee, the patent is exhausted—regardless of the patentee’s purported imposition of an explicit restriction on use or resale.¹⁶⁰

The above interpretation of the meaning of the word “unconditional” undercuts the Federal Circuit’s argument in *Mallinckrodt* that an authorized sale of a patented product in which title passes to the buyer, but which is conditioned by placing a restriction on the buyer’s use or disposition of the product, does not trigger patent exhaustion.

As discussed above, the Federal Circuit in *Mallinckrodt* merged the concepts of sale and license in its adoption of the implied license rationale for patent exhaustion. This allowed the court to rely on Supreme Court cases that enforced a product-related license restriction in arguing in favor of the conditional sale doctrine, despite the fact that these cases did not address the enforceability under patent law of a restriction placed on the buyer of a patented product as a condition of the sale.¹⁶¹ Moreover, the Federal Circuit dismissed the district court’s interpretation of *General Talking Pictures* as requiring, for the avoidance of patent exhaustion, an unauthorized sale by an intervening manufacturing licensee who lacked the authority from the patent holder to make a sale in disregard of a restriction placed by the patent holder on the licensee.¹⁶² This enabled the appellate court to ignore the fundamental distinction between a conditioned authorized first sale (as occurred in *Mallinckrodt*) and an infringing sale (as occurred in *General Talking Pictures*). This strategy was the basis for the Federal Circuit’s noteworthy use of Supreme Court precedent to rule in favor of the conditional sale doctrine in *Mallinckrodt*.

The Supreme Court cases relied on by the Federal Circuit in *Mallinckrodt* (*Mitchell*, *Bement*, *General Electric*, and *General Talking Pictures*) each involved an infringing sale by a manufacturing licensee as opposed to a conditioned authorized first sale.¹⁶³ The Supreme Court in

160. Brief for the United States as Amicus Curiae Supporting Petitioners, *supra* note 32, at 20–21 (alteration in original) (selected citations omitted).

161. In both *Bement v. National Harrow Co.*, 186 U.S. 70 (1902) (cited in *Henry*), and *United States v. General Electric*, 272 U.S. 476 (1926) (decided after *Henry*), the Supreme Court held that the product-related restriction under consideration placed by the patent holder on its manufacturing licensee was enforceable against a licensee that had failed to honor the restriction in its sale of the patented product. In neither case did the court consider any restriction placed by the patent holder on the buyer.

162. *Mallinckrodt*, 976 F.2d at 701.

163. Note that the Supreme Court ruled in favor of patent exhaustion where a first sale was made by a manufacturing licensee that was authorized by the patent holder to make the sale. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964); *United States v. Univis Lens Co.*, 316 U.S. 241 (1942); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). In all of these cases, an authorized first sale was made by a manufacturing licensee and in each case the Court concluded that the sale exhausted all patent remedies and rendered the restriction associated with the sale unenforceable under federal patent law.

Henry relied on the same strategy, citing *Mitchell* and *Bement*, in its subsequently overruled holding that a conditioned authorized first sale preserves patent infringement remedies.¹⁶⁴ Recall that Justice Lurton, in his opinion in *Henry*, had to look to his prior Sixth Circuit decision in *Heaton-Peninsular Button-Fastener* for a ruling in which a conditioned authorized first sale by a patent holder did not trigger patent exhaustion.¹⁶⁵ The Federal Circuit's use of Supreme Court precedent in *Mallinckrodt*, mirroring that of the Supreme Court in *Henry*, raises legitimate concerns as to the soundness of its holding in support of the conditional sale doctrine.

The above review of the Supreme Court's patent exhaustion case law that was available to, and relied on by, the Federal Circuit in *Mallinckrodt* suggests that there were flaws in the Federal Circuit's reasoning in that case. The Supreme Court's subsequent decision in *Quanta*, if anything, casts further doubt on the validity of the conditional sale doctrine as articulated in *Mallinckrodt*. As discussed in Part I.B.1, the Supreme Court in *Quanta* laid down a per se rule for patent exhaustion, that is, that an authorized first sale of a product exhausts any patents covering or substantially embodied in the product, and prevents the patent holder from relying on patent law to control the post-sale use or disposition of that product. No mention is made in the *Quanta* decision of an ability of the patent holder to preserve its patent infringement remedies by placing a post-sale restriction on its buyer as a condition of the sale.

The Supreme Court in *Quanta* deftly avoided any discussion of *Mallinckrodt*, but did so in a way that was consistent with the difference in the fact patterns in *Quanta* and in *Mallinckrodt*. *Quanta* involved a sale by a manufacturing licensee (Intel). The Court's focus in deciding the case was whether or not the manufacturing licensee was granted the right by the patent holder (LGE) to make the sale, despite the understanding by the manufacturing licensee and by the buyer (*Quanta*) that the patent holder did not intend for the products that substantially embodied its patent rights (the Licensed Intel Products) to be used with products other than those also produced by the manufacturing licensee.¹⁶⁶ In deciding that the sales made by the manufacturing licensee were authorized—that is, that they were not infringing sales—the Court concluded that the sales by the manufacturing licensee triggered patent exhaustion, thereby extinguishing patent remedies and rendering any post-sale restrictions on the products sold unenforceable under patent law. This conclusion resolved the case in *Quanta* and allowed the Court to refrain from a discussion of the conditioned authorized sale doctrine, in which the focus

None of these Supreme Court cases involved a fact pattern similar to the ones in *Heaton-Peninsular Button-Fastener*, *Henry*, and *Mallinckrodt*. See *supra* Part I.A, note 14; *infra* Table 1.

164. See *supra* Part I.A.

165. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 38 (1911).

166. *Quanta Computer*, 553 U.S. at 638.

of the analysis is not on whether the selling party has the authority to sell the patented product, but on whether an authorized seller has a right to rely on patent remedies to enforce post-sale restrictions on a buyer. However, the fact that the *Quanta* Court did not deem it necessary to address the question of whether *Quanta* was bound by any contractual obligation to refrain from combining the Licensed Intel Products with non-Intel components (for example, on the basis of the written notice that Intel was required to provide to *Quanta* in connection with the sale) is of relevance to an assessment of the viability of *Mallinckrodt*'s conditional sale doctrine. It indicates that, from the Court's perspective, once it had been determined that Intel was authorized to sell the Licensed Intel Products to *Quanta*, patent remedies were exhausted by the sale and a post-sale restriction placed on *Quanta* could not preserve such remedies. This interpretation supports a conclusion that the Supreme Court's decision in *Quanta* overruled *Mallinckrodt*.

Finally, the *Quanta* Court's rejection of the implied license rationale for patent exhaustion undermined one of the central arguments relied on by the Federal Circuit in *Mallinckrodt* in its endorsement of the conditional sale doctrine. It called into question the Federal Circuit's treatment of a sale as a license¹⁶⁷ and its reliance on restricted patent

167. It is worth noting that in *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), the decision that was reversed by the Supreme Court in *Quanta*, the Federal Circuit had argued that the license granted by LGE to Intel to manufacture and sell products that substantially embodied the LGE patents was itself a sale for patent exhaustion purposes. *Id.* at 1370. This is the flip side of a claim that a sale is a license. The Supreme Court's opinion in *Quanta* offered no acceptance, nor even a recognition, of this conclusion by the Federal Circuit in *Bizcom*. *But see* *LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047-48 (N.D. Cal. 2009). At first glance, the positions taken by the Federal Circuit in *Bizcom* and the Supreme Court in *Quanta* regarding the issue of whether a license is a sale for exhaustion purposes are the opposite of what would be expected if one accepts the reasonable conclusion that, in recent years, the Federal Circuit has been more protective of a patent holder's rights than the Supreme Court has been. By viewing a license as the equivalent of a sale for exhaustion purposes, the Federal Circuit has expanded the type of contractual relationships in which a patent holder could lose its patent infringement remedies as a result of exhaustion. In contrast, the Supreme Court's failure to embrace the view that a license is the equivalent of a sale for exhaustion purposes limits the potential impact of the patent exhaustion doctrine. On closer analysis, however, the positions adopted by the Federal Circuit and the Supreme Court are consistent with their apparent biases as they relate to the rights of the patent holder. In downplaying the distinction between a license and a sale, the Federal Circuit has provided support for its conditional sale doctrine (as articulated in *Mallinckrodt*) that offers a patent holder an effective means of preserving its patent infringement remedies. The reasoning is as follows: One interpretation of patent exhaustion is that in providing a patented product to a party in exchange for consideration, a patent holder has granted to that party an implied license under any patents embodied in the product. However, this implied license can be limited by an express contractual restriction placed on the party that obtains the product, thereby preserving the patent holder's infringement remedies in the event that such party fails to honor the restriction. In effect, the Federal Circuit has conflated the concepts of the granting of a license and the making of a sale, and in so doing has bolstered its argument in support of the conditioned sale doctrine by allowing for the avoidance of patent exhaustion through use of an express contractual limitation of the implied license that accompanies the disposition of a product to a third party for consideration. In contrast, the Supreme Court in *Quanta* rejected the implied license rationale for patent exhaustion in favor of its reliance on an authorized first sale as the key to trigger

license cases such as *Bement* and *General Electric* in concluding that patent exhaustion can be avoided by conditioning an authorized first sale to a buyer. Moreover, the *Quanta* Court's rejection of the implied license rationale also eliminated one of the more compelling arguments in favor of the conditional sale doctrine, namely, that an express condition placed upon the buyer of a patented product limited the scope of the implied license that accompanied the sale of the product and preserved patent infringement remedies.

Adopting the view that *Quanta* overruled *Mallinckrodt* and that the conditional sale doctrine is no longer good law revives the Federal Circuit's admonition in *Mallinckrodt* that the law of patent exhaustion should not be interpreted so as to constitute "formalistic line drawing" of "no economic consequence."¹⁶⁸ In the absence of an ability to preserve patent infringement remedies through conditioning an authorized first sale to a buyer of a patented product, a patent holder who wished to impose post-sale restrictions on its buyer that would be enforceable under patent law would need to sell through an intervening manufacturing licensee. In essence, the patent holder could "restrict the use of a product by sales through a licensee in a manner that would not be permitted if the patent [holder] sold the product directly."¹⁶⁹ Unlike the Federal Circuit in *Mallinckrodt*, the Supreme Court in *Quanta* recognized the important distinction between an infringing sale by a manufacturing licensee and a conditioned authorized first sale. The former does not trigger patent exhaustion while the latter does. A discussion of whether an important

patent exhaustion. While this approach limits the impact of the patent exhaustion doctrine to the sale of (as opposed to the license of rights with respect to) a patented product, it undermines any limited implied license argument that can be relied on to support *Mallinckrodt's* conditional sale doctrine, which preserves patent infringement remedies despite the authorized first sale of a patented product. Note that the Federal Circuit in *Bizcom* relied on the Supreme Court's holding in *United States v. Masonite Corp.*, 316 U.S. 265 (1942), in concluding that a license can be considered the equivalent of a sale for patent exhaustion purposes. The *Bizcom* court cited the following passage from *Masonite* in justifying its conclusion: "[T]his Court has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern. The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article." *Id.* at 278. While it is beyond the scope of this Article to debate whether *Masonite* provides adequate support for the conclusion reached by the Federal Circuit in *Bizcom* that a license can constitute a sale for patent exhaustion purposes, the following distinction is noteworthy: According to the Federal Circuit in *Bizcom*, the license granted by LGE to Intel to LGE's entire portfolio of computer-related patents constituted a sale for patent exhaustion purposes, despite the fact that Intel was granted the right to manufacture products covered by such patents for future sale and that the so-called "sale" by LGE did not involve the transfer of a physical object from LGE to Intel. In contrast, the "sale" in *Masonite* that triggered exhaustion involved the transfer of a patented product manufactured by the patentee to a network of *del credere* agents who sold the product on behalf of the patentee, pursuant to the patentee's pricing restrictions, without ever gaining title to the product (an arrangement that, according to the Supreme Court, violated the Sherman Act, rendering the pricing restrictions unenforceable).

¹⁶⁸ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 705 (Fed. Cir. 1992). See *supra* Parts I.B.2.b, I.C.1.

¹⁶⁹ See *Holman*, *supra* note 109, at *4.

judge-made doctrine such as patent exhaustion should critically depend on such a distinction is beyond the scope of this Article.¹⁷⁰ What matters for our purposes is that the weight of the evidence indicates that *Mallinckrodt's* conditional sale doctrine was rejected in *Quanta*, a view adopted by a majority of commentators¹⁷¹ and at least one district court.¹⁷²

170. Thomas G. Hungar, who presented the oral argument before the Supreme Court on behalf of the United States in *Quanta*, has provided the following response to claims that the *Quanta* decision can lead to anomalous outcomes based on formalistic line drawing of little economic consequence:

Some commentators have criticized the rule that patent holders can limit their licensees' right to sell and enforce that limitation by means of patent infringement suits, viewing that result as anomalous in light of patent holders' inability to restrict the post-sale rights of purchasers. But that seeming anomaly is in fact no anomaly at all, when one understands the principle underlying the patent-exhaustion doctrine. The doctrine is based on the proposition that, by its very nature, exercise of the statutory right to *sell* a patented article removes that article from the scope of the patent laws.

A mere license is not the sale of a patented article, and thus a mere licensee has no basis on which to claim exhaustion; its rights are limited to the scope of the license. Because exhaustion is triggered only by an authorized sale, licensee sales that are not authorized by the license do not give rise to exhaustion but instead constitute patent infringement. Finally, to the extent the charge of 'anomaly' rests on the assumption that the Supreme Court's patent-exhaustion doctrine permits patent holders to impose post-sale restrictions through licensees that they could not impose directly, that underlying assumption is incorrect. Patent holders are free to decide when and on what terms they will sell their patented products and thus could enforce directly, by simple refusals to sell, the same sorts of restrictions that they can require their licensees to follow on pain of patent infringement. For example, as in *General Talking Pictures*, a patent holder could authorize its licensee to sell only to certain types of customers, or alternatively the patent holder could achieve the same result by selling its patented products directly and choosing to limit the customers to whom it sells or the circumstances in which it will sell to different classes of customers. The exhaustion doctrine operates the same way in either instance: once an authorized sale occurs, whether by the patent holder or the licensee, exhaustion follows. To be sure, the patent holder by definition cannot make an unauthorized sale, absent extraordinary circumstances such as plainly *ultra vires* actions by corporate employees, but it can exercise its patent right to refuse to make undesired sales or alternatively can employ its patent right to prevent its licensees from making such sales.

Hungar, *supra* note 110, at 537–38 n.108 (citations omitted).

171. See Hovenkamp, *supra* note 8, at 502 ("In its 2008 *Quanta* decision the Supreme Court unanimously rejected the Federal Circuit's approach [in *Mallinckrodt*] and restored the first sale rule to its original broad scope."); Hungar, *supra* note 110, at 529–30 ("In the *Quanta* opinion, the Supreme Court did not explicitly overrule or even cite *Mallinckrodt*, and accordingly, questions have arisen regarding the continued vitality of that case and its Federal Circuit progeny, with various commentators vigorously asserting both sides of the question. A careful examination of the manner in which the *Quanta* case was litigated and decided, however, sheds considerable light on that question, and indicates that there is no longer any room for continued adherence to the *Mallinckrodt* line of cases."); McDermott, *supra* note 109, at 76 ("The line of Federal Circuit precedents beginning with *Mallinckrodt, Inc. v. Medipart Inc* (Fed. Cir. 1992) is almost certainly not good law in light of the analysis in *Quanta*." (quoting John Duffy, Professor of Law, The George Washington University Law School)); Holman, *supra* note 109, at *1 ("[I]t appears to me that *Quanta* implicitly overrules *Mallinckrodt* . . ."). *But see* LaFuze et al., *supra* note 51, at 317 ("In failing to mention the *Mallinckrodt* case and the conditional sale doctrine in the *Quanta* opinion, the Supreme Court left the status of the conditional sale doctrine unclear. Several ways of reconciling the opinion with the doctrine exist. . . . Ultimately, leaving the scope of the conditional sale doctrine intact is the best way

II. ENFORCEABILITY OF CONTRACT-BASED POST-SALE RESTRICTIONS THROUGH A BREACH OF CONTRACT REMEDY

In Part I, we argued that the Supreme Court in *Quanta* laid down a *per se* rule for patent exhaustion, that is, that an authorized first sale of a product exhausts any patents covering or substantially embodied in the product, and prevents the patent holder from relying on patent law to control the post-sale use or disposition of that product. The Court, in its unanimous decision, provided no support for the conditional sale doctrine, as articulated in *Mallinckrodt*, that permits a patent holder to preserve its patent infringement remedies by placing a post-sale restriction on its buyer as a condition of the sale. Based on a review of Supreme Court patent exhaustion jurisprudence, including its recent decision in *Quanta*, we concluded that *Mallinckrodt* has been overruled. Yet even if one allows for the possibility that the conditional sale doctrine remains good law, there is sufficient uncertainty regarding the status of the doctrine to suggest that it would be ill-advised for a patent holder that intends to control the post-sale use or disposition of its patented product to ignore the possible use of contract-based post-sale restrictions regarding the product. The issue then is whether such restrictions are enforceable through a breach of contract remedy, even if patent infringement remedies have been exhausted. The *Quanta* Court raised but did not resolve this issue in the following footnote to its opinion:

We note that the authorized nature of the sale to *Quanta* does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages. See *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666 . . . (1895) ("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no

for courts to 'promote the [p]rogress of [s]cience and the useful [a]rts.'").

