

# Finding a Place for *Mallinckrodt* and Conditional Sales in the Patent Exhaustion Doctrine: Will “Lex” Mark the Spot?



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THE FEDERAL CIRCUIT IS FACING a rare opportunity to clarify and correct a muddled area of the law: contracting around patent exhaustion. After a panel hearing, the Federal Circuit ordered on April 16, 2015 *sua sponte* an *en banc* hearing of the patent exhaustion issues in *Lexmark Int'l, Inc. v. Impression Prods., Inc.*<sup>1</sup> The *Lexmark* case involves a patent owner's sales of patented printer cartridges to end users under the condition that they use the articles once and then return them, as well as Lexmark's sales of the same patented articles to its resellers requiring the resales to take place under the same restriction. The Federal Circuit will consider whether any of those sales gives rise to patent exhaustion in the U.S. In light of deep-rooted Supreme Court precedent,<sup>2</sup> the Federal Circuit should overrule *en banc* its previous decision in *Mallinckrodt, Inc. v. Medipart, Inc.*,<sup>3</sup> to the extent it had ruled that a sale of a patented article—when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant—does not give rise to patent exhaustion.

## INTRODUCTORY OVERVIEW AND POLICY CONSIDERATIONS

Without a clear line of demarcation defining exhaustion as occurring at the initial point of sale—whether within or outside of the U.S.—a purchaser or assembler might be unfairly encumbered by any post-sale restrictions that the licensor/rights holder unilaterally imposes. For example, the licensor/rights holder could attempt to limit the freedom of the purchaser or its downstream customers to enjoy

the sold good by imposing conditions of use or restricting the number of uses, the duration of use, the class of users, the manner of disposal or recycling, etc., upon requirement of additional payments or threat of infringement litigation. In other words, despite the consummated purchase and transfer of ownership, the licensor/rights holder could exploit post-sale restrictions to extend its monopoly beyond the point of sale, either to manipulate the progression of the good as it moves through the supply chain, to extract additional remuneration at each level, or both.

The scenario identified above would allow a licensor/rights holder to exert—rather than relinquish—control via patent law over an article that has already been placed in the stream of commerce. Such acts, if permitted, would deprive manufacturers and consumers of the intended benefits of patent exhaustion cited in Supreme Court case law. The result would unfairly restrain trade, introduce uncertainty into completed transactions, obstruct the public's enjoyment of purchased technology, and unnecessarily inflate information and transaction costs.

A robust implementation of the “first sale” doctrine would close this loophole, drawing the line at the point of the initial authorized sale.<sup>4</sup> After that point, purchasers and consumers alike would be free from the threat of double recoveries and the threat of enjoining uses of spent products arising from patent claims alleging the failure to comply with post-sale restrictions.

To the extent that *Mallinckrodt* endorses post-sale restrictions as vehicles through which patent owners may claim infringement, it is at odds with controlling precedent and the broader principles animating “first sale” doctrine, and should be overruled. This conclusion comports with the doctrinal aim of over a century's worth of Supreme Court case law striking down post-sale conditions and resisting encumbrances on chattel. Indeed, in 1917, the Supreme Court addressed and overruled *Henry v. A.B. Dick Co.*,<sup>5</sup> an earlier case involving post-sale restrictions directly analogous to the restrictions in *Lexmark*.<sup>6</sup> The Supreme Court decision in *General Talking Pictures Corp. v. Western Electric Co.*,<sup>7</sup> on which *Mallinckrodt* heavily relied, is inapposite and does not support the conclusion *Mallinckrodt* reached.<sup>8</sup>

To be sure, if *Mallinckrodt* had been a case of first impression and its outcome a hazarded growth from a void in Supreme Court case law, *Quanta Computer, Inc. v. LG Electronics, Inc.* is instructive of the opposite, intended trajectory of the exhaustion doctrine.<sup>9</sup> In *Quanta*, the Supreme Court roundly rejected restraints on the end user's freedom to enjoy the acquired good for its intended purpose and running servitudes on articles beyond the point of sale. Accordingly, in light

of *Quanta*, the sounder course lies in dispelling the notion that post-sale restrictions may revive patent remedies.<sup>10</sup> Indeed, as the Federal Circuit recently affirmed in *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*,<sup>11</sup> “[t]he basic principle underlying the Supreme Court’s exhaustion cases is that the authorized transfer of ownership in a product embodying a patent carries with it the right to engage in that product’s contemplated use.” The fundamental protection of a consumer’s right to use, resell, and otherwise dispose of legally purchased products—rooted in Supreme Court case law and English common law traditions of “impeccable historic pedigree”<sup>12</sup>—should not be short-changed in favor of allowing patent holders to double-dip.

