Why Patent Exhaustion Should Liberate Products (And Not Just People)

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Recommended Citation
93 Denv. L. Rev. 897 (2016)
WHY PATENT EXHAUSTION SHOULD LIBERATE PRODUCTS (AND NOT JUST PEOPLE)

SAMUEL F. ERNST†

ABSTRACT

Patent exhaustion is a doctrine that excuses infringement where the patent holder has either authorized the sale of a patented item or licensed its use or sale. Absent an effective contractual restriction, the patent holder's rights in the patented item are exhausted and the patent holder cannot sue for infringement based on further use or resale of the item. This Article explores the question of whether patent exhaustion adheres in the patented device or if it is a defensive doctrine that only adheres to the benefit of particular parties. Traditionally courts have articulated the doctrine as liberating the accused product from patent rights, allowing it to pass through the stream of commerce to subsequent users with all rights exhausted. With respect to actual holdings, however, the Federal Circuit recently concluded that exhaustion has only excused infringement in the case law where the claim of infringement was against an "authorized acquirer" of the device, or against a party accused of inducing or contributing to the infringement of such an authorized acquirer. Apparently a third party can be liable for infringement by unwittingly taking action that facilitates the end user's use of the device for its intended purpose, even if the device is licensed to perform that function.

This Article argues that the exhaustion doctrine should not be limited to shielding authorized acquirers of a patented device or any other particular classes of persons. The Supreme Court has never pronounced such a limitation on the doctrine. Rather, the Court has consistently characterized exhaustion as adhering in the patented device itself, allowing it to pass unimpeded through the stream of commerce to be used for its intended purpose.

A conception of patent exhaustion as adhering in the patented device is supported by all of the policy theories that have been used to justify the doctrine. The exhaustion doctrine has traditionally been justified by (1) a policy to retain the balance between the need to encourage invention and the harm of a limited monopoly by ensuring that the inventor does not receive double recovery for the value of the patented invention and (2) the policy against restraints on alienation of servitudes. Recently scholars have argued that the patent exhaustion doctrine serves a third

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purpose: to guard the domain of the federal patent law, such that it does not interfere with the general commercial law of contracts. In fact, the Supreme Court has long embraced all three theories as supporting patent exhaustion.

Moreover, all three theories support a concept of patent exhaustion as adhering in the patented device. If the purpose of the exhaustion doctrine is to police the domain of intellectual property statutes, such that they do not interfere with commercial law, then the ability of patent holders to police the use of downstream goods is properly limited by contract law rules such as privity of contract and unconscionability. Patent rights must be exhausted to avoid interference with those laws. If the exhaustion doctrine is justified by the related statutory domain policy against overcompensation for patent holders for the use of their patented inventions, then third parties should not be charged for interacting with patented devices for which the patent holders have already received market-based compensation. If the exhaustion doctrine is justified by the common law policy against restraints on alienation of chattels, then exhaustion adheres in the patented goods, such that they may move down the stream of commerce unimpeded with restrictions on their lawful and intended uses.

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I. INTRODUCTION

A. Patented Products in the Stream of Commerce

Consider the journey of a modern high technology product through the stream of commerce. An automobile, smartphone, or a semiconductor device is likely to practice the claims of thousands of patents. Patents on the design, methods of manufacture, and individual aspects of each component of the product must be acquired, licensed, or ignored by the multiple companies that join together to make the new product. Then there are the hundreds of patents the product innovator never learns about, any one of which can lead to a subsequent lawsuit, royalties, or a crippling injunction. Mark Lemley writes that “[t]he prevalence of patents in these industries has caused a number of people to worry about an ‘anticommons’ in patent law, in which companies that want to make a product find it impossible to acquire all the rights they need from many different owners.”