172. *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575, 585 (E.D. Ky. 2009) ("After reviewing *Quanta*, *Mallinckrodt*, and the parties' arguments, this Court is persuaded that *Quanta* overruled *Mallinckrodt sub silentio*."). It is noteworthy, however, that the Federal Circuit has continued to cite *Mallinckrodt* and *Braun* with approval in its post-*Quanta* decisions, e.g., *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) ("In *B. Braun Medical, Inc. v. Abbott Laboratories*, and *Mallinckrodt, Inc. v. Medipart, Inc.*, we explained the rationale underlying the [patent misuse] doctrine. As a general matter, the unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter, on the theory that the patentee has bargained for, and received, the full value of the goods. That "exhaustion" doctrine does not apply, however, to a conditional sale or license, where it is more reasonable to infer that a negotiated price reflects only the value of the "use" rights conferred by the patentee." (citations omitted)); *Monsanto Co. v. Bowman*, 657 F.3d 1341, 1347 (Fed. Cir. 2011), *cert. granted*, 80 USLW 3380, 2012 WL 4748082 (2012) ("In *Monsanto Co. v. McFarling*, [t]his court held, based on *Mallinckrodt, Inc. v. Medipart, Inc.*, that the conditions in Monsanto's Technology Agreement were valid and legal and did not implicate the doctrine of patent exhaustion. In any event, the court stated, '[t]he "first sale" doctrine of patent exhaustion . . . [wa]s not implicated, as the new seeds grown from the original batch had never been sold. The price paid by the purchaser 'reflects only the value of the 'use' rights conferred by the patentee.'" (alterations in second sentence in original) (citations omitted)).

opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws").¹⁷³

In this Part, we address this issue by considering the following questions: Can a contract-based post-sale restriction on a patented product be enforced through a breach of contract remedy? Does the answer to the first question depend on the nature of the post-sale restriction? And if only some contract-based post-sale restrictions are enforceable, which ones? We also consider the relative benefit to a patent holder of a breach of contract remedy as compared to a patent infringement remedy.

A. IS ANY CONTRACT-BASED POST-SALE RESTRICTION ON A PATENTED PRODUCT ENFORCEABLE THROUGH A BREACH OF CONTRACT REMEDY?

A determination of whether any contract-based post-sale restriction on a patented product can be enforced through a breach of contract remedy under state law, irrespective of the nature of the restriction, requires an assessment of whether such enforcement (i) constitutes an impermissible attempt to contract around the doctrine of patent exhaustion that is preempted under federal patent law, (ii) is contrary to the related but later developed doctrine of patent misuse, or (iii) is a violation of the public policies against restraints on alienation or restraints of trade, which have also been linked to the exhaustion doctrine.¹⁷⁴ We consider each of these questions in this Part.

I. Is a Contract-Based Post-Sale Restriction on a Patented Product an Impermissible Attempt to Contract-Around Patent Exhaustion?

The initial question is whether *any* post-sale restriction placed by a patent holder on the buyer of its patented product is enforceable through a breach of contract remedy under state law. And the first hurdle to overcome in answering this question is to determine whether the inclusion of any such restriction in a contract is a violation of any objective of federal patent law that underlies the patent exhaustion doctrine, rendering the provision void as a result of the preemptive effect of federal law on conflicting state contract law. It is noteworthy that the *Quanta* Court's footnote concerning the potential use of a breach-of-contract remedy to enforce a post-sale restriction cited the Court's earlier statement in *Keeler* regarding the issue.¹⁷⁵ The *Keeler* quotation is of significance not only as evidence of the Supreme Court's prior failure to resolve this issue but also as an expression of the Court's position on the limit of the patent exhaustion doctrine. Specifically, the quotation from *Keeler* included the following language:

¹⁷³. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 637 n.7 (2008).

¹⁷⁴. *See supra* Part I.A.

¹⁷⁵. *Quanta*, 533 U.S. at 637 n.7.

Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. *It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.*¹⁷⁶

We interpret the emphasized language as setting a limit on the scope of patent exhaustion (which is a doctrine that emanates from “the inherent meaning and effect of the patent laws”), indicating that while patent exhaustion eliminates patent infringement remedies in the context of the breach of a post-sale restriction on a patented product, it does not work to void every such restriction as an impermissible work-around of the patent exhaustion doctrine.

While the *Keeler* statement is instructive, it was offered in a nineteenth century patent exhaustion decision whose outcome was not dependent on the accuracy of the statement.¹⁷⁷ Accordingly, a more comprehensive evaluation of the question of whether a contract-based post-sale restriction on a patented product is an impermissible attempt to contract around patent exhaustion is required. And such an evaluation involves a determination of whether the enforcement of a post-sale restriction on a patented product through a breach of contract remedy is incompatible with any patent law objective that underlies patent exhaustion. As discussed in Part I.A, the Court has provided a variety of justifications for the exhaustion doctrine. However, the justification that has been relied on most frequently, and is consistent with the Court’s recent holding in *Quanta*, is that the authorized first sale of a patented product, which provides the patent holder with compensation for the relinquishment of its rights, moves the product outside of the limits of the statutorily defined patent monopoly and renders post-sale restrictions unenforceable under patent law. This justification for the doctrine of patent exhaustion reflects an objective of federal patent law that had already been articulated at the time of the Supreme Court’s development of the judge-made doctrine of patent exhaustion.¹⁷⁸

The Supreme Court’s decision in *Aronson v. Quick Point Pencil Co.*¹⁷⁹ provides a succinct description of the objectives of the federal patent system:

First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.¹⁸⁰

176. *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (emphasis added).

177. *Keeler* was a patent infringement case that did not include a breach of contract claim.

178. See DONALD CHISUM, CHISUM ON PATENTS OV-2-OV-7 (2012).

179. 440 U.S. 257 (1979).

180. *Id.* at 262; see *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480–81 (1974) (“The stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual

In *Sears, Roebuck & Co. v Stiffel Co.*¹⁸¹ and *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,¹⁸² the Supreme Court cited the additional goal of promoting “national uniformity in the realm of intellectual property.”¹⁸³ *Sears* also focused on the careful balance introduced into the federal patent system designed “to promote invention while at the same time preserving free competition,”¹⁸⁴ but this emphasis on free competition is part of the broader objective of leaving ideas in the public domain available for public use. And *Bonito Boats* discussed the need for a “clear federal demarcation between public and private property” and the importance of “resolving the constant tension between private right and public access,”¹⁸⁵ but this public/private issue is also part of the broader objective of assuring that ideas in the public domain remain there for public use.

property is to ‘promote the Progress of Science and useful Arts.’ The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens. In return for the right of exclusion—this ‘reward for inventions,’—the patent laws impose upon the inventor a requirement of disclosure. . . . [T]he patent laws require that the patent application shall include a full and clear description of the invention and ‘of the manner and process of making and using it’ so that any person skilled in the art may make and use the invention. When a patent is granted and the information contained in it is circulated to the general public and those especially skilled in the trade, such additions to the general store of knowledge are of such importance to the public weal that the Federal Government is willing to pay the high price of 17 years of exclusive use for its disclosure, which disclosure, it is assumed, will stimulate ideas and the eventual development of further significant advances in the art. The Court has also articulated another policy of the patent law: that which is in the public domain cannot be removed there from by action of the States.” (citations omitted)).

181. 376 U.S. 225 (1964).

182. 489 U.S. 141 (1989).

183. *Id.* at 162; *see Sears*, 376 U.S. at 231 n.7 (“The purpose of Congress to have national uniformity in patent and copyright laws can be inferred from such statutes as that which vests exclusive jurisdiction to hear patent and copyright cases in federal courts.”); *infra* notes 184, 185.

184. *Sears*, 376 U.S. at 230–31 (“[T]he patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition.”).

185. *Bonito Boats*, 489 U.S. at 162–63 (“The Florida scheme [under consideration in this case] blurs this clear federal demarcation between public and private property. One of the fundamental purposes behind the Patent and Copyright Clauses of the Constitution was to promote national uniformity in the realm of intellectual property. Since the Patent Act of 1800, Congress has lodged exclusive jurisdiction of actions ‘arising under’ the patent laws in the federal courts, thus allowing for the development of a uniform body of law in resolving the constant tension between private right and public access. Recently, Congress conferred exclusive jurisdiction of all patent appeals on the Court of Appeals for the Federal Circuit, in order to ‘provide nationwide uniformity in patent law.’ This purpose is frustrated by the Florida scheme, which renders the status of the design and utilitarian ‘ideas’ embodied in the boat hulls it protects uncertain. Given the inherently ephemeral nature of property in ideas, and the great power such property has to cause harm to the competitive policies which underlay the federal patent laws, the demarcation of broad zones of public and private right is ‘the type of regulation that demands a uniform national rule.’ Absent such a federal rule, each State could afford patent-like protection to particularly favored home industries, effectively insulating them from competition from outside the State.” (citations omitted)).

A core objective of federal patent law that is implicated in the Court's justification for patent exhaustion is that the patent system must ensure that ideas in the public domain remain there for the free use of the public and "cannot be removed therefrom by action of the States."¹⁸⁶ Consideration of this objective is relevant to an assessment of whether a contract-based post-sale restriction on a patented product is enforceable under state contract law or whether such enforcement is prohibited as an impermissible attempt to contract around patent exhaustion, a judge-made doctrine developed to further this objective. As the Court stated in its *Sears* decision (in which it held that a state's unfair competition law was incompatible with federal patent law and therefore preempted),

[federal patent law], like other laws of the United States enacted pursuant to constitutional authority, [is] the supreme law of the land. When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law. This is true, of course, even if the state law is enacted in the exercise of otherwise undoubted state power.¹⁸⁷

In *English v. General Electric Co.*,¹⁸⁸ the Court summarized the three circumstances in which state law is preempted under the Supremacy Clause of the U.S. Constitution:

First, Congress can define explicitly the extent to which its enactments pre-empt state law. . . .

Second, in the absence of explicit statutory language, state law is pre-empted where it regulates conduct in a field that Congress intended the Federal Government to occupy exclusively. Such an intent may be inferred from a 'scheme of federal regulation . . . so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it,' or where an Act of Congress 'touch[es] a field in which the federal interest is so dominant that the federal system will be assumed to preclude enforcement of state laws on the same subject.' . . .

Finally, state law is pre-empted to the extent that it actually conflicts with federal law. Thus, the Court has found pre-emption where it is impossible for a private party to comply with both state and federal requirements, or where state law "stands as an obstacle to the

186. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974); see *supra* note 180. Note that in Part II.B.2, *infra*, we discuss another objective of federal patent law implicated in the Supreme Court's justification for patent exhaustion, that is, that the patent system should provide sufficient incentive to inventors (but no more) to promote invention for the public good, where such incentive is in the form of a one-time payment made at the time of the authorized first sale of a patented product (the single reward interpretation discussed in Part I.A). This objective is relevant to an analysis of the enforceability of a specific type of contract-based restriction that requires that the buyer of a patented product make ongoing post-sale payments for the recurring use of the product—a so-called double royalty obligation; see also *infra* note 331 for a discussion of a variation of the argument against double royalties that is relevant to an analysis of the enforceability of any contract-based post-sale restriction.

187. *Sears*, 376 U.S. at 229 (citations omitted).

188. 496 U.S. 72, 78 (1990).

accomplishment and execution of the full purposes and objectives of Congress.”¹⁸⁹

Federal patent law does not provide for explicit preemption.¹⁹⁰ Nor is field preemption applicable to an assessment of whether an objective of federal patent law that underlies patent exhaustion preempts the enforcement of a contract-based post-sale restriction on a patented product under state contract law. As the Supreme Court stated in *Aronson*,¹⁹¹ in which the Court considered the enforceability under state law of a royalty payment obligation in a license agreement involving intellectual property, “[c]ommercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.”¹⁹²

The issue under consideration in this Part can be addressed, however, through a conflict preemption analysis. While it is difficult to make a case that an effort by a private party to enforce a contract-based post-sale restriction on a patented product under state law makes it impossible for that party to comply with both state and federal requirements, such an effort may stand “as an obstacle to the accomplishment and execution of the full purposes and objectives of” federal patent law.¹⁹³ The Supreme Court in *Aronson* relied on this form of conflict preemption, which has been labeled interference preemption,¹⁹⁴ in its assessment of whether federal patent law preempted the enforcement

189. *Id.* at 78–79 (alterations within internal quotations in original) (citations omitted).

190. *See* *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1332 (Fed. Cir. 1998) (“[F]ederal patent law plainly does not provide for explicit preemption . . .”).

191. *Aronson v. Quick Point Pencil, Inc.*, 440 U.S. 257 (1979).

192. *Id.* at 262 (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974)); *see* *Cover v. Hydramatic Packing Co.*, 83 F.3d 1390, 1393 (1996) (“With respect to field pre-emption, Title 35 occupies the field of patent law, not commercial law between buyers and sellers.”); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 154 (1989) (“The pre-emptive sweep of our decisions in *Sears* and *Compco* has been the subject of heated scholarly and judicial debate. Read at their highest level of generality, the two decisions could be taken to stand for the proposition that the States are completely disabled from offering any form of protection to articles or processes that fall within the broad scope of patentable subject matter. . . . That the extrapolation of such a broad pre-emptive principle from *Sears* is inappropriate is clear from the balance struck in *Sears* itself. . . . [W]hile *Sears* speaks in absolutist terms, its conclusion that the States may place some conditions on the use of trade dress indicates an implicit recognition that all state regulation of potentially patentable but unpatented subject matter is not *ipso facto* pre-empted by the federal patent laws. What was implicit in our decision in *Sears*, we have made explicit in our subsequent decisions concerning the scope of federal pre-emption of state regulation of the subject matter of patent [citing *Kewanee* and *Aronson*].” (citations omitted) (paraphrasing omitted)).

193. *Aronson*, 440 U.S. at 262.

194. *See* Christina Bohannon, *Copyright Preemption of Contracts*, 67 MD. L. REV. 616, 622 n.29 (2008) (“‘[I]nterference preemption’ occurs where state law ‘stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.’”).

of a contract-based royalty payment obligation through a breach of contract remedy.¹⁹⁵

The Supreme Court has identified two presumptions that guide an interference preemption analysis.¹⁹⁶ The first is that such an analysis is based on the Court's "oft-repeated comment . . . that '[t]he purpose of Congress is the ultimate touchstone' in every pre-emption case. As a result, any understanding of the scope of a pre-emption statute must rest primarily on 'a fair understanding of congressional purpose.'"¹⁹⁷ For our analysis, the "congressional purpose" to consider is expressed in the above-mentioned patent law objective that underlies the patent exhaustion doctrine, namely, that ideas in the public domain should remain available for free use of the public and cannot be removed by action of the states.

The second presumption identified by the Court is that "because the States are independent sovereigns in our federal system, we have long presumed that Congress does not cavalierly pre-empt state-law causes of action. In all pre-emption cases, and particularly in those in which Congress has 'legislated . . . in a field which the States have traditionally occupied,' we 'start with the assumption that the historic police powers of the States were not to be superseded by the Federal Act unless that was the clear and manifest purpose of Congress.'"¹⁹⁸ This presumption against preemption requires that in assessing whether the enforcement of any contract-based post-sale restriction on a patented product would interfere with a core objective of federal patent law in a way that requires preemption, we must consider not only the objective that is purportedly interfered with but also the extent of the interference that would result from such enforcement under state contract law. In the Supreme Court's seminal patent law preemption decisions in which conflict preemption by federal patent law invalidated state law,¹⁹⁹ the Court has made it clear that something more than mere interference is required for preemption, e.g., the enforcement of the state law under consideration would be *too great an encroachment on*²⁰⁰ or *a significant frustration of*,²⁰¹ or would

195. *Aronson*, 440 U.S. at 262 ("In this as in other fields, the question of whether federal law pre-empts state law 'involves a consideration of whether that law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'").

196. *Medtronic, Inc. v. Lohr*, 518 U.S. 470, 485–86 (1996).

197. *Id.* (citations omitted). This comment was initially made in *Retail Clerks v. Schermerhorn*, 375 U.S. 96, 103 (1963).

198. *Medtronic*, 518 U.S. at 485 (alteration in original) (citation omitted).

199. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

200. *See Sears*, 376 U.S. at 232 ("States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be *too great an encroachment on* the federal patent system to be tolerated." (emphasis added)).

201. *See Lear*, 395 U.S. at 673 ("The parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies would be *significantly frustrated* if licensees could be

result in substantial interference with,²⁰² federal patent law. Accordingly, an interference preemption analysis does not lend itself to absolute, bright-line pronouncements, but must be argued in terms of “degrees of interference” and the identification of a potentially arbitrary line that must be crossed to justify preemption.

The very purpose of a contract-based post-sale restriction on a patented product is to enable the patent holder to maintain some measure of control of the downstream use or disposition of the product, despite the fact that the authorized first sale of the product places it outside of the limits of any relevant patent. If the enforcement of any such restriction through a breach of contract remedy under state law constitutes too great an encroachment on, or a significant frustration of, or would result in substantial interference with the patent law objective (reflected in the doctrine of patent exhaustion) of ensuring that ideas in the public domain remain there, then such enforcement must be preempted by federal law. If, on the other hand, exhaustion of the patent remedy is enough to meet this objective of the patent system, and enforcement of the breach of contract remedy under state law does not meet the requisite degree of interference to justify preemption, then such enforcement should be permitted. In *Bonito Boats*,²⁰³ the Supreme Court’s most recent discussion of federal patent law preemption, the Court provided an analytical approach to addressing the above issue regarding the enforcement of contract-based post-sale restrictions on patented products. The question before the Court in *Bonito Boats* was whether a Florida statute prohibiting “the use of a direct molding process to duplicate unpatented boat hulls” and “the knowing sale of hulls so duplicated” conflicts with “strong federal policy favoring free competition in ideas not meriting patent protection” and thus is preempted by the Supremacy Clause.²⁰⁴ Relying on its prior decisions in *Sears*²⁰⁵ and *Compco Corp. v. Day-Brite Lighting, Inc.*,²⁰⁶ the Court in *Bonito Boats* concluded that the Florida statute was preempted by the Supremacy Clause because a state cannot offer patent-like protection to intellectual creations that are in the public domain.²⁰⁷

required to continue to pay royalties during the time they are challenging patent validity in the courts. It seems to us that such a requirement would be inconsistent with the aims of federal patent policy.” (emphasis added) (paragraphing omitted)).

202. See *Bonito Boats*, 489 U.S. at 156–57 (“A state law that *substantially interferes with* the enjoyment of an unpatented utilitarian or design conception which has been freely disclosed by its author to the public at large impermissibly contravenes the ultimate goal of public disclosure and use which is the centerpiece of federal patent policy.” (emphasis added)).

203. 489 U.S. at 141.

204. *Id.* at 141–42.

205. 376 U.S. 225 (1964).

206. 376 U.S. 234 (1964).

207. *Bonito Boats*, 489 U.S. at 156 (“[T]he States may not offer patent-like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law.”).

Applying the rule of *Bonito Boats* to the question of whether a contract-based post-sale restriction on a patented product is enforceable under state law requires a determination of the meaning of the terms “patent-like protection” and “in the public domain.” In *Bonito Boats*, as in *Sears*²⁰⁸ and in *Compro*,²⁰⁹ a state law that enjoined the copying of an article that was clearly in the public domain was held to provide “patent-like protection” and was, accordingly, preempted as inconsistent with an objective of federal patent law. In *Kewanee Oil Co. v. Bicron Corp.*,²¹⁰ another of the Supreme Court’s seminal patent law preemption cases, the Court refused to preempt a state law trade secret action to enjoin the disclosure or use of company trade secrets by former employees. The *Kewanee* Court based its holding on its dual conclusion that (1) “[t]rade secret law provides far weaker protection in many respects than the patent law,”²¹¹ that is, does not provide “patent-like protection,” and (2) “[t]he subject of a trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business,”²¹² i.e., is not “in the public domain.” Finally, in *Aronson*,²¹³ the Court held that a licensee’s contractual obligation to continue to pay royalties to the inventor of a novel design for the rights to manufacture and sell a product incorporating the design was enforceable under state law, despite the fact that no patent covering the design was ever issued and that the first sale of the product by the licensee placed the previously confidential design in the public domain.

In concluding that enforcement of the royalty provision under state contract law was not preempted by federal patent law, the Court ruled that a contractual royalty payment obligation placed on a licensee for the right to exploit a product design that was clearly in the public domain was not the equivalent of “patent-like protection,” as that term is applied in a preemption analysis. In essence, the Court held that, despite the fact that the inventive design had entered the public domain and was free for unfettered use by any party other than the licensee, the ongoing burden

208. *Sears*, 376 U.S. at 232–33 (“[B]ecause of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying [under the State’s unfair competition law].”).

209. *Compro*, 376 U.S. at 234 (“[T]he use of a state unfair competition law to give relief against copying of an unpatented industrial design [in the form of an injunction and damages] conflicts with the federal patent laws.”).

210. 416 U.S. 470 (1974).

211. *Id.* at 489–90 (“Trade secret law provides far weaker protection in many respects than the patent law. While trade secret law does not forbid the discovery of the trade secret by fair and honest means, e.g., independent creation or reverse engineering, patent law operates ‘against the world,’ forbidding any use of the invention for whatever purpose for a significant length of time. The holder of a trade secret also takes a substantial risk that the secret will be passed on to his competitors, by theft or by breach of a confidential relationship, in a manner not easily susceptible of discovery or proof. Where patent law acts as a barrier, trade secret law functions relatively as a sieve.” (citation omitted)).

212. *Id.* at 475.

213. 440 U.S. 257 (1979).

placed on the licensee in exchange for the rights to make and sell a product based on the design was justified by the benefit provided the licensee in being “the first to introduce a new product to the market.”²¹⁴ For our purposes, the Court ruled that, under the circumstances in *Aronson*, a less than “patent-like” control exerted by the inventor, that is, a royalty burden on the sale by a licensee of a product in the public domain, was not preempted under federal patent law and was enforceable under state contract law.

Contract-based, post-sale restrictions on patented products can vary in their form and effect, e.g., a restriction on the use or disposition of the product or a royalty payment obligation attached to the use or resale of the product. It is arguable as to whether each and every such restriction provides the patent holder with “patent-like protection” with respect to its product following an authorized first sale (although the Court’s holding in *Aronson* would indicate that a royalty payment obligation is not the equivalent of such protection). However, the following points suggest that not all such restrictions are unenforceable through a breach of contract remedy as a result of preemption under the standard set forth in *Bonito Boats*. First, the remedy under state contract law for a buyer’s breach of any such post-sale restriction would typically be monetary damages and not injunctive relief, raising the reasonable question of whether the state (through a breach of contract remedy) is, in fact, providing “patent-like protection” to a patent holder who authorizes the sale of the patented product but subjects the buyer to a contract-based, post-sale restriction. The distinction between monetary damages and injunctive relief in assessing whether “patent-like protection” is being provided by enforcement of a breach of contract remedy under state law is highlighted in the following excerpt from Justice Douglas’ dissent in *Kewanee Oil*. Arguing against the approval of injunctive relief under a state’s trade secret law, Justice Douglas noted the following:

A suit to redress theft of a trade secret is grounded in tort damages for breach of a contract—a historic remedy. Damages for breach of a confidential relation are not pre-empted by this patent law, but an injunction against use is pre-empted because the patent law states the only monopoly over trade secrets that is enforceable by specific performance; and that monopoly exacts as a price full disclosure. A trade secret can be protected only by being kept secret. Damages for breach of a contract are one thing; an injunction barring disclosure does service for the protection accorded valid patents and is therefore pre-empted.²¹⁵

While the Supreme Court’s recent decision in *eBay, Inc. v. MercExchange, L.L.C.*²¹⁶ (in which the Court rejected the Federal Circuit’s

214. *Id.* at 263.

215. *Kewanee Oil*, 416 U.S. at 498–99 (citation omitted).

216. 547 U.S. 388 (2006).

“general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances”²¹⁷ in favor of the traditional four-factor test for injunctive relief) minimizes this distinction, it is certainly the case that the Court considered the availability of injunctive relief as a central element in the meaning of the term “patent-like protection” in its seminal patent law preemption decisions.²¹⁸

Second, it is questionable that a patented product that is the subject of a contract-based post-sale restriction truly enters the public domain upon authorized first sale, where a valid, unexpired patent covering the product is exhausted only with respect to the purchased product and where the buyer is the only party that is contractually bound to adhere to the agreed-to restrictions that are a condition of the sale. In other words, there is a reasonable argument to be made that patent exhaustion in that context is sufficiently distinct from patent expiration/invalidation to justify a different treatment when it comes to determining what is “in the public domain” for unfettered use by the public. The definition of public domain has varied in the Supreme Court’s patent law preemption jurisprudence from *Sears* through *Kewanee Oil* to *Bonito Boats*, ranging from ideas not patented to ideas that are generally available to the public.²¹⁹ The Court, however, has never concluded that an idea embodied

217. *Id.* at 391 (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006)).

218. Each of the Supreme Court’s seminal patent law preemption decisions preceded its decision in *eBay* and were issued during the period when injunctive relief was the remedy for patent infringement in the absence of exceptional circumstances. *See* Part II.B.3.

219. *See* S. Stephen Hilmy, *Bonito Boats’ Resurrection of the Preemption Controversy: The Patent Leverage Charade and the Lanham Act “End Around,”* 69 TEX. L. REV. 729, 746–49 (1991). (“[A] key interpretive move made in the *Bonito Boats* opinion concerns the notion of public domain. . . . [T]he *Bonito Boats* Court stressed that ‘because the public awareness of a trade secret is by definition limited, . . . “the policy that matter once in the public domain must remain in the public domain is not incompatible with the existence of trade secret protection.”’ However, the Court here has simply adopted, but not reconciled, the shift of meaning that the *Kewanee* and *Aronson* opinions used to circumvent the *Sears-Compco* strong free competition policy rationale. This shift of meaning involves a confusion of a trade secret notion of public domain and a patent law notion of public domain: a confusion of publicity or nonsecrecy with the status of being unpatented or unpatentable.

The Court’s suggestion that ‘public awareness of a trade secret is by definition limited’ and therefore trade secrets are not in the public domain, rests on a trade secrets notion of public domain. . . .

. . . . The argument adopted by *Bonito Boats* is that since the patent law free competition rationale rests on a policy of ‘favoring the full and free use of ideas in the public domain,’ and trade secrets are by definition not in the public domain, then there is no clash between trade secret law and the *Sears-Compco* patent preemption rationale.

The concept of public domain at work in the *Sears-Compco* rationale for patent law preemption, however, is not defined in terms of substantial secrecy, but rather in terms of whether an article is patented or is capable of being patented. *Sears-Compco* uses public domain in a patent law sense to designate generally the domain of articles that are unprotected by federal patent law. . . .

An article can be unprotected by a patent for any number of reasons: (1) the article can fail to meet the usefulness, novelty, and non-obviousness requirements for patentability under the patent laws, (2) the article may have been granted patent protection but subsequently lost that protection either through expiry of the term of the patent or invalidation . . . or (3) the owner of the article may

in a patented product that has been sold with the authority of the patent holder has entered the public domain.

In the end, one is left with a question of whether state law enforcement of a contract-based, post-sale restriction on a patented product, while not truly “patent-like protection,” is “too great an encroachment on the federal patent system to be tolerated,”²²⁰ where the restriction is placed on a product that is not clearly “in the public domain,” as that term has been used, with some variability, by the Supreme Court in its patent law preemption analyses. Application of the preemption standard provided by the Supreme Court in its *Bonito Boats* decision suggests that not every contract-based post-sale restriction on a patented product is unenforceable through a breach of contract remedy under state law, but it does not resolve the issue.

Accordingly, another approach to patent law preemption, relied on by the Supreme Court in its decision in *Lear, Inc. v. Adkins*,²²¹ is worthy of consideration in addressing the enforceability of post-sale restrictions. The Court’s opinion in *Lear* does not read as a classic federal law preemption analysis (in fact, the word “preemption” is not used in the text of the opinion), but it clearly relied on the Supremacy Clause and a conflict with federal patent law to reject the state common law doctrine of licensee estoppel and to void a contract-based royalty payment obligation. In *Lear*, the Court considered whether the doctrine of licensee estoppel, which barred a patent licensee from challenging the validity of a licensed patent, and an express contract provision that obligated the licensee to continue to pay royalties until the licensed patent had been invalidated, impermissibly interfered with an objective of federal patent law.²²²

Citing its prior decisions in *Sears* and in *Compco*, the *Lear* Court identified the relevant objective as the requirement under federal law that “all ideas in general circulation be dedicated to the common good

simply choose not to seek patent protection.

However, what is left in the public domain in the *Sears-Compco* patent law sense may not be in the public domain in the trade secret law sense. . . . [P]atent law may leave in the public domain something which nevertheless satisfies the relative secrecy standards requisite for state trade secret protection. Furthermore, given that *Sears-Compco* tended to equate public domain with anything that is unprotected by federal patent, mere failure to seek patent protection leaves something in the public domain for *Sears-Compco* patent law purposes, and thus there is an even greater overlap (and clash) of the nonpublic domain of trade secrets and the *Sears-Compco* public domain of patent law.

It was on the basis of the broader *Sears-Compco* patent law sense of public domain, not a trade secret conception of public domain, that Justices Black, Warren, Douglas, Brennan, Blackmun, and Marshall dissented to attempts to modify the course set by *Sears-Compco*. It was the blurring of these two incongruous senses of public domain that allowed the Burger Court to circumvent the *Sears-Compco* free competition preemption rationale. *Sears-Compco* can be reconciled with *Kewanee* and *Aronson* only by blurring (as the *Bonito Boats* opinion does) these two incongruous senses of public domain.” (alterations within internal quotations in original) (footnotes omitted)).

220. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232 (1964).

221. 395 U.S. 653 (1969).

222. *Id.* at 656, 673.

unless they are protected by a valid patent.”²²³ The specific issue in *Lear* was whether the state, by preventing or discouraging the timely elimination of wrongly issued patents, was providing “patent-like protection” to ideas that should be freely available for public use.²²⁴ In deciding the issue, the *Lear* Court engaged in a balancing test that pitted federal patent law against state contract law. Despite its acknowledgment that “the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made,”²²⁵ the Court rejected, as incompatible with federal patent law, the doctrine of licensee estoppel, “which is . . . rooted in contract principles.”²²⁶ and the licensee’s contractual obligation to continue to make royalty payments during its challenge of the validity of the patent at issue. Regarding licensee estoppel, the Court concluded that

the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued.²²⁷

In voiding the contract-based royalty payment obligation, the Court stated that

[t]he parties’ contract . . . is no more controlling on this issue than is the State’s doctrine of estoppel. . . . The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.

It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. We can perceive no reason to encourage dilatory court tactics in this way. Moreover, the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts. The deterrent effect would be particularly severe in the many scientific fields in which invention is proceeding at a rapid rate. In these areas, a patent may well become obsolete long before its 17-year term has expired. If a licensee has reason to believe that he will replace a patented idea with a new one in the near future,

223. *Id.* at 668.

224. *Id.* at 656.

225. *Id.* at 668.

226. *Id.* at 673.

227. *Id.* at 670–71.

he will have little incentive to initiate lengthy court proceedings, unless he is freed from liability at least from the time he refuses to pay the contractual royalties. Lastly, enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain. For all these reasons, we hold that Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity.²²⁸

The *Lear* decision was followed by a series of federal district and appellate court decisions that considered the enforceability under state law of contract-based disincentives to patent validity challenges.²²⁹ The approach to patent law preemption that emerged from *Lear* and the cases that followed is applicable to our analysis of the enforceability of contract-based, post-sale restrictions on patented products, and consists of the following three steps: First, identify the patent law objective being threatened by the contract restriction under consideration. In *Lear*, as in our analysis, the objective is the need for ideas in the public domain to remain there and not be removed by an action of a state. Second, determine the degree of interference with the objective. This step was of particular importance in *Lear*, where the Court acknowledged the significance of enforcing contract terms agreed to by private parties. In the balancing test performed in *Lear*, the Court voided a contract provision only where it “significantly frustrated” an overriding federal policy and left a licensee with “little incentive” to challenge a licensed patent.²³⁰ As one commentator noted, the “*Lear* decision was based upon a policy of ‘eliminating obstacles to suit by those disposed to challenge the validity of a patent,’ but the ‘spirit of *Lear*’ cannot logically demand that any and all rules of contract law . . . be ignored to give licensees every possible incentive to challenge patent validity.”²³¹

Third, and finally, determine whether policy considerations, other than those involved in a weighing of an objective of federal patent law against a requirement of state contract law, come into play in assessing a contract-based restriction. Such considerations may shift the balance in favor of enforcing the restriction under state law. For example, despite the *Lear* Court’s rejection of licensee estoppel in the context of a typical patent license agreement, the Federal Circuit subsequently held that contract-based restrictions on patent validity challenges were enforceable under state law where they were necessary to avoid “unfairness and injustice” (as in the case of assignor estoppel),²³² or were

228. *Id.* at 673–74.