Indeed, it is irrelevant to patent exhaustion whether a sale of an embodying article is accompanied by a condition subsequent. Simply put, a sale is either authorized or it is not.<sup>13</sup> *Quanta* confirms that “[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item” such that patent law remedies cannot be used to enforce post-sale restrictions.<sup>14</sup> This rule avoids casting a “cloud of uncertainty over every sale, and every product in the possession of a customer of the licensee,” and promotes “the fundamental purpose of patent exhaustion—to prohibit post-sale restrictions on the use of a patented article.”<sup>15</sup> For at least these reasons, *Mallinckrodt* no longer represents good law and should be overturned by the Federal Circuit *en banc*.

At worst, the *Mallinckrodt* decision is an improper departure from controlling case law precedent and traditional policy considerations. At best, it is a narrow, *sui generis* exception where public safety and sanitation concerns (rather than an inventor’s commercial interest) tip the scales against the public interest in preventing restraints on trade and personal property, and thereby favors use of the embodying product only once.

## HOW AND WHERE MALLINCKRODT WENT ASTRAY

Mallinckrodt sold radioaerosol nebulizer assembly kits trademarked as “ULTRAVENT”<sup>16</sup> to forty-nine different hospitals servicing thousands of patients.<sup>17</sup> These nebulizer kits facilitated lung scans and helped administer drugs to patients.<sup>18</sup> Mallinckrodt marked its kits with a “Single Use Only” notice prior to the time of sale.<sup>19</sup> Mallinckrodt held five patents covering its kits.<sup>20</sup> Medipart replaced non-patented parts of the kits expended by the hospitals,<sup>21</sup> by tasking another company—RSI—to recondition and irradiate the patented portions.<sup>22</sup> Medipart resold these refurbished assemblies back to the hospitals<sup>23</sup> at a lower cost. Mallinckrodt then sued Medipart for directly infringing and for inducing the hospitals to infringe its patents.<sup>24</sup>

Finding Mallinckrodt’s patents exhausted, the district court granted summary judgment of non-infringement in favor of Medipart,<sup>25</sup> which ruling was reversed on appeal.<sup>26</sup> The Federal Circuit concluded that “the district court erred in holding that the restriction on reuse was, as a matter of law, unenforceable under the patent law.”<sup>27</sup> Instead,

it held that if the conditional sale was a valid sale under applicable contract law, “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.”<sup>28</sup> The Federal Circuit remanded the case back to the lower court to assess whether the conditional sale was valid and the restriction enforceable. The parties then settled.

The Federal Circuit’s decision in *Mallinckrodt* stands apart from the body of Supreme Court case law supporting patent exhaustion,<sup>29</sup> especially in light of *Quanta* and its outcome.

## MALLINCKRODT RUNS COUNTER TO PRECEDENT AND SHOULD BE OVERRULED

*Mallinckrodt* passed over a century’s worth of precedent that was and continues to be hostile to patent holders’ attempts to profit from conditional sales. Since 1853, a long line of cases has established that an authorized sale of an invention exhausts the patent owner’s monopoly.<sup>30</sup> After sale, title passes, and the patent owner’s rights to control the future use of the patented invention come to an end. As a result, purchasers are entitled to take the sold article free of conditions and restraints, for use “in the ordinary pursuits of life.”<sup>31</sup>

In *Adams v. Burke*,<sup>32</sup> the Supreme Court confirmed that a lawfully sold item, once placed in the stream of commerce, exhausted the patent claims it embodied. The Court affirmed the dismissal of an infringement suit against an undertaker who had purchased a patented coffin lid from an assignee who was restricted to making, selling, and using such lids within a geographic area, the undertaker having subsequently used the coffin lid outside of that area. The Court reasoned that “[t]he true ground on which [the Supreme Court’s early exhaustion cases] rest is 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...”<sup>33</sup> The Court held, “in the class of machines or implements we have described, when they are once lawfully made and sold, there is no restriction on their use to be implied for the benefit of the patentee or his assignees or licensees.”<sup>34</sup> The Court concluded that the purchaser thus “acquired the right to this use of it freed from any claim of the patentee, though purchased within the ten-mile circle and used without it.”<sup>35</sup>

Similar to the case on appeal, Lexmark and its authorized resellers, like the rights-holding coffin lid seller in *Adams*, had full authority to sell the patented goods. Although the purchaser in *Adams* did not have notice of the post-sale restriction, the difference merely implicates contract—rather than patent—law, and so the same patent exhaustion principle applies in both of these cases.<sup>36</sup> *Adams* laid to rest any uncertainty whether the authorized sale exhausted the patent holder’s rights at the point of sale in order to render inoperative any restrictions governing the use of the article subsequent thereto.<sup>37</sup> Temporal limitations or those capping the number of uses—such as

that covering Lexmark's Prebate Program cartridges—are no different than geographic limitations and do not warrant a different result.

