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Are We Exhausted Yet?
Post-Sale Restrictions after Lexmark

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In 1873, the Supreme Court held that when a patented item is "once lawfully made and sold, there is no restriction on [its] use to be implied for the [patentee's] benefit." *Adams v. Burke*, 84 U.S. 453, 457 (1873). This doctrine, known as patent exhaustion, "marks the point where patent rights"—the grant of a limited monopoly in an invention, and the right to exclude—"yield to the common law principle against restraints on alienation." *See Impression Prods. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1531 (2017). The doctrine "is uniform and automatic. Once a patentee decides to sell—whether on its own or through a licensee—that sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose, either directly or through a license." *Id.* at 1535.

Just as a license "chang[es] the contours of [a] patentee's monopoly," the Supreme Court's 2017 *Lexmark* decision further defined the contours of the patent-exhaustion doctrine. *Id.* at 1534. That opinion, and subsequent lower court decisions applying it, are the subject of this paper.

I. The exhaustion landscape before *Lexmark*

A. *Quanta*

The facts at issue in *Quanta* were relatively straightforward. *See generally Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008). LGE entered into a license agreement with Intel that authorized Intel to manufacture and sell microprocessors and chipsets using LGE's patents. *Id.* at 2110. The license agreement did not purport to alter patent exhaustion rules. *Id.* A separate agreement required Intel to give its customers written notice that the LGE license did not extend to a product made by combining a licensed Intel product with a non-licensed Intel product. *Id.* Quanta, in turn, purchased microprocessors and chipsets from Intel and used them to manufacture computers using licensed Intel products in combination with non-licensed Intel products. *Id.* Quanta did not modify the Intel components. *Id.* LGE sued Quanta for patent infringement.

The Supreme Court first addressed two questions: (1) whether patent exhaustion applies to method claims, and (2) the extent to which a product must embody a patent to trigger exhaustion. In answering the first question, the Court rejected LGE's argument that "method claims, as a category, are never exhaustible." *Id.* at 2118. As for the second question, the Court found that the only reasonable and intended use of the licensed Intel products was to practice the patent, and that they embodied essential features of the patented invention. *Id.* at 2118–20. Having answered those questions, Court turned to whether LGE exhausted its patent rights.

"Exhaustion is triggered only by a sale *authorized* by the patent holder." *Id*. at 2121 (emphasis added) (citing *United States v. Univis Lens Co*., 316 U.S. 241, 249 (2008)). To determine whether Intel's sales to Quanta were authorized, the Court analyzed the language of the License Agreement, which did not restrict Intel's right to sell licensed microprocessors and chipsets to purchasers who intended to combine them with non-Intel parts. *Id*. at 2121. Moreover, it broadly permitted Intel to make, use, or sell licensed products. *Id*. And while the Master Agreement contained a notice provision, neither party contended that Intel breached that provision, and, in any event, it was not included in the License Agreement. *Id*. at 2121–22.

Accordingly, the Court held that the License Agreement authorized Intel to sell products that practiced LGE's patents with no limiting conditions. *Id*. at 2122. Because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevented LGE from further asserting its patent rights with respect to the patents substantially embodied by those products. *Id*.

B. *Kirtsaeng*

Publisher John Wiley & Sons, Inc. sued Thailand native Supap Kirtsaeng for copyright infringement based on Kirtsaeng's importation into the United States and subsequent sale of foreign editions of English-language textbooks. *Kirtsaeng v. John Wiley & Sons, Inc*., 133 S. Ct 1351, 1352 (2013). The textbooks were manufactured abroad and contained a notice stating that they were not to be taken (without permission) into the United States. *Id*. The case presented the question of whether the first-sale doctrine—the copyright analog to patent exhaustion—permitted Kirtsaeng's importation and resale of the foreign books.

The case hinged on the interpretation of "lawfully made under this title" as used in Section 109(a) of the Copyright Act. *Id*. at 1357–58. John Wiley & Sons argued that to be "lawfully made," for purpose of the first-sale doctrine, the copies must be made in conformance with the Copyright Act in a location in which the Copyright Act applied. Accordingly, the doctrine could not apply to copies made outside the United States, and certainly not to foreign production of a copy for distribution exclusively abroad. *Id*. at 1358. Kirtsaeng, on the other hand, argued that "lawfully made under this title" meant made "in accordance with" or "in compliance with" the Copyright Act, without reference to geography. *Id*. Under that interpretation, the first-sale doctrine would apply to copyrighted works as long as their manufacture met the requirements of American copyright law. *Id*. In particular, the doctrine would apply where copies are manufactured abroad with the copyright owner's permission. *Id*. Both the district court and the Second Circuit agreed with John Wiley & Sons, applying a geographical restrict to the first-sale doctrine.

The Supreme Court reversed the Second Circuit, concluding that the considerations supporting Kirtsaeng's non-geographical interpretation of the words "lawfully made under this title" were the more persuasive. *Id*. at 1371. Accordingly, the Court held that the first-sale doctrine applies to copies of a copyrighted work lawfully made abroad, thus exhausting copyrights in the United States. *Id*. at 1352.

C. *Helferich*

Helferich Patent Licensing owned more than thirty United States patents covering a range of wireless-communication technologies. *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778

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