229. See Alfred C. Server & Peter Singleton, *Licensee Patent Validity Challenges Following MedImmune: Implications for Patent Licensing*, 3 HASTINGS SCI. & TECH. L.J. 243, 333–97 (2011).

230. *Lear*, 395 U.S. at 673–74.

231. J. Thomas McCarthy, “*Unmuzzling*” the Patent Licensee: *Chaos in the Wake of Lear v. Adkins (Part II—Conclusion)*, 59 J. PAT. OFF. SOC’Y 544, 568 (1977) (footnote omitted).

232. See *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224–25 (Fed. Cir. 1988) (“[I]t is the implicit representation by the assignor that the patent rights that he is assigning (presumably for

justified in light of the strong public interest in the settlement of patent litigation (as in the case of a no-challenge clause included in a settlement agreement).²³³ As noted by the Federal Circuit,²³⁴ these additional policy considerations were not included in the *Lear* balancing test and allowed for a preemption analysis outcome that differed from the one reached by the Supreme Court in *Lear*. What is important for our purposes is that the *Lear* approach to preemption analysis is based on a case-by-case review of the contract restriction under consideration. This approach is consistent with a conclusion that Supreme Court patent law preemption jurisprudence does not dictate that every attempt to enforce a contract-based post-sale restriction on a patented product must be preempted as an impermissible work around of a core patent law objective reflected in the doctrine of patent exhaustion.

It is noteworthy that our conclusion that at least some contract-based post-sale restrictions on patented products will survive a preemption challenge and be enforceable under state law is consistent with the legislative history of the federal copyright statute's first sale doctrine. Section 109(a) of the federal copyright statute reads, in part, as follows: "[T]he owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."²³⁵ However, the legislative history regarding the adoption of the first sale doctrine under federal copyright law included the following statement:

[T]he outright sale of an authorized copy of a book frees it from any copyright control over its resale price or other conditions of its future

value) are not worthless that sets the assignor apart from the rest of the world and can deprive him of the ability to challenge later the validity of the patent. To allow the assignor to make that representation at the time of the assignment (to his advantage) and later to repudiate it (again to his advantage) could work an injustice against the assignee."); *id.* at 1225 ("[W]e believe that the primary consideration in now applying the doctrine [of assignor estoppel] is the measure of unfairness and injustice that would be suffered by the assignee if the assignor were allowed to raise defenses of patent invalidity. Our analysis must be concerned mainly with the balance of equities between the parties.").

233. See *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1369 (Fed. Cir. 2001) ("[W]hile the federal patent laws favor full and free competition in the use of ideas in the public domain over the technical requirements of contract doctrine, settlement of litigation is more strongly favored by the law."); see also *Diversey Lever, Inc. v. Ecolab, Inc.*, 191 F.3d 1350 (Fed. Cir. 1999); *Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (Fed. Cir. 1991).

234. See *Diamond Scientific*, 848 F.2d at 1224–25 ("Our holding is that this is a case in which public policy calls for the application of assignor estoppel. We are, of course, not unmindful of the general public policy disfavoring the repression of competition by the enforcement of worthless patents. Yet despite the public policy encouraging people to challenge potentially invalid patents, there are still circumstances in which the equities of the contractual relationships between the parties should deprive one party (as well as others in privity with it) of the right to bring that challenge."); see also *Flex-Foot*, 238 F.3d at 1369 ("Clearly, the importance of res judicata and its hierarchical position in the realm of public policy was not a relevant consideration in *Lear* and therefore the Supreme Court never evaluated the importance of res judicata and whether it trumps the patent laws' prescription of full and free competition in the use of ideas that are in reality a part of the public domain.").

235. 17 U.S.C. § 109 (a) (2012).

disposition. . . . This does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.²³⁶

The clear meaning of the above statement is that, with respect to the federal copyright laws, an authorized first sale of a copyrighted item will eliminate infringement remedies, but not necessarily contract remedies under state law, which are not preempted by the federal copyright statute. This conclusion is all the more significant in light of the stated position of the Supreme Court that the same rules of interpretation and application apply to both the copyright statute and the patent statute.²³⁷

2. *Is a Contract-Based Post-Sale Restriction on a Patented Product Per Se Patent Misuse?*

Another argument against the enforceability of any contract-based post-sale restriction on a patented product through a breach of contract remedy, irrespective of the nature of the restriction, is that the inclusion of such a restriction in a contract constitutes per se patent misuse. Patent misuse is an affirmative defense to a claim of patent infringement.²³⁸ Misuse will be found if a patent is used in an effort to impermissibly broaden the physical or temporal scope of the patent monopoly or in violation of antitrust law.²³⁹ Where a patent has been misused in negotiating a license or sale agreement, the offending contractual provision is invalid and the misused patent is unenforceable, even against third party infringers, until the misuse terminates and its consequences are fully dissipated.²⁴⁰

Like patent exhaustion, patent misuse is a judge-made doctrine.²⁴¹ Also like patent exhaustion, patent misuse focuses on the scope of the

236. H.R. REP. NO. 94-1476, at 79 (1976).

237. See *Goldstein v. California*, 412 U.S. 546, 579 n.3 (1973) (Marshall, J., dissenting) (“It bears noting that in *Sears, Roebuck & Co. v. Stiffel Co.*, the Court repeatedly referred to the patent and copyright statutes as if the same rules of interpretation applied to both.” (citation omitted)).

238. *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (“Patent misuse is an affirmative defense to an accusation of patent infringement . . .”). See CHISUM, *supra* note 178, § 19.04 (Patent Misuse Defense).

239. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343–44 (1971) (“[T]he Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly.”) (citing, *inter alia*, *Brulotte v. Thys Co.*, 379 U.S. 29 (1964); *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488 (1942); *Carbice Corp. v. Am. Patents Corp.*, 283 U.S. 27 (1931); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)); see also CHISUM, *supra* note 178, § 19.04 (Patent Misuse Defense); Robert J. Hoerner, *The Decline (And Fall?) of the Patent Misuse Doctrine in the Federal Circuit*, 69 ANTITRUST L.J. 669, 669–73 (2001); Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 HASTINGS SCI. & TECH. L.J. 21, 65–75 (2009).

240. See CHISUM, *supra* note 178, § 19.04 (Patent Misuse Defense); Server et al., *supra* note 239, at 65–75.

241. See *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1321 (Fed. Cir. 2010); Hovenkamp,

statutorily conferred patent monopoly. As discussed elsewhere in this Article, the Supreme Court's justification for patent exhaustion is that the authorized first sale of a patented product places the product beyond the limits of any patents that cover or are substantially embodied in that product, thereby exhausting patent infringement remedies.²⁴² In the case of patent misuse, the Court has held that a contract provision extending the physical or temporal scope of a patent that results from the leverage provided by such patent is void and the patent is unenforceable until the misuse ends and its consequences are dissipated.²⁴³ The latter doctrine's focus on patent scope makes it relevant to an analysis of whether a contract-based restriction on a patented product following an authorized first sale, which places the product outside of the patent monopoly, is enforceable under state contract law.

However, patent exhaustion and patent misuse are separate doctrines, despite their shared focus on the limits of the patent monopoly. The beginning of the Supreme Court's patent exhaustion jurisprudence in *McQuewan* (1852) predates that of the Court's patent misuse jurisprudence in *Motion Picture Patents* (1917),²⁴⁴ indicating that the exhaustion doctrine operates to eliminate patent infringement remedies in the context of a violation of a post-sale restriction on a patented product without reliance on the later-developed doctrine of patent misuse. Moreover, the fact that the doctrines are distinguishable justifies a separate assessment of the impact of the misuse doctrine on the enforceability of a contract-based post-sale restriction on a patented product through a breach of contract remedy from the one provided in Part II.A.1 on the impact of the exhaustion doctrine. In this Part, we undertake such an assessment and, based on a review of relevant Supreme Court patent misuse jurisprudence, related Federal Circuit case law, and an amendment to the federal patent statutes, we conclude that the patent misuse doctrine does not mandate that every contract-based post-sale restriction on a patented product is unenforceable under state law.

As discussed in Parts I.A and I.C, the Supreme Court's decision in *Motion Picture Patents* was critical to the development of the Court's

supra note 8, at 491.

242. See *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852) (“[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly [created by Congress in enacting the federal patent laws].”).

243. See *supra* notes 239, 240.

244. See *Blonder-Tongue Labs*, 402 U.S. at 343–44; *Princo*, 616 F.3d at 1326. Note that other Supreme Court cases have been cited as the start of the Court's patent misuse jurisprudence, such as *Carbice Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931) (cited by CHSUM, *supra* note 178, §19.04 [1] [b] (Patent Misuse Defense) (referring to the “Supreme Court ‘Tying’ Cases—*Carbice*, *Morton & Mercoide*”)), and *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (cited by Hoerner, *supra* note 239, at 670). Accepting either of these later cases as the Court's first application of the patent misuse doctrine does not undermine the point that that doctrine was developed after the patent exhaustion doctrine.

patent exhaustion jurisprudence in that it rejected the conditional sale doctrine endorsed in its prior decision in *Henry*. The *Motion Picture Patents* opinion is also significant in that it provides the first support for the conclusion that not all contract-based post-sale restrictions on patented products constitute patent misuse. The Court considered two distinct issues in *Motion Picture Patents*. It first addressed the question of whether, in contrast to the conditional sale doctrine, an authorized first sale of a patented product invariably exhausts patent infringement remedies.²⁴⁵ In concluding that such a sale does, indeed, exhaust patent remedies, irrespective of any conditions that are attached to the sale, the Court rejected the conditional sale doctrine and resolved the question regarding the impact of patent exhaustion.²⁴⁶

Not content to end the analysis there, and recognizing the need to deal with the precedent set by its earlier pro-patent decision in *Henry*, the Court in *Motion Picture Patents* then addressed the enforceability of the particular post-sale restriction under consideration in the case which, as in *Henry*, was a tying obligation placed on the buyer of the patented product.²⁴⁷ The Court concluded that the provision at issue was evidence of the patent holder's effort "to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation, but which are no part of the patented invention The patent law furnishes no warrant for such a practice"²⁴⁸ This is the language of patent misuse, and many consider the Court's decision in *Motion Picture Patents* to be the beginning of the Supreme Court's patent misuse jurisprudence.²⁴⁹ In declaring the tying provision invalid as an impermissible extension of patent scope, the Court in *Motion Picture Patents* eliminated any argument that the provision was enforceable under state contract law or any other legal theory.²⁵⁰ The point for our

245. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 515–16 (1917).

246. *Id.* See Part I.C.

247. *Motion Picture Patents*, 243 U.S. at 515–16, 518. See *infra* note 251.

248. *Motion Picture Patents*, 243 U.S. at 516–17.

249. See *id.* In rejecting the tying provision under consideration, the Court noted that such a provision could be challenged as a violation of the Clayton Act, an antitrust statute enacted by Congress in the interval between the Court's decision in *Henry* and the decision that it was handing down in *Motion Picture Patents*. While the Court in *Motion Picture Patents* did not explore the matter further, it stated that "[o]ur conclusion [based on a patent misuse analysis] renders it unnecessary to make the application of this statute to the case at bar which the Circuit Court of Appeals made of it but it must be accepted by us as a most persuasive expression of the public policy of our country with respect to the question before us." *Id.* at 517–18.

250. *Id.* at 518. ("Coming now to the terms of the notice attached to the [film projecting] machine sold . . . under the license of the plaintiff [and covered by the plaintiff's patent in suit] This notice . . . provides that the machine . . . may be used only with moving picture films containing the invention of reissued [and subsequently expired] patent No. 12,192, so long as the plaintiff continues to own this reissued patent. Such a restriction is invalid because such a film is obviously not any part of the invention of the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired, and because to enforce it would be to create a monopoly in the manufacture and use of moving picture films, wholly outside of

purposes is that the Court in *Motion Picture Patents* would not have needed to delve into the particular problem raised by the tying provision under consideration if the inclusion of *any* post-sale restriction on a patented product in a contract between an authorized seller and a buyer constituted an impermissible extension of the patent scope under the misuse doctrine that rendered the restriction unenforceable under state contract law. Instead, the Court focused on the particular provision before it, supporting a case-by-case application of the patent misuse doctrine in evaluating a post-sale restriction. In essence, the Court in *Motion Picture Patents* applied the exhaustion doctrine to eliminate patent infringement remedies. It relied on the misuse doctrine to void a contract-based post-sale restriction on a patented product, but only after an evaluation of the nature and impact of the particular restriction under consideration—in that case, a problematic tying provision.

The argument that every contract-based post-sale restriction on a patented product is void under the misuse doctrine is based on the view that the patent holder has misused the leverage of its patent by attempting to exert downstream control over its patented product after an authorized first sale has placed the product beyond the scope of the patent. However, the Supreme Court's decisions in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*²⁵¹ and *Zenith Radio Corp. v. Hazeltine Research, Inc.*²⁵² stand for the proposition that not all contract-based extensions of patent scope constitute patent misuse.

These cases addressed the enforceability under state law of a contract provision that calls for the payment of a total sales royalty in the context of a patent license agreement. A total sales royalty obligation requires a patent licensee to pay royalties on the sale of products that are calculated not only on the sales of the products covered by the licensed patent, but also on the sales of products that are not covered. Such an obligation is clearly a physical extension of patent scope.²⁵³ The holdings in *Automatic Radio* and *Zenith* reflect the Court's conclusion that a contract provision that obligates a patent licensee to pay a total sales royalty is enforceable, provided that the inclusion of the provision in the contract is not the result of coercion by the patent holder.²⁵⁴ This would

the patent in suit and of the patent law as we have interpreted it." (paragraphing omitted)).

251. 339 U.S. 827 (1950).

252. 395 U.S. 100 (1969).

253. See Server et al., *supra* note 239, at 75–92.

254. See *Zenith Radio*, 395 U.S. at 138–39 (“If convenience of the parties [as in *Automatic Radio*] rather than patent power [as in this case] dictates the total-sales royalty provision, there are no misuse of the patents and no forbidden conditions attached to the license . . . [W]e do not read *Automatic Radio* to authorize the patentee to use the power of his patent to insist on a total-sales royalty and to override protestations of the licensee that some of his products are unsuited to the patent or that for some lines of his merchandise he has no need or desire to purchase the privileges of the patent.”); *Automatic Radio*, 339 U.S. at 834 (1950) (“Sound business judgment could indicate that . . . [a total sales royalty] payment represents the most convenient method of fixing the business value of the

suggest, by analogy, that at least some mutually agreed-to, contract-based post-sale restrictions placed on a patented product are enforceable under contract law, despite the fact that the post-sale restriction would appear to be an effort by the patent holder to extend the reach of its patent monopoly.

Admittedly, the *Automatic Radio/Zenith* line of cases only addresses contract provisions that extend the physical scope of the patent monopoly, where a non-coerced agreement by the parties to a contract can avoid patent misuse. The Supreme Court's decision in *Brulotte v. Thys Co.*,²⁵⁵ however, which addressed a temporal extension of patent scope, presents a different challenge. In that case, the Court concluded that a contract provision that required the user of a patented product to pay the same royalty after the expiration of the applicable patents as it paid prior to the expiration was an impermissible temporal extension of patent scope that could not be contracted around, in other words, a per se patent misuse violation.²⁵⁶

It could be argued, by analogy, that every contract-based restriction placed on a patented product following an authorized first sale that exhausts the patent right with respect to that product is a per se patent misuse violation, rendering the offending contract provision void under *Brulotte*. This argument, however, neglects the fact that *Brulotte* was actually a patent exhaustion case, as well as a patent misuse case, that distinguished between the expiration of a patent and the exhaustion of a patent with respect to an individual product. The patented hop-picking machine at the center of the controversy in *Brulotte* was actually purchased by the user.²⁵⁷ The post-sale restriction placed on the use of the machine was in the form of a royalty burden that obligated the user to pay royalties for the continued use of the machine even after the patents covering the machine had expired.²⁵⁸ The Court ruled that the survival of the post-sale restriction following the expiration of the relevant patents was “a telltale sign”²⁵⁹ that the patent holder was attempting to project its patent monopoly beyond the patent term and, therefore, a per se patent misuse violation rendering the royalty payment provision unenforceable. Of particular note, for our purposes, is the fact that the payment provision was held to be unenforceable from the point in time at which the patents expired, not from the point of patent exhaustion triggered by the authorized sale of the machine.²⁶⁰ Stated another way, the

privileges granted by the licensing agreement.”).

255. 379 U.S. 29 (1964).

256. *Id.* at 32.

257. *Id.* at 29.

258. *Id.* at 29–30.

259. *Id.* at 32.