Despite this history, *Mallinckrodt* supporters have asked the Federal Circuit to endorse a post-sale restriction on patent exhaustion that runs contrary to the Supreme Court's articulation of the case law.<sup>38</sup> Such a restriction allows the retroactive revocation of authorization<sup>39</sup> and runs contrary to the ultimate purpose of patent exhaustion: preventing "restraints upon further alienation" of chattel<sup>40</sup> and prohibiting patentees who have made authorized sales from thereafter extracting multiple rewards from downstream purchasers for their use or resale of the same article.<sup>41, 42</sup>

### THE SUPREME COURT HAS EXAMINED POST-SALE RESTRICTIONS AND HELD THAT THEY DO NOT SAVE THE EMBODIED PATENT FROM EXHAUSTION

In light of the Supreme Court's repeated disapproval of overreaching tactics by patent holders who have already made the first sale, it is unsurprising that when the Supreme Court confronted a post-sale restriction similar to Lexmark's, the Court struck it down, albeit by overruling its previous decision upholding such a restriction.<sup>43</sup>

Lexmark's "single-use only" restriction is designed to prevent a purchaser of the Prebate Program printer cartridge from merely refilling the spent cartridge with third party ink, in lieu of purchasing a new cartridge from Lexmark or its resellers. The ink is not novel and is not an element in the asserted patent claims the cartridges embody. Yet the practical effect of Lexmark's post-sale restriction, if taken at face value, is that purchasers may not put their own ink into Lexmark's Prebate Program cartridges that they have purchased, paid for, and started using.

By contractually prohibiting the purchaser from independently procuring an ink supply to use with the embodying cartridge, Lexmark attempts to extend the leverage from its patents on the cartridge to the unpatented ink (a complementary, staple good) that is outside of its monopoly. From this perspective, Lexmark's "single-use only" restriction on its cartridge's use and the post-sale restriction on the copier's use in *Henry v. A.B. Dick Co.* are two sides of the same coin.<sup>44</sup>

In *A.B. Dick*, the rights holder sold mimeograph copy machines, attached to each of which was a license notice stipulating that the machine could be used only with ink (among other perishable supplies) that the rights holder also made and sold. The end user of the purchased mimeograph was not saved from claims of direct infringement when she turned to an alternative source of ink.<sup>45</sup> Although "[t]he ink sold to [the purchaser of the mimeograph] was not covered by the claims of [A.B. Dick's] patent,"<sup>46</sup> the Court upheld the restriction against the unsanctioned use of ink and found infringement.<sup>47</sup> Of note, the Court cited as support *American Cotton Tie Supply Co. v. Bullard*,<sup>48</sup> a case upholding a single-use restriction—"Licensed to use only once"—against a refurbisher who pieced back together and re-

sold expended cotton baling ties that it had bought from junk dealers and cotton mills after the original ties had been cut from the bales of cotton that they held together.

The facts in *Lexmark* are closely aligned with those in *A.B. Dick*. Lexmark's post-sale restriction prohibits Prebate Program cartridge end users from replenishing the perishable supply of ink, just as A.B. Dick's post-sale restriction prohibits the mimeograph end users from going elsewhere for ink. As both patent holders seek to condition the sale on the purchaser's continued observance of the restriction limiting the user to the original supply (or supplier) of ink, the restrictions should rise and fall together.<sup>49</sup>

A few short years after handing down *A.D. Dick*, the Supreme Court overruled this decision and its reliance on post-sale restrictions, holding that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it."<sup>50</sup> Because the Court in *A.B. Dick* had relied on and accepted *American Cotton Tie Supply* originally, its subsequent repudiation of *A.B. Dick* indirectly casts doubt as to the propriety of *American Cotton Tie*-type single-use restrictions for preserving patent remedies.