Now consider a situation in which all of these difficulties are overcome. The necessary patents are licensed to the manufacturers of the high-tech product, in some cases, for inflated royalties in light of the minor contribution that each individual patent makes to the larger product. Next, the new product moves down the stream of commerce to distributors and end users. At this level, the new product can become ensnared in the patent thicket again as patent holders demand licenses from or sue resellers, or even end users of accused products. “Customer

1. See DAN L. BURK & MARK A. LEMLEY, THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT 53–54 (2009) (“In industries such as semiconductors, by contrast, new products are so complex that they can incorporate hundreds and even thousands of different inventions— inventions frequently patented by different companies.”).


3. See id. at 19 (first citing Michael A. Heller, The Tragedy of the Anticommons: Property in the Transition from Marx to Markets, 111 HARV. L. REV. 621 (1998); and then citing Michael A. Heller & Rebecca S. Eisenberg, Can Patents Deter Innovation? The Anticommons in Biomedical Research, 280 SCI. 698, 698–701 (1998); Frank I. Michelman, Property, Utility, and Fairness: Comments on the Ethical Foundations of “Just Compensation” Law, 80 HARV. L. REV. 1165 (1967)); see also Amit Makker, The Nanotechnology Patent Thicket and the Path to Commercialization, 84 S. CAL. L. REV. 1163, 1175–76 (2011) (“Generally, a patent thicket will require an innovator to seek out and negotiate licenses with many patent holders in the field of endeavor to ensure that the innovator will not be sued for patent infringement when building upon the work of others. Not only could the licenses themselves be costly, the transaction costs associated with seeking out these patent holders could also be large.”); Amber Rose Stiles, Hacking Through the Thicket: A Proposed Patent Pooling Solution to the Nanotechnology “Building Block” Patent Thicket Problem, 4 DREXEL L. REV. 555, 562 (2012) (“The dense tangle of existing IP rights prevents downstream entities from producing innovative technology because they cannot afford to license the litany of ‘building block’ patents necessary to provide protection from infringement litigation.”).

4. See Mark A. Lemley & Carl Shapiro, Patent Holdup and Royalty Stacking, 85 TEX. L. REV. 1991, 1991 (2007) (“Such royalty overcharges are especially great for weak patents covering a minor feature of a product with a sizeable price/cost margin, including products sold by firms that themselves have made substantial research and development investments.”).

suits," particularly those brought by non-practicing patent assertion entities, frequently garner settlements that reflect the high cost of defense more than the low value of the patented invention, which is at best merely one small component of a much larger commercial product. Customer suits, moreover, result in needless judicial inefficiencies. Because the accused resellers or customers did not make the accused product, extensive third party discovery, confidentiality disputes, motions practice, and other difficulties are required to defend the litigation on its merits.

Under the right circumstances, the patent exhaustion doctrine may be able to prevent some of this needless tax on innovation caused by the patent thicket. If the manufacturer at the top of the chain of production takes a license to a patent portfolio, and the patent holder thereby authorizes the manufacture and sale of the device, then "[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." Hence, in *Quanta Computer, Inc. v. LG Electronics, Inc.*, the Supreme Court held that when LGE granted Intel a license to make, use, and sell LGE's patented microprocessors, LGE's rights in the licensed microprocessors were exhausted. LGE could not sue Intel's customer, Quanta, when Quanta inserted the microprocessors into computers and thereby practiced LGE's method claims. This is because "[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."


But what happens when we follow the licensed product down the stream of commerce a little bit further? End users of a licensed automobile or smartphone cannot be sued for using the device for its intended purpose as embodied in the licensed patents. But what about third parties who unwittingly broadcast content to the licensed car or smartphone, or otherwise assist the end user in using the device for its intended purpose? If such conduct infringes the method claims of a patent licensed by the manufacturer, does patent exhaustion shield the third party from claims of patent infringement for practicing that method?