260. *Id.* at 30. (“Petitioners refused to make royalty payments accruing both before and after the expiration of the patents. This suit followed. One defense was misuse of the patents through extension of the license agreements beyond the expiration date of the patents. The trial court rendered judgment

restriction placed on the patented product was held to be enforceable under contract law, despite an authorized first sale that exhausted the patent rights with respect to the product, until the time that the relevant patents expired. According to this interpretation of the Court's *Brulotte* holding, the case provides additional support for the conclusion that not every post-sale restriction on a patented product is unenforceable under state contract law as a result of patent misuse.

The Federal Circuit's patent misuse decisions have tended to raise the threshold for a finding of misuse. For example, in *Windsurfing International, Inc. v. AMF, Inc.*,²⁶¹ the Federal Circuit stated that the "doctrine of patent misuse . . . requires that the alleged infringer show that the patentee has impermissibly broadened the 'physical or temporal scope' of the patent grant *with anticompetitive effect*,"²⁶² citing the Supreme Court's opinion in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*.²⁶³ However, the italicized language in the above quotation was not part of the original statement in *Blonder-Tongue*.²⁶⁴ The Federal Circuit added the words "with anticompetitive effect," and in so doing, arguably, raised the bar for a finding of patent misuse.²⁶⁵ Any broadening of the physical or temporal scope of the patent grant by the patent holder had to have an anticompetitive effect to constitute patent misuse.

In *Virginia Panel Corp. v. MAC Panel Co.*,²⁶⁶ the Federal Circuit added that an anticompetitive effect alone does not itself require a finding of patent misuse. Rather, such an effect must outweigh any procompetitive benefits of the challenged practice, when "analyzed in accordance with the 'rule of reason.'"²⁶⁷ And in *Princo Corp. v. International Trade*

for respondent and the Supreme Court of Washington affirmed. . . . We conclude that the judgment below must be reversed insofar as it allows royalties to be collected which accrued after the last of the patents incorporated into the machines had expired.").

261. 782 F.2d 995 (Fed. Cir. 1986).

262. *Id.* at 1001 (emphasis added).

263. 402 U.S. 313, 343 (1971).

264. *Id.* ("[T]he Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly.").

265. See Server et al., *supra* note 239, at 71 n.140; see also Hoerner, *supra* note 239 (arguing that the Federal Circuit has departed from Supreme Court precedent by requiring a showing of 'anticompetitive effect,' which analysis is derived from the antitrust rule of reason, in order to sustain a patent misuse defense); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 418-31 (2003) (arguing that the Federal Circuit's inconsistent effort "to change patent misuse doctrine so that it tracks antitrust doctrine" has resulted in "a confusing tangle that distorts both antitrust and misuse doctrine"); Patricia A. Martone & Richard M. Feustel, Jr., *The Patent Misuse Defense—Does It Still Have Viability*, in INTELLECTUAL PROPERTY ANTITRUST 213, 250 (2002) (noting that, contrary to Supreme Court precedent, the Federal Circuit has required "antitrust-type findings" to support an "attempt to extend the scope of monopoly"-type patent misuse defense).

266. 133 F.3d 860 (Fed. Cir. 1997).

267. *Id.* at 869 ("If . . . the practice [alleged to constitute patent misuse] has the effect of extending the patentee's statutory rights and does so with anti-competitive effect, that practice must then be analyzed in accordance with the 'rule of reason.' Under the rule of reason, 'the finder of fact must decide whether the

Commission,²⁶⁸ the Federal Circuit's latest substantive decision regarding patent misuse, the court narrowed the type of anticompetitive behavior that qualifies as patent misuse.²⁶⁹ The net effect of these restatements by the Federal Circuit of the law of patent misuse is that it is virtually impossible, under that court's narrow reading of the misuse doctrine,²⁷⁰ that a contract-based post-sale restriction on a patented product would be deemed patent misuse without an assessment of the nature and effect of the restriction at issue. Whether or not the Federal Circuit's interpretation of the misuse doctrine is an accurate reflection of Supreme Court patent misuse jurisprudence,²⁷¹ it remains good law and must be considered in any assessment of whether a contract-based post-sale restriction on a patented product constitutes per se patent misuse, rendering the restriction unenforceable under state contract law.

Finally, a 1988 amendment to the federal patent statute provides further support for the conclusion that not all post-sale restrictions on patented products are void as a result of patent misuse. The Patent Misuse Reform Act added § 271(d) to the patent statute.²⁷² Section 271(d)(5) states, in part, that

questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect.” (citation omitted)).

268. 616 F.3d 1318 (Fed. Cir. 2010).

269. *Id.* at 1329 (“Recognizing the narrow scope of the doctrine, we have emphasized that the defense of patent misuse is not available to a presumptive infringer simply because a patentee engages in some kind of wrongful commercial conduct, even conduct that may have anticompetitive effects. . . . While proof of an antitrust violation shows that the patentee has committed wrongful conduct having anticompetitive effects, that does not establish misuse of the patent in suit unless the conduct in question restricts the use of that patent and does so in one of the specific ways that have been held to be outside the otherwise broad scope of the patent grant.” (citation omitted)).

270. *Id.* at 1321 (“Patent misuse developed as a nonstatutory defense to claims of patent infringement. In the licensing context, the doctrine limits a patentee’s right to impose conditions on a licensee that exceeds the scope of the patent right. Because patent misuse is a judge-made doctrine that is in derogation of statutory patent rights against infringement, this court has not applied the doctrine of patent misuse expansively.”).

271. *See* Server et al., *supra* note 239, at 70–71 (“It is noteworthy that the Federal Circuit’s analytical framework for identifying patent misuse has been the object of criticism by commentators. The view generally expressed is that, in contrast to Supreme Court precedent, the Federal Circuit has conflated the ‘antitrust type’ of patent misuse and the ‘extension of monopoly type’ of patent misuse, such that from the Federal Circuit’s prospective ‘no misuse of any kind can be found unless the patent infringement defendant proves that the alleged misuse had ‘anticompetitive effect not justifiable under the rule of reason.’ The Federal Circuit’s interpretation of the patent misuse doctrine, which appears to ignore the pure ‘extension of monopoly type’ misuse, raises the threshold for a showing of patent misuse and, according to some, reflects that court’s antipathy to the doctrine in keeping with its pro-patent bias.” (footnotes omitted)). *See supra* note 265.

272. *See Princo*, 616 F.3d at 1329–30; CHISUM, *supra* note 178, § 19.04 (Patent Misuse Defense: [i] Historical Development & [f] The Patent Misuse Reform Act of 1988); Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: “Blessed Be the Tie?”* 4 HARV. J. L. & TECH. 1, 21–26 (1991); Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 192–200 (1988).

[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . conditioned the . . . sale of the patented product on the . . . purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the . . . patented product on which the . . . sale is conditioned.²⁷³

The qualifier “otherwise entitled to relief for infringement or contributory infringement of a patent” allows for the unavoidable effect of patent exhaustion in eliminating patent infringement remedies against a buyer of the patented product who fails to comply with a post-sale restriction on the use or disposition of the product. However, the avoidance of patent misuse in conditioning the sale of a patented product would enable a patent holder to preserve its right to pursue a third party infringer of the relevant patent who had no connection to the product sale. Accordingly, guidance as to the actions that a patent holder could undertake in the context of selling its patented product that would not be deemed patent misuse is of considerable value. Section 271(d)(5) provides such guidance with its statement that, in the absence of market power, a tying restriction that obligates a buyer of a patented product to purchase another product, possibly for post-sale use with the patented product, is not a type of misuse or a legal extension of the patent right that would render the restriction unenforceable through a breach of contract remedy. Here then is statutory support for the conclusion that not all contract-based post-sale restrictions on patented products constitute patent misuse, rendering the restriction unenforceable under state contract law.

3. *Is a Contract-Based Post-Sale Restriction on a Patented Product Void as Against the Public Policies Against Restraints on Alienation and Restraints of Trade?*

The final argument to be addressed against the enforceability of any contract-based post-sale restriction on a patented product is that such a restriction conflicts with the public policies against restraints on alienation and restraints of trade. This argument has been cited as a basis for patent exhaustion²⁷⁴ and has been relied on in efforts to void contract-

273. 35 U.S.C. § 271(d) (2012).

274. *See* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 516–17 (1917) (“[I]t is not competent for the owner of a patent, by notice attached to its machine . . . to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid The patent law furnishes no warrant for such a practice, and the cost, inconvenience, and annoyance to the public which the opposite conclusion would occasion forbid it.”); *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500–01 (1917) (“Courts would be perversely blind if they failed to look through such an attempt as this ‘License Notice’ [to fix the resale price of a patented sound-producing machine] thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke’s day to ours, because obnoxious to the public interest.”).

based post-sale restrictions on both patented and unpatented products.²⁷⁵ The question to be answered in this Part is whether these public policy arguments are sufficiently compelling to render every contract-based post-sale restriction on a patented product unenforceable.

The argument that a contract-based post-sale restriction on a product contravenes the public policies against restraints on alienation and restraints of trade was presented and accepted by the Supreme Court in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*²⁷⁶ (overruled in *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*²⁷⁷). *Dr. Miles* involved a series of contracts through which the manufacturer of a proprietary medicine, whose formula and method of preparation were not patented but instead kept secret, attempted to control the sale price of the medicine.²⁷⁸ The contracts were between the manufacturer and selected vendors (i.e., jobbers, wholesale druggists, and retailers) and specified the parties to whom, and the minimum price at which, the medicine could be sold.²⁷⁹ It was alleged that the defendant in the case, who was not in privity of contract with the manufacturer, had purchased the medicine from various vendors in violation of the latter's contractual obligation to the manufacturer and was selling the medicine below the specified price.²⁸⁰ While the defendant was charged with tortious interference with the contractual relationship between the manufacturer and its vendors, the case addressed the legality of the system of contracts that placed restrictions on the proprietary medicine following its sale.²⁸¹ In concluding that the contract restrictions in *Dr. Miles* were unenforceable, the Court relied on the public policies against restraints on alienation and restraints of trade. With respect to restraints on alienation, the Court stated the following:

We come, then, to the . . . question, whether the complainant . . . is entitled to maintain the restrictions by virtue of the fact that they relate to products of its own manufacture.

The basis of the argument appears to be that, as the manufacturer may make and sell, or not, as he chooses, he may affix conditions as to the use of the article or as to the prices at which purchasers may

275. See *Motion Picture Patents*, 243 U.S. 502; *Straus*, 243 U.S. 490; *Dr. Miles Med. Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911); *John D. Park & Sons Co. v. Hartman*, 153 F. 24 (6th Cir. 1907).

276. 220 U.S. 373.

277. 551 U.S. 877 (2007).

278. *Dr. Miles*, 220 U.S. at 374.

279. *Id.* at 374–81.

280. *Id.* at 381–82.

281. The manufacturer in *Dr. Miles* argued that certain of its vendors (i.e., jobbers and wholesale druggists) were acting as its agents, having never obtained title to the proprietary medicine, and that the contractual restrictions placed on these vendors did not burden a product that had been sold. The Supreme Court rejected this view on the theory that the contractual scheme under consideration in the case was sufficiently broad to obligate vendors who clearly obtained title to the medicine (e.g., retailers and wholesalers who purchased from other wholesalers) to adhere to the manufacturer's restrictions regarding resale of the product. *Id.* at 379–81.

dispose of it. The propriety of the restraint is sought to be derived from the liberty of the producer.

But because a manufacturer is not bound to make or sell, it does not follow in case of sales actually made he may impose upon purchasers every sort of restriction. Thus a general restraint upon alienation is ordinarily invalid. "The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious to public policy, which is best subserved by great freedom of traffic in such things as pass from hand to hand. General restraint in the alienation of articles, things, chattels . . . have been generally held void. 'If a man,' says Lord Coke, . . . 'be possessed of a horse or any other chattel, real or personal, and give [or sell] his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because the whole interest and property is out of him, so as he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man.'"²⁸²

In rejecting the contracts under consideration as unlawful restraints of trade, the *Dr. Miles* Court relied on English case law:

"The true view at the present time," said Lord Macnaghten in *Nordenfelt v. Maxim Nordenfelt*, "I think, is this: The public have an interest in every person's carrying on his trade freely: so has the individual. All interference with individual liberty of action in trading, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy, and therefore void. That is the general rule."²⁸³

The Supreme Court in *Dr. Miles* established a per se rule against a vertical restraint in the form of a minimum resale price restriction. In its subsequent decisions in *United States v. Arnold, Schwinn & Co.*²⁸⁴ (overruled in *Continental T.V., Inc. v. GTE Sylvania Inc.*²⁸⁵) and *Albrecht v. Herald Co.*²⁸⁶ (overruled in *State Oil Co. v. Khan*²⁸⁷), the Court extended the per se rule to include post-sale non-price vertical restraints and maximum resale price restrictions. Each of these subsequent decisions relied on the argument set forth in *Dr. Miles* to conclude that the vertical restraint under consideration contravened the public policies against restraints on alienation and restraints of trade.²⁸⁸

282. *Id.* at 404-05.

283. *Id.* at 406.

284. 388 U.S. 365 (1967).

285. 433 U.S. 36 (1977).

286. 390 U.S. 145 (1968).

287. 522 U.S. 3 (1997).

288. The Supreme Court in *Dr. Miles* cited public policy arguments against restraints on alienation and restraints of trade to conclude that the minimum resale price restriction under consideration was per se illegal under common law and Sherman Act § 1. *Dr. Miles*, 220 U.S. at 409. The Court in *Schwinn* relied on *Dr. Miles* in holding that post-sale non-price vertical restraints were a per se illegal restraint of trade under § 1 of the Sherman Act. *Schwinn*, 388 U.S. at 382. The *Schwinn* Court also noted, citing *Dr. Miles*, that the restraints under consideration were a violation of the "ancient rule against restraints on alienation." *Id.* at 380. The Court in *Albrecht* relied on *United States v. Parke, Davis & Co.*, 362 U.S. 29 (1960), which in turn relied on *Dr. Miles*, to conclude that maximum resale price restrictions were a per se violation under Sherman Act § 1. *Albrecht*, 390 U.S. at 149-50.

The products under consideration in *Dr. Miles*, *Schwinn*, and *Albrecht* were not patented.²⁸⁹ Accordingly, it is necessary to consider whether the rules against restraints on alienation and restraints of trade also apply to post-sale restrictions on patented products. While the Supreme Court in *Dr. Miles* failed to resolve this issue,²⁹⁰ it cited with approval²⁹¹ the opinion of the Court of Appeals for the Sixth Circuit in *John D. Park & Sons Co. v. Hartman*—a case with a fact pattern that was strikingly similar to that in *Dr. Miles*—that indicated that the public policies against vertical restraints would have the same invalidating impact on post-sale restrictions on at least certain patented products as on non-patented products.²⁹² As the Sixth Circuit in *Hartman* explained, “the exemption from the rule against restraint has never been extended to contracts in respect of articles made under a patent which have once passed beyond the domain of the patent by an original sale without restriction.”²⁹³

The Sixth Circuit’s “without restriction” qualifier in the above quotation was a reflection of the growing acceptance of the conditional sale doctrine, which was first articulated by Judge Lurton in *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*²⁹⁴ and allowed for an extension of a patentee’s control through the conditioning of the sale of a patented product. Lurton’s involvement in the decisions discussed in this Part is especially noteworthy, as he delivered the Sixth Circuit’s opinions in both *Dr. Miles* and *Hartman*, sat on the Supreme Court at the time of its *Dr. Miles* decision (although he took no part in the consideration of the decision of that case) and, within months of the Court’s *Dr. Miles* decision, authored the Court’s opinion in *Henry v. Dick* (subsequently overruled by *Motion Picture Patents*), which provided the Supreme Court’s only endorsement of *Button-Fastener*’s conditional sale doctrine.²⁹⁵ In Part I.C.2, we argued that *Quanta* effectively rejected the conditional sale doctrine, holding that an authorized first sale of a patented product exhausts the relevant patent with respect to the product sold, irrespective of any condition placed on the buyer. If our interpretation is correct, then the “without restriction” qualifier in the *Hartman* quote can be ignored and a patented product

289. *Albrecht*, 390 U.S. at 147–48; *Schwinn*, 388 U.S. at 379 n.6; *Dr. Miles*, 220 U.S. at 382; see *infra* note 290.

290. *Dr. Miles*, 220 U.S. at 382 (“The complainant has no statutory grant. So far as appears, there are no letters patent relating to the remedies in question. The complainant has not seen fit to make the disclosure required by the statute, and thus to secure the privileges it confers. Its case lies outside the policies of the patent law, and the extent of the right which that law secures is not here involved or determined.”). See *Schwinn*, 388 U.S. at 379 n.6 (“We have no occasion here to consider whether a patentee has any greater rights in this respect [i.e., that a manufacturer who has sold his product may no longer control it].”).

291. *Dr. Miles*, 220 U.S. at 409.