In *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, the licensed manufacturer was required to and indeed sold patented film projectors affixed with a plate that gave notice to purchasers that the patented projector was to be used only with film supplied by the same rights holder, who held the rights to reissue patent 12,192 covering the film.<sup>51</sup> Invalidating the post-sale restriction, the Court denounced the paradigm whereby a patent owner could "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."<sup>52</sup>

The Supreme Court's *Motion Picture Patents* decision may not have foreseen the massively complex and international nature of the production, assembly, and distribution chain of today's consumer electronic products. However, the Court's decision remained wary of the significant, incremental, and practically impossible burden that a rule upholding post-sale restrictions would place on those further and further down the stream of commerce with less and less bargaining power.<sup>53</sup> Contrary to such laudable caution, a rule that upholds *Mallinckrodt* inefficiently introduces administrative costs and a practically impossible burden on each downstream acquirer to figure out whether each post-sale restriction was satisfied at each level upstream or, conversely, was violated at any point in the chain of production and distribution. That rule would lead to the very same scenario that the Federal Circuit criticized in *Tessera, Inc. v. Int'l Trade Comm'n.*<sup>54</sup>

In short, *Motion Picture Patents'* cautionary message for wind-fall-seeking patent owners following the lessons of *A.B. Dick* was: Don't.



## THE RECENT QUANTA DECISION FURTHER CONFIRMS THAT THE RELEVANT INQUIRY IS OF THE SALE'S AUTHORIZATION, RATHER THAN ITS BEING CONDITIONED

*Quanta* deals with a patent holder's unsuccessful attempt to control the manner in which a purchaser can use an embodying good—a post-sale restriction prohibiting its combination with other parts from an alternative supplier.<sup>55</sup> There, LGE licensed Intel to make and sell chips that substantially embodied LGE's patents.<sup>56</sup> Although Intel could give assurances to downstream integrators that the Intel chip "is licensed by LGE and thus does not infringe any patent held by LGE,"<sup>57</sup> it was required by a separate agreement with LGE to notify these customers that the LGE license "does not extend, expressly or by implication, to any product that you make by combining an Intel product with any non-Intel product."<sup>58</sup> Despite receiving Intel's notice, *Quanta* combined the chips it purchased from Intel with non-Intel component parts and raised exhaustion as a defense.<sup>59</sup> The Supreme Court held that the ultimate inquiry was whether the first sale was authorized,<sup>60</sup> and ruled that LGE's patent rights were exhausted by Intel's authorized sales to *Quanta*.<sup>61</sup>

The analysis in *Quanta* led with a short retrospective tracing patent exhaustion doctrine from its 19th-century case law origins to the Court's decision in *U.S. v. Univis Lens Co.*<sup>62</sup> In its recapitulation, the Court tellingly omits even a single case that both upheld the validity of a post-sale restriction and was not overruled.<sup>63</sup> Instead, frowning upon attempts by patent holders to contract around exhaustion following *A.B. Dick*, the *Quanta* court cautioned that "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents"<sup>64</sup> and emphasized 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 postsale use of the article."<sup>65</sup> In short, *Quanta*'s framing of the common law backdrop indicates the Supreme Court's aversion to approaches that undermine the first sale doctrine and hints that the broader application of exhaustion principles is warranted.

Near the end of its opinion, *Quanta* mentioned *General Talking Pictures*, but only to distinguish it on the grounds that there was no authorized sale in the latter because the licensee exceeded its authority to sell under the terms of the license.<sup>66</sup> To the contrary, the Court concluded that Intel had been authorized by LGE to make and sell chips that embodied LGE's patents without further condition.<sup>67</sup> That Intel was required to give its customers notice that LGE's license did not extend to subsequent combination of the Intel chip with non-Intel parts was either irrelevant or moot, either because the notice provision appeared in a separate agreement that would not result in the breach of the license agreement, or because Intel dutifully observed it.<sup>68</sup>

The facts in *Quanta* parallel those in *Lexmark*, and *Quanta*'s outcome is instructive. First, Intel was authorized to sell its chips to any customer, including to *Quanta*. Similarly, *Lexmark*'s sales of the

Prebate cartridges to end-users directly or to its resellers are clearly authorized, it being the patent holder. Going one step further, its reseller's sales of Prebate cartridges to end-users are also authorized, as *Lexmark* has imposed no conditions on resale.<sup>69</sup> Second, the Court deemed irrelevant *Quanta*'s receipt of notice from Intel that combining Intel's chips with non-Intel parts could lead to a lawsuit for infringement. Similarly in *Lexmark*, while notice was provided to end users on the cartridge's shrinkwrap, the single-use restriction described thereon does not change the ultimate conclusion: *Lexmark*'s attempted post-sale restriction does not and cannot revive, post hoc, its purported patent rights because exhaustion occurred at the point of sale from the authorized seller—*Lexmark* itself.