292. *John D. Park & Sons Co. v. Hartman*, 153 F. 24 (6th Cir. 1907).

293. *Id.* at 32.

294. 77 F. 288 (6th Cir. 1896).

295. See *Henry v. A.B. Dick Co.*, 224 U.S. 1, 7–8 (1912).

following an authorized sale falls into the same category as an unpatented product with respect to the application of the rules against vertical restraints. The point is that it is reasonable to ask, in light of the early case law regarding vertical restraints, whether the public policies against restraints on alienation and restraints of trade would invalidate every contract-based post sale restriction on a patented product.

The answer, as discussed below, is that the Supreme Court's subsequent rulings regarding vertical restraints do not mandate that every contract-based post-sale restriction on a patented product be voided as an unlawful restraint on alienation and restraint of trade. Since its decisions in *Dr. Miles*, *Schwinn*, and *Albrecht*, Supreme Court jurisprudence with respect to vertical restraints has evolved with the changing times and such restraints are no longer considered per se unlawful, but instead are assessed on a case-by-case basis under the rule of reason. Each of the above noted cases was explicitly overruled by the Court (*Dr. Miles* in *Leegin*, *Schwinn* in *Continental T.V.*, and *Albrecht* in *Khan*), marking a pronounced and consistent shift in the Court's application of the public policies against restraints on alienation and restraints of trade in the context of contract-based, post-sale vertical restrictions. In fact, despite its finding of a per se violation, the *Dr. Miles* Court anticipated this shift:

With respect to contracts in restraint of trade, the earlier doctrine of the common law has been substantially modified in adaptation to modern conditions. But the public interest is still the first consideration. To sustain the restraint, it must be found to be reasonable both with respect to the public and to the parties and that it is limited to what is fairly necessary, in the circumstances of the particular case, for the protection of the covenantee. Otherwise restraints of trade are void as against public policy. As was said by this court in *Gibbs v. Consolidated Gas Co.*, "The decision in *Mitchel v. Reynolds*, is the foundation of the rule in relation to the invalidity of contracts in restraint of trade; but as it was made under a condition of things and a state of society different from those which now prevail, the rule laid down is not regarded as inflexible, and has been considerably modified. Public welfare is first considered, and if it be not involved, and the restraint upon one party is not greater than protection to the other party requires, the contract may be sustained. The question is, whether, under the particular circumstances of the case and the nature of the particular contract involved in it, the contract is, or is not, unreasonable."²⁹⁶

The Supreme Court in *Dr. Miles* relied on the public policies against restraints on alienation and restraints of trade to reject a vertical minimum price restraint as a per se violation of both the common law and a federal antitrust statute.²⁹⁷ The vertical restraints under consideration in *Schwinn* and in *Albrecht* were rejected strictly on antitrust grounds as contravening § 1 of the Sherman Act.²⁹⁸ At the time of these subsequent decisions,

296. *Dr. Miles*, 220 U.S. at 406 (citations omitted).

297. See *supra* note 288.

298. See *supra* note 288.

however, it had long been recognized that the Sherman Act embodied the common law and should be treated as a common law statute.²⁹⁹ Moreover, “just as the common law adapts to modern understanding and greater experience, so too does the Sherman Act’s prohibition on ‘restraint[s] of trade’ evolve to meet the dynamics of present economic conditions.”³⁰⁰

In *Continental T.V., Inc. v. GTE Sylvania Inc.*,³⁰¹ which overruled *Schwinn*, the Court finally recognized that changed economic conditions required a shift in its treatment of vertical restraints from the application of a per se rule to a rule of reason analysis. In *State Oil Co. v. Khan*³⁰² (which overruled *Albrecht*) and in *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*³⁰³ (which overruled *Dr. Miles*), the Court applied the same reasoning to reject the per se invalidation of the vertical restraints under consideration in those cases. For our purposes, it is clear that the Court has adopted the view that a case-by-case, rule of reason approach should be taken in assessing the legality (whether under common law or the antitrust statutes) of a vertical restraint such as a contract-based post-sale restriction on a patented product. A per se rule that every such restriction is unlawful, irrespective of the nature of the restriction and its economic effect, is incompatible with such a view.

Finally, we should note that certain vertical restraints in the form of personal property servitudes, which “run with the goods” to bind downstream purchasers who are not in privity of contract with the original seller, have been judged to be enforceable.³⁰⁴ The enforceability of such vertical restraints provides additional support for our conclusion that at least some contract-based post-sale restrictions on patented products are lawful.

The post-sale vertical restraints under consideration in this Article are contract-based and apply to the purchaser of a patented product who has entered into some form of binding agreement with an authorized seller.

299. See *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 887, 899 (2007) (“From the beginning the Court has treated the Sherman Act as a common law statute.”); *Nat’l Soc’y of Prof’l Engineers v. United States*, 435 U.S. 679, 688 (1978) (“Congress . . . did not intend the text of the Sherman Act to delineate the full meaning of the statute or its application in concrete situations. The legislative history makes it perfectly clear that it expected the courts to give shape to the statute’s broad mandate by drawing on common-law tradition.”).

300. *Leegin*, 551 U.S. at 899 (alteration in original).

301. 433 U.S. 36 (1977).

302. 522 U.S. 3 (1997).

303. 551 U.S. 887 (2007).

304. See Glen O. Robinson, *Personal Property Servitudes*, 71 U. CHI. L. REV. 1449, 1455–60 (2004), for a review of the following four cases in which a servitude was enforced by a court: *TransWorld Airlines, Inc. v. Am. Coupon Exch., Inc.*, 913 F.2d 676 (9th Cir. 1990); *Tri-Continental Fin. Corp. v. Tropical Marine Enters. Co.*, 265 F.2d 619 (5th Cir. 1959); *Nadell & Co. v. Grasso*, 175 Cal. App. 2d 420 (1959); *Clairol, Inc. v. Sarann Co., Inc.*, 37 Pa. D. & C.2d 433 (Ct. Com. Pl., Pa. 1965); see also Robinson, *supra*, at 1484 (“In fact, as we have seen, courts have recognized such servitudes on occasion, sometimes explicitly and sometimes in the guise of other doctrinal categories such as tortious interference with contract.”).

Likewise, the vertical restraints addressed in the cases reviewed above in this Part were placed on the buyer through a contract with the manufacturer in the context of the sale of a product.³⁰⁵ In contrast, a personal property servitude is a

non-contractual method of equitable servitudes . . . [that] bind[s] successive sub-purchasers. The manufacturer place[s] a notice on the chattel or its container, specifying the restriction which [is] to bind all later owners, and in this way, anyone who acquire[s] the article, no matter how numerous the intervening sales, [is] prevented from being a purchaser without notice of the restriction.³⁰⁶

In that sense, a personal property servitude “runs with the goods” in the absence of any contract with a seller. However, as with contract-based vertical restraints, personal property servitudes have been challenged as contravening the public policies against restraints on alienation and restraints of trade.³⁰⁷ In fact, on the basis of the greater impact of personal property servitudes (which bind all downstream purchasers in the absence of a contractual obligation) such restraints are considered more onerous than those limited to a buyer bound by an agreed-to contract obligation, and are generally disfavored.³⁰⁸ Nevertheless, the courts have, on occasion, rejected the public policy arguments against personal property servitudes and found them to be enforceable.³⁰⁹ In those instances, there were other considerations that supported the enforcement of the restraint, such as protecting the consumer from harm³¹⁰ and preserving the goodwill of a business.³¹¹ The point for our purposes is that even in the absence of a

305. In each of *Dr. Miles, Schwinn, Continental T.V., Khan, and Leegin*, the vertical restraint under consideration was incorporated into an agreement between the manufacturer of a product and its buyer. In *Albrecht*, however, the vertical maximum price restriction at issue was being forced upon a buyer through a combination that included the manufacturer and other parties. This distinction did not alter the Court’s finding of a per se violation of § 1 of the Sherman Act, which applies to combinations as well as contracts, and is not relevant to the point being made in this paragraph regarding the “non-contractual” nature of a personal property servitude.

306. Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 HARV. L. REV. 945, 953 (1928).

307. See Robinson, *supra* note 304, at 1484 (“[C]ases disallowing servitude restrictions on personal property have done so . . . because they run afoul of some exogenous public policy, such as that against alienability restraints or restraint of trade.”).

308. See Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEO. L.J. 885, 924 (2008) (“The costs associated with chattel servitudes are attributable in part to the features that problematic chattel servitudes share with problematic land servitudes: the remote and indefinite relationship between the parties to be benefited and burdened . . .”).

309. See *supra* note 304.

310. In *Clairel, Inc. v. Sarann Co., Inc.*, 37 Pa. D. & C.2d 433 (1964), the court ruled that the manufacturer of a hair care product placed an enforceable equitable servitude on the product by printing on bottles intended for professional use only the legend “Professional Use Only.” The manufacturer argued that the sale of such bottles, which lacked the necessary instructions for safe and effective use, to non-professional retail customers subjected such customers to potential harm and the risk of unsatisfactory results. The court agreed and, in support of the manufacturer’s effort to protect both the public and its goodwill, enjoined the defendant from making any further sales of such bottles to retail customers.

311. In *Nadell v. Grasso*, 175 Cal. App. 2d 420 (1959), the court ruled that an equitable servitude on chattel was created when a dealer in food products damaged in transit agreed that the product

contractual obligation on a buyer, a post-sale vertical restraint may be enforceable, despite the public policies against restraints on alienation and restraints of trade. As noted above, this observation is consistent with our view that not *every* contract-based post-sale restriction on a patented product is unlawful.

B. IF SOME CONTRACT-BASED RESTRICTIONS ARE ENFORCEABLE, WHICH ONES AND WHAT BENEFIT DO THEY CONFER?

Based on our analysis in the preceding Part, we have concluded that not every contract-based post-sale restriction on a patented product is void and, accordingly, a determination of the enforceability of any such restriction will require a case-by-case assessment of the restriction. This case-by-case approach is consistent with the settled expectations of practicing transactional attorneys and their clients, who frequently include post-sale restrictions in their contracts. In this Part, we present an approach to assessing the enforceability of contract-based post-sale restrictions under state law and apply the approach in the analysis of a representative restriction. We also discuss the relative benefit to a patent holder of a breach of contract remedy as compared to a patent infringement remedy.

I. *Approach to Assessing the Enforceability of a Contract-Based Post-Sale Restriction on a Patented Product*

Assuming that the first sale of a patented product is authorized and that the post-sale restriction under consideration is incorporated into a valid contract,³¹² the following issues should be considered in determining whether the restriction is enforceable through a breach of contract remedy under applicable state law: First, determine whether an objective of federal patent law preempts the enforcement of the particular restriction under consideration. The preemption standard articulated by the Supreme Court in *Bonito Boats* provides guidance for making such a determination, with a focus on whether a state is attempting to confer “patent-like protection” on an idea “in the public domain.” Moreover, the approach to patent law preemption reflected in the *Lear* balancing test is particularly well-suited to an assessment of the enforceability of a contract

would not enter the retail market in the manufacturer’s original jars. Acknowledging the importance of preserving the goodwill of a business, the court enforced the restriction against a party that subsequently purchased the product with notice of the restriction, despite a lack of privity between the dealer and the subsequent purchaser; see *Clairol*, 37 Pa. D. & C.2d 433, discussed *supra* note 310.

312. In this Article, we have not addressed the requirements that a post-sale restriction must meet to constitute a legally binding contract between a patent holder and a buyer of its patented product. We have assumed that a patent holder who intends to rely on a breach of contract remedy to enforce a post-sale restriction against a buyer who fails to honor the restriction will obtain the necessary legal advice to present the restriction in a form that documents the requisite “meeting of the minds” under applicable state contract law to be binding.

provision under state law. As discussed in Part II.A.1, that approach includes the identification of the patent law objective being threatened by the contract restriction and a determination of the degree of interference with that objective. Second, consider whether the inclusion of the restriction in a contract constitutes patent misuse.³¹³ The Federal Circuit provided an analytical framework for a finding of patent misuse in its decision in *Virginia Panel*.³¹⁴ In the words of the Federal Circuit:

The courts have identified certain specific practices as constituting *per se* patent misuse, including so-called “tying” arrangements in which a patentee conditions a license under the patent on the purchase of a separable, staple good, and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties. Congress, however, has established that other specific practices may not support a finding of patent misuse. A 1988 amendment to § 271(d) provides that, *inter alia*, in the absence of market power, even a tying arrangement does not constitute patent misuse.

When a practice alleged to constitute patent misuse is neither *per se* patent misuse nor specifically excluded from a misuse analysis by § 271(d), a court must determine if that practice is “reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims.” If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. If, on the other hand, the practice has the effect of extending the patentee’s statutory rights and does so with an anti-competitive effect, that practice must then be analyzed in accordance with the “rule of reason.” Under the rule of reason, “the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature, and effect.”³¹⁵

Third, determine whether the contract restriction violates antitrust law. This analysis can overlap, but is not identical to, a patent misuse analysis³¹⁶ and, as discussed in Part III.A.3, relies on the case-by-case, rule of reason approach adopted by the Supreme Court in evaluating vertical restraints.

313. The fact that the Supreme Court’s patent exhaustion jurisprudence predates its patent misuse jurisprudence eliminates the argument that, as in the case of patent exhaustion, the *Keeler* quote discussed in Part II.A.1 can be relied on to support the conclusion that an effort to enforce a post-sale restriction on a patented product under state contract law can never constitute patent misuse. Recall that the Court in *Keeler* expressed no opinion as to whether a contract-based post-sale restriction on a patented product is enforceable under contract law, but viewed it as “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.” *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666 (1895). While patent misuse, like patent exhaustion, is a doctrine that emanates from “the inherent meaning and effect of the patent laws,” *Keeler* was decided in 1895, at least twenty-two years before the Supreme Court began its formulation of the patent misuse doctrine in *Motion Picture Patents*. The better argument is that the *Keeler* quotation set a limit on the reach of patent exhaustion but has no bearing on the scope of patent misuse.

314. 133 F.3d 860 (Fed. Cir. 1997).

315. *Id.* at 869 (citations omitted).

316. The overlap of an antitrust analysis with a patent misuse analysis is discussed in Part II.B.2.

Finally, determine whether public policy considerations (e.g., regarding public health and safety) are relevant to an assessment of the enforceability of the contract-based post-sale restriction. Such considerations may shift the balance in favor of enforcing the restriction under state law, as was noted in Part II.A.1 with respect to the *Lear* approach to patent law preemption and in Part II.A.3 with respect to the enforcement of a personal property servitude, and as will be discussed below with respect to the rule of reason analysis required for determining whether a restriction violates patent misuse or antitrust law.

2. *Assessment of a Representative Contract Restriction*

A comprehensive assessment of the various product-related contract restrictions that can be placed by a patent holder on the buyer of its patented product as a condition of the sale is beyond the scope of this Article. However, a brief discussion of one such restriction is useful in demonstrating the application of the analytical approach to enforceability described in Part II.B.1. Considering the central role that the *Mallinckrodt* case has played in defining the scope of patent exhaustion and in determining the types of remedies available for a buyer's breach of a contract-based post-sale restriction on a patented product, it seems fitting to address the enforceability of the "single-use only" restriction on a patented medical device that was at issue in that case. Assuming that the first sale of the product is authorized and that the single-use only restriction placed by the patent holder on the buyer is part of a contract that meets the requirements for a binding agreement under applicable state contract law,³¹⁷ the question is whether the restriction is enforceable through a breach of contract remedy.

The Federal Circuit in *Mallinckrodt* acknowledged the possibility of multiple remedies in the event of the failure of the buyer of the patented medical device to honor the single-use only restriction, that is, a patent infringement remedy and a breach of contract remedy. In *Mallinckrodt*, no breach of contract action was brought and, accordingly, the court focused its analysis on the patent infringement remedy.³¹⁸ As discussed in

317. In this regard, it is noteworthy that the Federal Circuit in *Mallinckrodt* did not consider whether inscribing the "single use only" restriction on Mallinckrodt's patented medical device or including the restriction in a package insert that accompanied each device was legally sufficient under state contract law to form a binding agreement between Mallinckrodt and the hospitals that purchased the device. As the Federal Circuit explained, "[t]he district court did not decide whether the form of the 'single use only' notice was legally sufficient to constitute a . . . condition of the sale from Mallinckrodt to the hospitals. The district court also specifically stated that it was not deciding whether Mallinckrodt could enforce this notice under contract law. These aspects are not presented on this appeal." *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992); see *supra* note 312.