Applying *Quanta*'s analysis, *Mallinckrodt* would have come out differently than it did, and therefore it must be overruled. Regardless of the "single-use only" notice provision that the hospital or the patient received, after the authorized sale of the nebulizer kit by *Mallinckrodt*, *Mallinckrodt* would have received compensation for the first sale of the article and found its rights to pursue infringement for its unsanctioned subsequent use exhausted. Because *Mallinckrodt* conflicts with the authorization-based analysis of exhaustion in *Quanta*, the Federal Circuit should overrule its earlier decision.<sup>70</sup>

## GENERAL TALKING PICTURES, FROM WHICH MALLINCKRODT DREW SUPPORT, IS UNAVAILING

*Mallinckrodt* was decided contrary to the thrust of a century's worth of Supreme Court precedent. The decision may be explained by its misplaced reliance on *General Talking Pictures* for the proposition that conditional sales from a patent holder to a purchaser are a valid means to prevent exhaustion,<sup>71</sup> but the latter is distinguishable on various grounds.

For one, *General Talking Pictures* presented a field-of-use limitation on the licensed manufacturer and seller, which limited the market segment the licensee was permitted to supply.<sup>72</sup> The licensee was authorized to sell the patented amplifiers it manufactured only to home theatres—not to commercial theatres.<sup>73</sup> Because the licensee made unauthorized sales of the amplifiers to another who furnished them to the movie industry, and because both the licensee and the purchaser knew that the resulting sales would be unauthorized, the Supreme Court found there was no authorized first sale and therefore no exhaustion of available patent remedies.<sup>74</sup>

In contrast, *Mallinckrodt* dealt with a direct, authorized sale by the patent owner to a bona fide purchaser, rather than a sale by a licensee to a purchaser that exceeded the licensee's limited authorization to sell to the home theatre market. In other words, in *Mallinckrodt*, there was a lawful, authorized transaction directly between the patent holder and the purchaser, whereas in *General Talking Pictures*, the transaction was between a licensee and a distributor and further lacked the patent holder's authorization.<sup>75,76</sup>

A second distinguishing ground relates to what the Supreme Court stressed was another “controlling fact[]” in its rejection of the exhaustion defense.<sup>77</sup> The purchaser in *General Talking Pictures*—a commercial procurer for the motion picture industry—was not “a purchaser in the ordinary channels of trade,”<sup>78</sup> from which the Court concluded that the amplifier was never placed in the stream of commerce for downstream consumers to use in the ordinary pursuits of life.<sup>79</sup> In contrast, the assemblies in *Mallinckrodt* were sold to hospitals that would pass the cost of the kits to its patients—end users—or their insurance companies. Further, the ULTRAVENT equipment, at least the refurbished versions at issue, had been placed into the stream of commerce for their intended use and had passed into the hands of the patients who used them.

## CONCLUSION

*Mallinckrodt* represents a dangerous departure from the case law leading up to *Quanta*. The expansive rule articulated by *Mallinckrodt* is not supported by *General Talking Pictures*, deviates from Supreme Court precedent, and should be excised from the existing body of law governing patent exhaustion.<sup>80</sup> If tolerated, post-sale restrictions would shield practically any sold patented item from exhaustion. Left unchecked, *Mallinckrodt* is prone to abuse and risks becoming—as enterprising patentees had proved with their licensing practices after the short-lived *A.B. Dick* decision—the exception that swallows the rule.<sup>81</sup>

The Federal Circuit should hold that the authorized sale of an article that practices or substantially embodies a U.S. patent exhausts the patentee’s rights, irrespective of patentee-imposed post-sale restrictions on use. So holding will ensure that once an authorized sale occurs, it cannot be retroactively voided based on post-sale restrictions merely because the patentee wishes to extract additional rewards or exercise restraints downstream by recourse to patent remedies. ◀◀

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## Endnotes

1. Appeal Nos. 2014-1617 and -1619 from Case No. 1:10-cv-00564 (S.D. Ohio April 14, 2015). Oral arguments before the active bench are currently scheduled for October 2, 2015. Also among the issues to be briefed is whether, “[i]n light of *Kirtsaeng v.*

*John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2012), [...] this court overrule *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.”

This question is beyond the scope of this article, but is addressed elsewhere. See, e.g., Gino Cheng, *Whether International Sales Under Worldwide Licenses Exhaust U.S. Patents: The Days of the Jazz Photo, Ninestar, and Benun Line of Cases may be Numbered*, BLOOMBERG BNA’S PATENT TRADEMARK & COPYRIGHT JOURNAL, July 17, 2015, available at <http://www.winston.com/en/who-we-are/attorneys/cheng-gino.html>; Gino Cheng et al., “Helping the U.S. Federal Circuit Find a Place for Jazz Photo in the Legal Landscape of International Patent Exhaustion: Will ‘Lex’ Mark the Spot?”, KEEP YOUR COUNSEL, July 15, 2015, available at <http://www.winston.com/en/who-we-are/attorneys/cheng-gino.html>; see also Gino Cheng et al., PRIP Tokyo, N.P.O., University of Tokyo, RCAST, and the National Graduate Institute for Policy Studies (GRIPS), “Quanta-fiable Differences in U.S. Law on Patent Exhaustion,” Tokyo, Japan, April 16, 2015, available at <http://www.winston.com/en/who-we-are/attorneys/cheng-gino.html>.

2. See, e.g., *Adams v. Burke*, 84 U.S. 453 (1873); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008).
3. 976 F.2d 700 (Fed. Cir. 1992).
4. To the extent a downstream acquirer breaches a condition subsequent in the sales terms, such as a post-sale use restriction, the appropriate remedy does not lie in patent law, such as a suit for infringement.
5. 224 U.S. 1 (1912).
6. See *Motion Picture Patents*, 243 U.S. at 518 (“It is obvious that the conclusions arrived at in this opinion are such that the decision in *Henry v. A. B. Dick Co.*, *supra*, must be regarded as overruled.”).
7. 304 U.S. 175 (1938).
8. For example, as discussed in greater detail, *infra*, the relationship of the parties to the patent-holder in *General Talking Pictures* differed from that in *Mallinckrodt* because the initial sale was not authorized and the practicing product had not yet passed through ordinary channels of trade into the hands of end-users for use in the ordinary pursuits of life.
9. See *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008) (“The authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control postsale use of the article.”) (emphasis added).
10. *Id.* at 626 (“[T]he right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried out-side the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.”) (quoting *Motion Picture Patents*, 243 U.S. at 516).
11. 734 F.3d 1361 (Fed. Cir. 2013) (citing *Quanta*, 553 U.S. at 631).
12. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (“The ‘first sale’ doctrine is a common-law doctrine with an impeccable historic pedigree. In the early 17th century Lord Coke explained the common law’s refusal to permit restraints on the alienation of chattels.”) (citing 1 E. Coke, *Institutes of the Laws of England* § 360, p. 223 (1628)); see also *LifeScan*, 734 F.3d at 1376 (citing *Kirtsaeng*, 133 S. Ct. at 1363).