318. *Mallinckrodt*, 976 F.2d at 707 n.6 ("We agree that a patentee may choose among alternate remedies, but to deny a patentee access to statutory remedies is to withhold the protection of the law. Thus whether Mallinckrodt may also have a remedy outside of the patent law is not before us."); see *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) ("[V]iolation of valid

Part I.C, the weight of the evidence indicates that *Mallinckrodt*'s conditional sale doctrine is no longer good law, limiting the possibility of a patent infringement remedy as a result of patent exhaustion. Thus, the breach of contract remedy remains the only possible recourse for the patent holder. While the Federal Circuit did not rely on that remedy in *Mallinckrodt* for enforcement of the single-use only restriction, aspects of its opinion in the case are directly relevant to our enforceability analysis. As the Federal Circuit noted in *Braun*³¹⁹ in summarizing its *Mallinckrodt* holding, "express conditions accompanying the sale . . . of a patented product are generally upheld. Such express conditions, however, are contractual in nature and are subject to antitrust, patent, contract, and any other applicable law, as well as equitable considerations such as patent misuse. Accordingly, conditions that violate some law or equitable consideration are unenforceable."³²⁰

The first issue to address in the enforceability analysis outlined in Part II.B.1 is whether enforcement of the single-use only restriction under state law is preempted as inconsistent with an objective of federal patent law. The argument in favor of preemption is that since an authorized first sale of the restricted product moves the product outside of the limits of the patent monopoly, an effort by the patent holder to control the downstream use of the product through a contract restriction contravenes the patent law objective of leaving ideas in the public domain available for unencumbered use. This is the same issue that was addressed in Part II.A.1 in our consideration of the enforceability—in the face of a patent law preemption challenge—of contract-based post-sales restrictions in general. Our analysis yielded a conclusion that such a challenge would not be effective in voiding the restriction and a single-use-only restriction presents no new issue that would alter that conclusion.³²¹ If anything, the public policy considerations raised in the *Mallinckrodt* case (and discussed below in this Part) regarding the safety of the public and the preservation of the goodwill of a business would tip the balance in favor of enforcing a single-use only restriction under the *Lear* approach to patent law preemption.

On its face, then, a single-use only restriction does not violate an objective of federal patent law requiring preemption of an effort to enforce such a restriction under state law. However, consideration of

conditions entitles the patentee to a remedy for either patent infringement or breach of contract." (citing *Mallinckrodt*, 976 F.2d at 707 n.6)).

319. *Braun*, 124 F.3d at 1426.

320. *Id.* (citations omitted).

321. The Federal Circuit in *Mallinckrodt* did not consider this preemption issue since in the absence of patent exhaustion—which was avoided through the court's reliance on the conditional sale doctrine—the product remained within the limits of the patent monopoly following its sale, and enforcement of the single-use only restriction under state contract law presented no apparent conflict with the objectives of federal patent law. Viewed from the Federal Circuit's perspective, a breach of contract remedy complimented a patent infringement remedy, rather than serving as a potential substitute.

such a restriction raises a noteworthy preemption issue not addressed elsewhere in this Article. Recall that in justifying the *Mallinckrodt* court's reliance on the conditional sale doctrine to avoid patent exhaustion, the Federal Circuit in *Braun* rejected the single reward interpretation of patent exhaustion—suggested by the Supreme Court in *Bloomer v. Millinger*³²² and *Hobbie v. Jennison*³²³—that a patent holder that sells its patented product is entitled to only a single payment at the time of the sale, and upon receipt of that consideration its right to exert downstream control over the buyer's use of the product through the threat of a patent infringement action is exhausted. According to the Federal Circuit in *Braun*, the better argument is that “it is more reasonable to infer that the parties negotiated a price that reflects only the value of the ‘use’ rights conferred by the patentee.”³²⁴

Such an argument anticipates a reasonable addition to a single-use only restriction on a patented product, that is, that only a single use is permitted following the sale of the product *unless the buyer agrees to pay to the patentee a royalty for each subsequent use*. This addition to the single-use only restriction is referred to as a “double royalty”³²⁵ obligation. It can be argued that a contractual obligation of this type, yielding multiple rewards for the patent holder, conflicts with the federal patent law's carefully balanced objective of promoting “invention while at the same time preserving free competition.”³²⁶ The patent statute is intended to reward the inventor only to the extent necessary to promote invention for the public good. Over-rewarding the inventor through multiple payments (as some might argue would be the case in the event of the payment on the sale of a patented product followed by subsequent royalty payments on use) could be viewed as providing an unnecessary bonus to the inventor, while burdening (through a royalty obligation) a purchased product with respect to which the patent holder's patent has been exhausted. To the extent that the doctrine of patent exhaustion was developed to deal with this concern,³²⁷ enforcement of a double royalty

322. 68 U.S. 340 (1863). *See supra* note 27.

323. 149 U.S. 355 (1893).

324. *Braun*, 124 F.3d at 1426.

325. *See infra* note 327.

326. *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230–31 (1964).

327. *See LG Elecs., Inc. v. Asustek Computer, Inc.*, No. C 01-00326, 2002 WL 31996860, at *4 (N.D. Cal. 2002) (“The patent exhaustion doctrine . . . is designed to prevent a patentee from receiving a double royalty on a single patented invention.”). It is noteworthy that the Supreme Court in its *Quanta* opinion did not comment on, and thereby passed on an opportunity to endorse, this statement by the district court in the case, which is based on the single reward interpretation of patent exhaustion. *See Hovenkamp, supra* note 8, at 513 (“One historical concern that the courts raised in first sale cases was that permitting the patentee to place post-sale license restrictions on patented goods would entitle the patentee to collect multiple royalties.”); John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 643, 668 (2004) (“Precluding a double recovery for practice of a patent claim will . . . obviate the applicability of the patent exhaustion doctrine.”).

obligation through a breach of contract remedy could be viewed as an impermissible attempt to contract around patent exhaustion.

While the debate regarding the enforceability of a contract obligation to pay a double royalty continues,³²⁸ the Supreme Court's decision in *Brulotte* provides an effective counter to arguments against the enforcement of such an obligation under state contract law. As discussed in Part II.A.2, the Court in *Brulotte* held that the restriction placed by the buyer of the patented product at issue in the form of an ongoing royalty obligation based on use following an initial payment made by the buyer upon the authorized first sale was enforceable through a breach of contract remedy until the applicable patents expired.³²⁹ While this holding raises a general question as to the enforceability of contract-based post-sale restrictions on patented products following expiration or invalidation of the applicable patents,³³⁰ it supports a conclusion that an ongoing royalty payment obligation in the context of an authorized first sale that exhausts a valid, unexpired patent is not preempted as an impermissible attempt to contract around an objective of federal patent law that underlies the patent exhaustion doctrine.³³¹

328. Hovenkamp, *supra* note 8, at 514–15 (“The concern [regarding a patent holder’s ability to collect multiple royalties] was most recently stated by the now vindicated district court decision in *Quanta*, which justified the first sale doctrine as prohibiting ‘double’ royalties. . . . In the 1950s, . . . [however, this concern] was largely discredited by Chicago School writers, who showed that . . . in any multi-stage distribution chain there is but a single monopoly profit to be earned.” (paragraphing omitted)).

329. *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964).

330. The Supreme Court’s decision in *Brulotte* stands for the proposition that an obligation to pay royalties for the continued use of a product following the expiration of the patents embodied in the product is per se patent misuse and, accordingly, the payment obligation is unenforceable, whether or not the patent holder and the buyer of the patented product had agreed that extending the payment obligation was a convenient method of reflecting the business value of the transaction. The fact that the Court in *Brulotte* enforced a contract-based obligation to make ongoing royalty payments for the post-sale use of a patented product, but required that the payments cease following the expiration of the relevant patents, raises the interesting question of whether the *Brulotte* holding requires that other types of contract-based post-sale restrictions are not enforceable through a breach of contract remedy following the expiration (or invalidation) of the relevant patents. A comprehensive analysis of this issue is beyond the scope of this Article. It is noteworthy, however, that while the *Brulotte* rule of per se patent misuse is still good law, it has been widely criticized by both judges and commentators, and its application has not been extended beyond the limited facts in that case. See *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1020 (9th Cir. 2007) (“No matter how unconvincing *Brulotte*’s foundation may be, . . . we are bound to apply its holding if it applies to the case before us. At the same time, our task is not to extend *Brulotte*’s holding beyond its terms. So, except as required by *Brulotte* and its progeny, we shall endeavor to give effect to the intent of the parties and the bargain that they struck.”); *Scheiber v. Dolby Lab., Inc.*, 293 F.3d 1014, 1017–19 (7th Cir. 2002) (“[W]e have no authority to overrule . . . [the] Supreme Court[’s *Brulotte*] decision no matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court’s current thinking the decision seems.”). Accordingly, there is a good argument to be made that the *Brulotte* rule would not be extended to limit the enforcement of contract-based post-sale restrictions that are not royalty payment obligations.

331. The Supreme Court’s decision in *Brulotte* is an effective counter to a broader preemption argument, also based on the single reward interpretation of patent exhaustion, that can be made against the enforcement of any contract-based post-sale restriction on a patented product under state law. According to this argument, the doctrine of patent exhaustion is intended to prevent a patent holder from receiving multiple rewards with respect to the authorized sale of its patented product,

Returning to the single-use only restriction, the next issue to address in assessing its enforceability under state contract law is whether the inclusion of the restriction in a contract constitutes patent misuse. Recall that in Part II.A.2 we concluded that the doctrine of patent misuse does not render every contract-based post-sale restriction on a patented product unenforceable under state law. We reviewed the Supreme Court's decision in *Motion Picture Patents* and concluded that the Court in that case applied the exhaustion doctrine to eliminate patent infringement remedies and relied on the misuse doctrine to void a contract-based post-sale restriction on a patented product, but only after an assessment of the nature and impact of the particular restriction under consideration. The post-sale restriction in *Motion Picture Patents* was a tying obligation, and the question before us is whether a single-use-only restriction raises problems that are comparable to those raised by a tying obligation from a patent misuse perspective. As discussed in Part II.B.1, the Federal Circuit has provided a means of addressing this question with its analytical framework for a finding of patent misuse.

In fact, the approach to patent misuse summarized by the Federal Circuit in *Virginia Panel* was based largely on that court's prior opinion in *Mallinckrodt*, where it considered the enforceability of the single-use only restriction.³³² In adopting the conditional sale doctrine, and thereby dispensing with the patent exhaustion issue, the Federal Circuit in *Mallinckrodt* was able to reframe the question before it as one of patent misuse. As the Federal Circuit stated, the "appropriate criterion [in assessing the enforceability of the single-use-only restriction under consideration] is whether Mallinckrodt's restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason."³³³ In the end, the *Mallinckrodt* appellate court failed to answer the questions it had posed but instead remanded the case to the district court for reconsideration in accordance with its guidance.

Nonetheless, the Federal Circuit's opinion in *Mallinckrodt* provided the basis for an argument in support of the enforceability under state law

whether or not such rewards come in the form of multiple royalty payments. Yet, a patent holder who is paid for the sale of its product and subsequently obtains breach of contract damages from a buyer that fails to honor a contract-based post-sale restriction is, in fact, receiving multiple rewards. Viewed from this perspective, an action to enforce a post-sale restriction under state contract law could be considered an impermissible attempt to contract around a patent law objective underlying patent exhaustion that should be preempted. As in the case of the argument against a double royalty obligation, however, this broader argument is incompatible with the Supreme Court's *Brulotte* decision, which affirmed the enforcement by a state court of a contract obligation placed on the buyer of a patented product to provide multiple rewards to a patent holder (in the form of an initial payment on the sale of the patented product followed by multiple royalty payments based on the use of the product), despite the exhaustion of patent infringement remedies as a result of an authorized first sale.

332. See *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997).

333. *Mallinckrodt v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).

of the single-use only restriction, although the argument must accommodate our conclusion, not shared by the Federal Circuit in *Mallinckrodt*, that the applicable patents were exhausted by Mallinckrodt's authorized first sale of its patented medical device. In *Mallinckrodt*, the Federal Circuit presented its patent misuse analysis in the context of a conditioned authorized first sale that, in its view, did not exhaust the relevant patents. Because we have rejected *Mallinckrodt's* conditional sale doctrine, an argument that relies on language in the *Mallinckrodt* decision to conclude that a single-use only restriction does not constitute patent misuse must reach that conclusion, *despite* the exhaustion of the relevant patents.

The Federal Circuit in *Mallinckrodt* began its misuse analysis by noting that a single-use only restriction was not one of the examples of *per se* patent misuse recognized by the Supreme Court.³³⁴ The court did not find it necessary to make the obvious point that the single-use only restriction was not protected from a misuse challenge under § 271(d)(5), so it next addressed the question of whether the single-use only restriction “is reasonably within the patent grant.”³³⁵ In intimating that that was indeed the case, the court noted that restrictions “on use are judged in terms of their relation to the patentee’s right to exclude,”³³⁶ and that such “right to exclude may be waived in whole or in part.”³³⁷ Taken together, these statements suggest that the single-use only restriction placed by Mallinckrodt on its buyers was “reasonably within the patent grant”³³⁸ conferred upon Mallinckrodt that enabled it to exclude others from any unauthorized use of its patented medical device. The required modification to accommodate our rejection of the conditional sale doctrine is to add the qualifier that the restriction was reasonably within the patent grant *at the time of the authorized first sale when the patent holder made the restriction a condition of the sale*. The sale would exhaust patent remedies, but not breach of contract remedies that could be sought against a buyer that failed to honor the restriction. This interpretation is consistent with our conclusion in Part II.A.2 that the Supreme Court’s decisions in *Automatic Radio*, *Zenith*, and *Brulotte* allow for the placement of a contract-based restriction on a product outside the limits of the patent monopoly that is enforceable through a breach of contract remedy, at least until the relevant patent expires or is invalidated.³³⁹

334. *Id.* at 701 (“The restriction here at issue does not *per se* violate the doctrine of patent misuse.”); *id.* at 708 (“[T]his is not a price-fixing or tying case, and the *per se* . . . misuse violations found in the *Bauer* trilogy and *Motion Picture Patents* are not here present.”).

335. *Id.*

336. *Id.* at 706.

337. *Id.* at 703.

338. *Id.* at 708.

339. *See supra* note 330.

The Federal Circuit in *Mallinckrodt* went on to note that even if the patent misuse analysis of a contract restriction should “lead to the conclusion that there are anticompetitive effects extending beyond the patentee’s statutory right to exclude, these effects do not automatically impeach the restriction [since] [a]nticompetitive effects that are not *per se* violations of law are reviewed in accordance with the rule of reason.”³⁴⁰ Here again we need to add the qualifier that the restriction would result in anticompetitive effects extending beyond the patentee’s statutory right to exclude *at the time of the authorized first sale when the patent holder made the restriction a condition of the sale*, but can otherwise rely on the language in the *Mallinckrodt* opinion. While the Federal Circuit left the rule of reason analysis to the district court on remand, it indicated that public policy considerations were relevant to such an analysis and could militate in favor of enforcing the restriction. In making this last point, the Federal Circuit cited a First Circuit case that held that a “single use only restriction based on safety concerns [was] not patent misuse.”³⁴¹ The Federal Circuit was clearly mindful of the fact that in *Mallinckrodt* the reconditioned medical devices at issue were not tested for any biological or radioactive contamination prior to being returned to hospitals for reuse³⁴² and the fact that Mallinckrodt had indicated that it had imposed the single-use only restriction “based on health, safety, efficacy, and liability considerations.”³⁴³ Such considerations could have caused Mallinckrodt to raise its prices in anticipation of multiple liability

340. *Mallinckrodt*, 976 F.2d at 708.

341. *Id.* at 708–09 (citing *Marks v. Polaroid Corp.*, 237 F.2d 428, 436–37 (1st Cir. 1956)). In *Marks*, the First Circuit affirmed a district court’s ruling that actions by the patent holder in restricting the use of spectacle-like three dimensional viewers did not constitute patent misuse.

Polaroid justified these restrictions on the ground that reuse by the public generally might spread eye infection for which perhaps it might be held liable, and in the case of the temporary viewers, that after one use they were likely to become bent or dirty and hence lose some if not all of their effectiveness. The District Court found that there was ground for some ‘rational fear of infection and the spread of disease’ from the indiscriminate reuse of viewers of both types by the general public which Polaroid could well feel it ought to take measures to guard against. But it also recognized that the restrictions if observed guaranteed an expansion of Polaroid’s business. ‘However,’ the court said, ‘on the facts of this case, where there appears to be present countervailing public policy considerations, I cannot hold that the practices employed by the defendant in connection with the sale of viewers constitute such a misuse of patents as to compel this Court in good conscience to deny the defendant relief on its counterclaim.’

The matter lies primarily in the discretion of the District Court. Under the circumstances outlined above we cannot find that in this instance the court abused its discretion.

Id. at 436–37.

342. See Part I.C.1 for a review of the facts in *Mallinckrodt*.

343. *Mallinckrodt*, 976 F.2d at 703; see *id.* at 702 (“[T]he purpose of this [single-use-only] restriction is to protect the hospital and its patients from potential adverse consequences of reconditioning, such as infectious disease transmission, material instability, and/or decreased diagnostic performance.”).

claims or keep its patented device off the market to avoid such claims and to protect its goodwill—actions which, arguably, would harm competition.

The next issue to address in our recommended analysis for determining the enforceability of a contract-based post-sale restriction under state law is whether the restriction violates federal antitrust law. Admittedly, this step in the analysis overlaps the assessment of whether the restriction under consideration constitutes patent misuse. As noted in Part II.A.2, the Federal Circuit's patent misuse jurisprudence has been criticized for conflating the misuse doctrine, as articulated by the Supreme Court, and antitrust analysis,³⁴⁴ by requiring a showing of anticompetitive effect and a rule of reason analysis for a finding of patent misuse. The case law has failed to demonstrate a clear distinction between a rule of reason analysis that is required for a showing of patent misuse and one that is required for demonstrating an antitrust violation.³⁴⁵ As the Seventh Circuit noted in *USM Corp. v. SPS Technologies, Inc.*,³⁴⁶ in discussing the evidence required for the finding of an anticompetitive effect in a patent misuse analysis, "we have found no cases where standards different from those of antitrust law were actually applied to yield different results."³⁴⁷ In fact, in providing its analytical framework for a finding of patent misuse, the Federal Circuit in *Virginia Panel* relied on *State Oil Co. v. Khan*,³⁴⁸ a vertical restraint antitrust case that was discussed in Part II.A.3, for a description of the appropriate rule of reason analysis.³⁴⁹ However, despite the considerable overlap in approach, a separate antitrust analysis is required to assess the enforceability of a contract-based post-sale restriction on a patented product.

The Federal Circuit's recent decision in *Princo*³⁵⁰ highlights the importance of this conclusion with its ruling that an antitrust violation

344. See *supra* notes 265, 271.

345. See Daniel J. Matheson, *Patent Misuse: The Questions That Linger Post-Princo*, A.B.A. SECTION OF ANTITRUST LAW—INTELLECTUAL PROPERTY COMMITTEE, IP COMMITTEE ALERT: PATENT MISUSE, Apr./May 2011, at 4 ("Since 1986 [when the Federal Circuit issued its ruling in *Windsurfing*], patent misuse doctrine has largely—and sometimes explicitly—incorporated antitrust analysis. Indeed, . . . the practical application of the rule of reason is similar in the misuse and antitrust contexts."); see also *infra* note 347.

346. 694 F.2d 505 (7th Cir. 1982).

347. *Id.* at 512. ("One still finds plenty of statements in judicial opinions that less evidence of anticompetitive effect is required in a misuse case than in an antitrust case. But apart from the conventional applications of the doctrine [to fact patterns that mirror those in the Supreme Court's patent misuse decision involving tie-ins, post-expiration royalties, and coerced total sales royalties.] we have found no cases where standards different from those of antitrust law were actually applied to yield different results. . . . If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty." (citation omitted) (paragraphing omitted)).

348. 522 U.S. 3 (1997).

349. See Part II.B.1.

350. *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318 (Fed. Cir. 2010).

can be found in the context of a patent misuse challenge that does not result in a finding of patent misuse.³⁵¹ Accordingly, the single-use only restriction that we have selected for our enforceability analysis must be reviewed under the Supreme Court’s case-by-case, rule of reason approach to evaluating vertical restraints that are potentially in violation of federal antitrust law, as discussed in Part II.A.3. Such a review may involve an added focus on market power, since the courts have held that the “first requirement in every suit based on the Rule of Reason is market power, without which the practice cannot cause those injuries . . . that matter under the federal antitrust laws.”³⁵² It is unlikely, however, that the rule of reason analysis of the single-use only restriction on the patented medical device under consideration in the *Mallinckrodt* case would result in a different outcome than that reached in the patent misuse analysis.

The final issue to address in our enforceability analysis is whether there are any public policy considerations that would militate in favor of enforcing the restriction under consideration. As is apparent from our evaluation of a single-use only restriction on a patented medical device, this issue is integrated into the other steps in our recommended analysis. As discussed above, additional policy considerations such as the ones raised in the *Mallinckrodt* case regarding a concern for public safety and for the protection of the goodwill of a business can tip the balance in favor of the enforcement of a contract restriction under the *Lear* approach to patent law preemption. Moreover, the Federal Circuit in *Mallinckrodt* considered the issues of public safety and business goodwill as relevant to a rule of reason analysis, which is an essential component of a patent misuse or antitrust challenge. In this regard, it is noteworthy that concerns for the safety of the public and for the preservation of the goodwill of a business have been relied on by courts in enforcing selected personal property servitudes, which restrict a buyer’s use or disposition of a product even in the absence of a contract with the seller and which are generally disfavored as restraints of trade and restraints on alienation—as discussed in Part II.A.3.

3. *The Relative Benefit of a Breach of Contract Remedy Post-eBay*

In Part I, we concluded that the authorized first sale of a patented product exhausts patent infringement remedies, and that such remedies cannot be preserved by placing a restriction on a buyer’s use or

351. See *supra* note 269.

352. *Menasha Corp. v. News Am. Mktg. In-Store Servs., Inc.*, 354 F.3d 661, 663 (7th Cir. 2004); see *Eastern Food Servs., Inc. v. Pontifical Catholic Univ. Servs. Ass’n.*, 357 F.3d 1, 5 (1st Cir. 2004) (“Virtually always, anti-competitive effects under the rule of reason require that the arrangement or action in question create or enhance market power—meaning the power to control prices or exclude competition.”).

disposition of the product as a condition of the sale. In this Part, we have argued that at least some contract-based post-sale restrictions on a patented product can be enforced through a breach of contract remedy. We are left, then, with a question as to the relative benefit to a patent holder of a breach of contract remedy as compared to a patent infringement remedy, and this question is all the more significant in light of the Supreme Court's recent decision in *eBay Inc. v. MercExchange, L.L.C.*³⁵³ regarding the availability of injunctive relief upon a finding of patent infringement.

Prior to *eBay*, patent holders preferred to enforce restrictions on their products through patent remedies because the Federal Circuit had created a general rule that "an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."³⁵⁴ Thus, by proving infringement, patent holders often received injunctions that allowed them to either leverage better licensing deals for their patents or achieve increased market share.

In *eBay*, a jury found eBay guilty of willfully infringing patents assigned to MercExchange.³⁵⁵ After upholding the jury's verdict, the Federal Circuit reiterated its rule that, once infringement was found, an injunction should issue unless the injunction would injure the public interest.³⁵⁶ Because the Federal Circuit found no "exceptional" and persuasive reason to deny a permanent injunction, it granted the injunction.³⁵⁷ But the Court criticized and overruled the Federal Circuit's "general rule."³⁵⁸ The Court noted that the Federal Circuit's "general rule," unique to patent disputes, was misapplied and that injunctions in patent cases, as in other cases, "may issue in accordance with the principles of equity."³⁵⁹ The Court held that the proper test is the traditional four-factor test, in which

a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.³⁶⁰

Demonstrating how this test would shift the granting of injunctions in patent cases, the district court, following remand, refused to grant an

353. 547 U.S. 388 (2006).

354. *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (citing *W.L. Gore & Assocs., Inc. v. Garlock Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)).

355. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1326 (Fed. Cir. 2005).

356. *Id.* at 1338 ("[T]he general rule is that a permanent injunction will issue once infringement and validity have been adjudged.").

357. *Id.* at 1339.

358. *eBay Inc. v. MercExchange, LLC.*, 547 U.S. 388, 393-94 (2006).

359. *Id.* at 392 (internal quotation marks omitted) (citing 35 U.S.C. § 283 (2006)).

360. *Id.* at 391.

injunction.³⁶¹ The district court held that the Supreme Court's *eBay* decision had overturned the presumption of irreparable harm, placing the burden to prove irreparable harm on the plaintiff.³⁶² Then, applying the four-factor test, the district court found (1) there was no irreparable harm because MercExchange continued to license its patents and lacked significant commercial activity;³⁶³ (2) money damages were an adequate remedy because the court felt MercExchange would only use a permanent injunction for negotiating leverage, meaning that it was not deserving of an equitable remedy;³⁶⁴ (3) the balance of hardships favored neither party because of marketplace uncertainty;³⁶⁵ and (4) the public interest weighed slightly against the issuance of an injunction because the MercExchange patent was a business method patent, many of which are of a questionable nature, while eBay's online marketplace substantially impacts the U.S. economy and eBay was successful prior to any alleged infringement.³⁶⁶ Thus, *eBay* effected a shift away from a presumption in favor of injunctions, making them more difficult for a plaintiff to obtain.

In the years following *eBay*, courts have adopted the same test to determine injunctive relief in both patent and non-patent cases.³⁶⁷ Thus, the difference in achieving injunctive relief in patent and non-patent causes of action is smaller today than it has been historically, blunting the impact of using contractual-based remedies in lieu of patent remedies.³⁶⁸ As an example, in *O.D.F. Optronics Ltd. v. Remington Arms Co.*, a preliminary injunction against resale of one of ODF's products was issued against Remington based on violation of contract, despite the fact that ODF's sale to Remington exhausted any patent remedies with respect to the product in question.³⁶⁹ Therefore, the likelihood of receiving an injunction may not be significantly different as a contract-based remedy as opposed to a patent-based remedy.

361. MercExchange, L.L.C. v. eBay, Inc., 500 F. Supp. 2d 556 (E.D. Va. 2007).

362. *Id.* at 568–69.

363. *Id.* at 570–71.

364. *Id.* at 582–83.

365. *Id.* at 583–84.

366. *Id.* at 586–87.

367. See Mark P. Gergen et al., *The Supreme Court's Accidental Revolution? The Test for Permanent Injunctions*, 112 COLUM. L. REV. 203, 205 (2012) (“Within a half decade, the four-factor test from *eBay* has, in many federal courts, become *the* test for whether a permanent injunction should issue, regardless of whether the dispute in question centers on patent law, another form of intellectual property, more conventional government regulation, constitutional law, or state tort or contract law.”); Hovenkamp, *supra* note 8, at 543 (“[U]nder the Supreme Court's *eBay* decision, injunctions are to be issued for patent infringement only when the plaintiff meets the same criteria as apply to equitable actions generally.”).

368. See Hovenkamp, *supra* note 8, at 543 (“It is not obvious today that the right to an injunction to enforce a post-sale restraint via patent law would be any broader than the right to enforce it by a contract suit.”).

369. *O.D.F. Optronics Ltd. v. Remington Arms Co.*, 08 Civ. 4746, 2008 WL 4410130, at *1 (S.D.N.Y. Nov. 9, 2008).

Further, damages from contract-based remedies will not necessarily be so different from those from patent-based remedies. Generally, in contract cases, expectation damages are recoverable, although the remedy provided to a nonbreaching party may be in the form of reliance or restitution damages.³⁷⁰ Meanwhile, in patent cases, damages for past infringement are intended to compensate the claimant for the infringement and can reflect lost profits, but must be no less than a reasonable royalty.³⁷¹ Moreover, in the wake of the Supreme Court's *eBay* decision, the Federal Circuit has concluded that a payment obligation for ongoing patent infringement in lieu of an injunction may be appropriate under some circumstances.³⁷² In the context of a breach of an enforceable contract-based post-sale restriction on a patented product, the breach of contract damages may be very similar to infringement-related damages, were they available, in that evidence of an agreed-to sale price in the absence of the restriction could serve as a reasonable basis for the calculation of either breach of contract damages or infringement-related damages. And while contract law does not have any provision similar to the patent law's willfulness provision, monetary damages recovery from contract-based causes of action can still be significant.

CONCLUSION

The *Quanta* decision, the Supreme Court's latest opinion regarding the doctrine of patent exhaustion, failed to resolve two issues of importance to a patent holder who intends to control the post-sale use or disposition of its patented product: (1) whether a patent holder can preserve its patent infringement remedies by placing a contract-based restriction on the buyer of its product as a condition of an authorized first sale, and (2) whether breach of contract remedies are still available to the patent holder even if an authorized first sale exhausts patent infringement remedies. Based on our review of the relevant case law, we have concluded that the authorized first sale of a patented product exhausts patent infringement remedies and that the conditional sale doctrine, which holds that patent infringement remedies can be preserved through conditioning the sale of a patented product, is no longer good law. And even if one accepts, for the sake of argument, that the status of the conditional sale doctrine has yet to be fully resolved, there is sufficient doubt as to its viability to justify our focus in this Article on the enforceability of contract-based post-sale restrictions on a patented

370. E. ALLAN FARNSWORTH, *CONTRACTS* 839–55 (Little, Brown & Co., 2d ed. 1990).

371. 35 U.S.C. § 284 (2006); see CHISUM, *supra* note 178, § 20.03 (Remedy of Monetary Relief).

372. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314 (Fed. Cir. 2007) (“Under some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate.”).

product through a breach of contract remedy. Our analysis indicates that at least some contract-based post-sale restrictions are enforceable through a breach of contract remedy, and we have presented a case-by-case approach to identifying those post-sale restrictions that would be enforceable. We end our analysis by noting that the distinction between a breach of contract remedy and a patent infringement remedy has diminished in the wake of the Supreme Court's *eBay* decision, blunting the impact of using contract-based remedies in lieu of patent remedies.

TABLE I: SUPREME COURT PATENT EXHAUSTION CASES³⁷³

<i>Case</i>	<i>First Sale By</i>	<i>Authorized Sale</i>	<i>Patent Exhausted</i>	<i>Restriction Enforceable</i>
Bloomer v. McQuewan, 55 U.S. 539 (1852)	Patent Holder	Yes ³⁷⁴	Yes	No
Chaffee v. The Bos. Belting Co., 63 U.S. 217 (1859)	No Evidence of a First Sale ³⁷⁵	No	No	Yes
Bloomer v. Millinger, 68 U.S. 340 (1863)	Patent Holder	Yes ³⁷⁶	Yes	No
Mitchell v. Hawley, 83 U.S. 544 (1872)	Manufacturing Licensee	No	No	Yes
Adams v. Burke, 84 U.S. 453 (1873)	Patent Holder	Yes	Yes	No
Boesch v. Gräff, 133 U.S. 697 (1890)	Party Authorized to Sell in Germany ³⁷⁷	No	No	Yes
Hobbie v. Jennison, 149 U.S. 355 (1893)	Patent Holder	Yes	Yes	No
Keeler v. Standard Folding Bed Co., 157 U.S. 659 (1895)	Patent Holder	Yes	Yes	No

373. See *supra* note 14.

374. The Court in this case concluded that there was an authorized first sale in the sense that the alleged infringer was granted the right under the applicable patent to make and use the patented machine, and in constructing and using said machine pursuant to that right the alleged infringer legally obtained title to the machine. See *supra* note 7.

375. The Court in this case determined that there was no evidence that the patent holder had sold, or granted any right or license to, the patented product to the alleged infringer providing the latter with legal title to the product. 63 U.S. at 219.

376. The facts of this case were similar to those in *Bloomer v. McQuewan*. See *supra* note 374.

377. The Court in this case addressed the extraterritorial reach of the U.S. patent exhaustion doctrine. The first sale under consideration was made by a party authorized to sell the product only in Germany, and the seller was not a licensee under the U.S. patentee's German patents. The Court concluded that such a sale was not an authorized first sale with respect to the U.S. patents covering the product.

Henry v. A.B. Dick Co., 224 U.S. 1 (1912), <i>overruled by</i> Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917)	Patent Holder	Yes	No ³⁷⁸	Yes
Bauer & Cie v. O'Donnell, 229 U.S. 1 (1913)	Patent Holder	Yes	Yes	No
Straus v. Victor Talking Mach. Co., 243 U.S. 490 (1917)	Patent Holder	Yes	Yes	No
Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917)	Manufacturing Licensee	Yes	Yes	No
Bos. Store of Chi. v. Am. Graphophone Co., 246 U.S. 8 (1918)	Patent Holder	Yes	Yes	No
Gen. Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175 (1938), <i>reh'g at</i> 305 U.S. 124 (1938)	Manufacturing Licensee	No	No	Yes
Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940)	Patent Holder	Yes	Yes	No
United States v. Univis Lens Co., 316 U.S. 241 (1942)	Manufacturing Licensee	Yes	Yes	No
United States v. Masonite Corp., 316 U.S. 265 (1942)	Patent Holder	Yes	Yes	No
Aro Mfg. Co. v. Convertible Top Replacement Co., Inc. 377 U.S. 476 (1964) ³⁷⁹	Third Party Infringer ----- Manufacturing Licensee	No ----- Yes	No ----- Yes	Yes ----- No
Quanta Computer, Inc. v. LG Elects., Inc., 553 U.S. 617 (2008)	Manufacturing Licensee	Yes	Yes	No

378. The holding in *Henry* is the only instance in the Court's patent exhaustion jurisprudence where an authorized, albeit conditional, first sale did not trigger patent exhaustion.

379. The Court in this case considered product sales by the same party both before and after it was granted a license to manufacture and sell the patented product by the patent holder.