13. See *Honeywell Int'l, Inc. v. United States*, 609 F.3d 1292, 1304 (Fed. Cir. 2010) (holding that authorization is assessed “at the time of the sale”).
14. *Quanta*, 553 U.S. at 625 (emphasis added).
15. 646 F.3d 1357, 1370 (Fed. Cir. 2011).
16. *Mallinckrodt, Inc. v. Medipart, Inc.*, No. 89 C 4524, 1990 WL 19535, at \*1 (N.D. Ill. Feb. 16, 1990).
17. *Id.* at \*1–2.
18. *Id.* at \*1.
19. *Id.*
20. *Id.*
21. *Id.*
22. *Id.*
23. *Id.*
24. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992).
25. *Mallinckrodt*, 1990 WL 19535, at \*10 (“Mallinckrodt may not enforce its ‘Single Use Only’ restriction by bringing an action for patent infringement.”).
26. *Mallinckrodt*, 976 F.2d at 701, 709.
27. *Id.* at 709.
28. *Id.*
29. The Supreme Court outlined the century-long doctrinal development of patent exhaustion with respect to post-sale restrictions in *Quanta Computer, Inc. v. LG Electronics, Inc.* See *Quanta*, 553 U.S. 617, 625–28 (2008).
30. See, e.g., *Bloomer v. McQuewan*, 55 U.S. 539 (1853).
31. *Bloomer*, 55 U.S. at 549.
32. 84 U.S. 453 (1873).
33. *Adams v. Burke*, 84 U.S. 453, 455 (1873).
34. *Adams*, 84 U.S. at 455–56.
35. *Id.* at 457. See also *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008) (characterizing the arrangement in *Adams* as a post-sale restriction).
36. Indeed, if the patent holder’s aim is to extract a reward at each level of the supply chain or each time the patented product changes hands within the stream of commerce, it would be anathema to the patent holder’s position to make notice to each downstream acquirer a prerequisite to its enforcement. If, for instance, its shrinkwrap notice was discarded before any number of re-sales in the secondhand market, would the patent holder be content with limiting its recovery for unsanctioned uses by users up to the arbitrary point in time when its notice was still attached to the product? Furthermore, neither of the camps favoring or opposing patent exhaustion in the context of conditional sales would make its position depend on notice to the buyer. For at least this reason, lack of notice of a post-sale restriction is irrelevant to the question of whether the sale exhausts the patent remedies for that product.
37. See also, e.g., *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (in a suit against authorized acquirer, reasoning that “one 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”).
38. See *Quanta*, 553 U.S. at 625 (discussing *Adams*). To the extent *Mallinckrodt* supporters point to *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1872), for the proposition that a conditional sale of an article saves the embodied patent from exhaustion, the case is inapposite, because it involved a limited grant to the licensee of the exclusive right to make, use and sublicense the use of patented machinery, but not the right to sell. See 83 U.S. at 548. Also, the Supreme Court relied on the express prohibition against the licensee’s selling or sublicensing another’s use beyond a certain term to determine that the licensee had exceeded his authority. See *id.* at 550. Hence, the allowance of infringement claims against the end users turned on the lack of an authorized sale, rather than on there being a conditional one.
39. Simply put, a post-sale restriction or conditional sale attempts to revoke the patent holder’s authorization originally given at the point of sale based on the purchaser’s—or its customers’—conduct at some point in time subsequent to the sale. In essence, the patent holder is saying, “I authorize this sale for the consideration you are paying to me (or to my distributors) today, but if, say, tomorrow, you or others downstream from you subsequently violate a condition that I have imposed or will impose, then not only are you all no longer authorized to use my product after tomorrow, but I will also retroactively cancel any authorization that I previously gave and further hold you all liable for the infringing use in the one-day interim.”
40. See *Straus v. Victor Talking Machine Co.*, 243 U.S. 490, 500-01 (1917) (describing such restraint as “obnoxious to the public interest” and “hateful to the law from Lord Coke’s day to ours.”).
41. See *Quanta*, 553 U.S. at 630.
42. Although there may be situations in which a single-use restriction is enforceable and the breach thereof actionable, recovery for such conduct in the secondary market should be addressed under contract and/or trademark law, rather than patent law. See, e.g., *Quanta*, 553 U.S. at 648 n.7. A rule requiring exhaustion offers a sounder and cleaner division between the recovery theories, lest concerns about an inventor’s individual freedom to contract are allowed to masquerade as an issue that implicates government-granted patent rights.
43. See *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), overruled by *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. at 518 (1917).
44. Cf. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 11 (1912) (“LICENSE RESTRICTION: This machine is sold by the A. B. Dick Company with the license restriction that it may be used only with the stencil paper, ink, and other supplies made by A. B. Dick Company, Chicago, U.S.A.”).
45. See *A.B. Dick*, 224 U.S. at 49.
46. *Id.* at 12.
47. *Id.* at 35–36 and 48–49.
48. 4 Ban. & A. 520 (2d. Cir. 1879) (Blatchford, J.). In addition to the “Licensed to use only once” inscription on the buckles, the invoices to the direct purchasers included one of the following three sets of instructions: (a) “The cotton ties included in this invoice are licensed to be used once only, as baling ties, and are sold and purchased subject to this restriction;” (b) “The buckles accompanying these bands are the property of The American Cotton-Tie Company, Limited, and are licensed to be used once only, the company reserving the right, after such use, to recover possession of them wherever found;” or (c) “The buckles accompanying these bands are the property of The American



- Cotton-Tie Company, Limited, and are licensed to be used for one season only, the company reserving the right, after such use, to recover possession of them wherever found” (emphasis added).
49. Cf. *A.B. Dick*, 224 U.S. at 35 (“The conclusion we reach is that there is no difference, in principle, between a sale subject to specific restrictions as to the time, place, or purpose of use and restrictions.”).
  50. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917); see also *id.* at 518 (“It is obvious that the conclusions arrived at in this opinion are such that the decision in *Henry v. A. B. Dick Co.*, *supra*, must be regarded as overruled.”).
  51. *Motion Picture Patents*, 243 U.S. at 506–07.
  52. *Id.* at 516.
  53. See *id.* at 516.
  54. 646 F.3d at 1370 (“That absurd result would cast a cloud of uncertainty over every sale, and every product in the possession of a customer of the licensee, and would be wholly inconsistent with the fundamental purpose of patent exhaustion—to prohibit postsale restrictions on the use of a patented article.”).
  55. See *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008).
  56. *Quanta*, 553 U.S. at 624.
  57. *Id.* at 623.
  58. *Id.* at 623–24.
  59. *Id.* at 624.
  60. See *id.* at 636 (internal citation omitted).
  61. *Id.*
  62. 316 U.S. 241 (1942).
  63. See *Quanta*, 553 U.S. at 625–28 (“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”).
  64. *Id.* at 626 (citing *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917)).
  65. *Id.* at 638.
  66. *Quanta* expressed no opinion on whether *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938), was correctly decided, but even tacit acceptance of *General Talking Pictures* does not advance Lexmark’s position or resuscitate *Mallinckrodt*, as explained *infra*.
  67. *Quanta*, 553 U.S. at 636–37.
  68. *Id.* To be sure, *Quanta* certainly does not help Lexmark’s position, as the opinion never hazards to guess at the outcome had LGE’s license been structured in such a way that effected a conditional sale between Intel and Quanta.
  69. But with the first sale by Lexmark having been an authorized one, in the case of resellers, the patent rights to the cartridges are exhausted even before the resellers make the sale to the end user.
  70. Regardless of the “single-use only” notice provision that the hospital or the patient received, the nebulizer having been sold by Mallinckrodt, and therefore authorized, Mallinckrodt would have received compensation for its first sale and found exhausted any rights to pursue infringement for subsequent use.
  71. See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992).
  72. *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 179 (1938).
  73. *General Talking Pictures*, 304 U.S. at 179–80.
  74. *Id.* at 180–82 (“The [licensee] could not convey to [the purchaser] what both knew it was not authorized to sell.”).
  75. Likewise, in the *Lexmark* appeal, the sale in each of these three instances is authorized and—at the point of sale—no single-use restriction has yet been violated (a) by Lexmark to purchasers directly, (b) by Lexmark to its resellers, or (c) by Lexmark’s resellers to the purchasers. As *Mallinckrodt* was incorrectly decided, the Federal Circuit should reach the opposite result in *Lexmark*, ruling that the authorized sales exhausted Lexmark’s patent remedies.
  76. Antitrust and patent misuse law are motivated by different policies and therefore should not, as backseat drivers, be allowed to steer the course of patent exhaustion’s doctrinal development. An additional point of distinction worth noting is that field-of-use limitations may have procompetitive effects, e.g., allowing another licensee to place the product in the hands of a consumer in a segment of the market (*i.e.*, commercial theatres versus home theatres) that the patent holder or its existing licensees would not otherwise have targeted. In contrast, it is difficult to discern what procompetitive effects Lexmark’s single-use restriction has, given that both the Prebate and non-Prebate cartridges were made available to customers within the same markets.
  77. *General Talking Pictures*, 304 U.S. at 180.
  78. 304 U.S. at 180–181.
  79. *Id.*
  80. The *Mallinckrodt* panel may have been sympathetic to the equities and reached its conclusion based on ethical rather than commercial concerns. Mallinckrodt’s patented products were used to administer therapeutic agents to patients with AIDS or infectious lung diseases, and Medipart was reconditioning the spent Mallinckrodt ULTRAVENT assemblies for forty-nine different hospitals servicing thousands of patients. *Mallinckrodt, Inc. v. Medipart, Inc.*, No. 89 C 4524, 1990 WL 19535, at \*1–2 (N.D. Ill. Feb. 16, 1990). If Mallinckrodt’s aerosol delivery units were disposable medical tools that, akin to syringes, are truly meant to be used but once, then unsupervised third-party reconditioning would unnecessarily risk cross-infection between users and expose Mallinckrodt to liability claims by those injured from refurbished units.
  81. If, however, the Federal Court were to leave *Mallinckrodt* intact, it should take care to distinguish *Mallinckrodt* on its specific facts. This inquiry likely would necessitate articulating a razor-thin carve-out from the general proscription against post-sale restrictions, animated only when there is a demonstrable countervailing public interest against unfettered use—such as the risk of noxious effects or cross-infection that the consumer may suffer if a patented medicinal or therapeutic article was improperly refurbished, repurposed, refitted, or otherwise combined with other goods or compounds, the whole not having been properly safety-tested, sanitized, and otherwise guaranteed. In this rare situation, if public safety is not merely implicated but demonstrated, then perhaps a post-sale restriction might not be so “gravely injurious to th[e] public interest,” *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 519 (1917), that it could not possibly be sustained.