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6. *Id.* at 1614.
9. *Id.* at 637.
10. *Id.* at 638.
11. *Id.* at 637.
12. *See id.* ("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.").
At first blush, one would think that patent exhaustion shields the third party broadcaster from infringement liability. This is because the authorized first sale of the device exhausts the patent rights in that device, and the patent holder cannot sail down the stream of commerce to sue persons who subsequently use the device for its intended purpose. The Supreme Court very early said, "[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress."\(^\text{13}\)

Over the years, the Court has repeatedly articulated patent exhaustion as adhering in the patented device, shielding all subsequent users of the device for its intended purpose from claims of infringement, absent valid license restrictions.\(^\text{14}\) The Court has said that when exhaustion occurs, the patent holder "ceases to have any interest whatever in the patented machine."\(^\text{15}\) By parting title with the machine, the patent holder "has placed the article beyond the limits of the monopoly secured by the patent act."\(^\text{16}\) The Court’s most recent pronouncements are in accord with the older opinions in characterizing patent exhaustion as adhering in the sold or licensed item. In 2008, the Court wrote 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."\(^\text{17}\) And in 2013, the Court held that patent exhaustion did not prevent a patent holder from suing for infringement when a farmer made a new patented seed without the patent holder’s permission, because "the doctrine restricts a patentee’s rights only as to the ‘particular article’ sold."\(^\text{18}\) The Court has repeatedly and consistently characterized patent exhaustion as adhering in licensed or sold items and not to protect particular classes of individuals.

However, in *Helferich Patent Licensing, LLC v. New York Times Co.*,\(^\text{19}\) the Federal Circuit traced a new limit on the law of patent exhaustion, holding that patent exhaustion only protects "authorized acquirers" of a sold device or parties who are accused of inducing or contributing to the infringement of an authorized acquirer.\(^\text{20}\) The court reviewed the exhaustion case law to conclude that "[t]he doctrine has never applied unless, at a minimum, the patentee’s allegations of infringement, whether direct or indirect, entail infringement of the asserted claims by authorized acquirers—either because they are parties accused of infringement or

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14. For an analysis of license restrictions that may be sufficient to "contract around" exhaustion, see Ernst, *supra* note 7, at 459–65.
17. *Quanta*, 553 U.S. at 625 (emphasis added).
19. 778 F.3d 1293 (Fed. Cir. 2015) [hereinafter *Helferich II*].
20. Id. at 1302.
because they are the ones allegedly committing the direct infringement . . .

To understand the scope of the Federal Circuit's new authorized acquirer restriction on patent exhaustion, it is necessary to delve briefly into the details of the *Helferich* case. The plaintiff, Helferich, owns some thirty U.S. patents related to wireless cell-phone technology, all of which "derive from a common specification." The Federal Circuit conceived of the patents as containing two types of claims: (1) "handset claims," which relate to "wireless-communication devices" (e.g., smartphones) and methods for such smartphones to receive and request information over a wireless network; and (2) "content claims," which cover methods of storing and updating information, and sending it to the smartphones over a wireless network. The court assumed that the handset claims and the content claims covered patentably distinct inventions because that was the conclusion of the Patent and Trademark Office. It is presumably the owner of the smartphone who may practice the handset claims, by, for example, requesting content to be sent to the phone. And content providers may practice the content claims, by, for example, sending content to the smartphone. In other words, the court proceeded on the premise, for lack of proof to the contrary, that content providers may practice the content claims independently without the smartphone users performing any steps of those methods.

Nonetheless, Helferich apparently licensed all of these thirty patents, including both types of claims "to what, at least at one time, constituted most—we may assume all—of the manufacturers of mobile handsets for sale in the United States." Hence, Helferich authorized cell phone manufacturers to make and sell devices that could practice both the handset claims and the content claims, free from claims of direct or indirect infringement. And because this authorization exhausted Helferich's patent rights in the cell phones, purchasers of the smartphones are immune from claims of patent infringement when they use the phones for their intended purposes of requesting and receiving content over the internet:

It is undisputed that, under the doctrine of patent exhaustion, those licenses eliminate for the owners/possessors of handsets acquired from the licensed manufacturers—"authorized acquirers"—any legal restriction the patents would otherwise impose on them through the pa-

21. *Id.*
22. *Id.* at 1295.
23. *Id.*
24. *Id.* at 1296.
25. *Id.* at 1300 ("[D]efendants do not contend that handset possessors practice any of the asserted [content] claims—that such handset users perform the steps of the claimed methods (even any of the steps) or put into service and thereby use the claimed systems." (emphasis added)).
26. *Id.* at 1296.
tent statute, 35 U.S.C. §§ 154, 271, regarding their sale or use of the handsets.\textsuperscript{27}

In short, Helferich bargained for and received from cell phone makers market-determined compensation for the use of both its handset claims and content claims. Helferich cannot pursue the cell phones down the stream of commerce to collect double recovery from end users.

Presumably, however, the owners of the licensed smartphones would like to use them to receive content and not only to request content. But Helferich has followed the patented devices down the stream of commerce to sue content providers, such as the New York Times and CBS, for broadcasting content to the licensed devices in a way that may practice the claims of the licensed patents.\textsuperscript{28}

The district court held that the content providers were shielded from liability, quoting the Supreme Court for the rule 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."\textsuperscript{29} The Federal Circuit reversed, holding that patent exhaustion itself had been exhausted.\textsuperscript{30} It appears that once the patented item floats this far down the stream of commerce, the exhausted patent rights can pull themselves out of the drink and stand as a new dam against the intended use of the licensed device.

To revive the patent rights, the Federal Circuit articulated a new orientation for patent exhaustion. Exhaustion no longer terminates patent rights in the licensed device itself. Instead, "[x]haustion protects an authorized acquirer's freedom from the legal restrictions imposed by the patent statute."\textsuperscript{31} The court reasoned that because the infringement statute defines infringement as an act committed by a person, patent exhaustion must also be limited to "remov[ing] those legal restrictions on certain persons."\textsuperscript{32} The court found no actual language or holdings in Supreme Court precedent putting such a limit on patent exhaustion. But the

\textsuperscript{27} Id. at 1296–97.
\textsuperscript{28} Id. at 1295.
\textsuperscript{30} \textit{Helferich II}, 778 F.3d at 1311.
\textsuperscript{31} Id. at 1301 (emphasis added).
\textsuperscript{32} Id. ("Exhaustion protects an authorized acquirer's freedom from the legal restrictions imposed by the patent statute. The statute grants a patentee the right to exclude others from, e.g., making or using or selling a patented invention, 35 U.S.C. § 154(a)(1), and it then imposes concomitant legal restrictions on acts that violate the exclusivity right by defining, in closely related terms, what it means for a person to 'infringe' the right, § 271. Patent exhaustion removes those legal restrictions on certain persons in certain circumstances: it eliminates the legal restrictions on what authorized acquirers 'can do with an article embodying or containing an invention' whose initial sale (or comparable transfer) the patentee authorized." (quoting Bowman v. Monsanto Co., 133 S. Ct. 1761, 1766 & n.2 (2013))).
Federal Circuit's review of the precedent revealed that patent exhaustion had not occurred in the case law

unless, at a minimum, the patentee’s allegations of infringement, whether direct or indirect, entail infringement of the asserted claims by authorized acquirers—either because they are parties accused of infringement or because they are the ones allegedly committing the direct infringement required by the indirect infringement charged against other parties.33

Accordingly, the Helferich opinion reframes the orientation of exhaustion. Exhaustion does not liberate particular patented items from the reach of the Patent Act; it liberates particular persons or classes of persons from claims of patent infringement.

The court in Helferich takes pains to point out the limitations of its holding.34 The Helferich defendants were accused of infringing patent claims that the customer did not necessarily practice in using the licensed devices.35 The Helferich defendants did not argue that they “use[d]” the licensed devices by practicing the licensed patents.36 Nonetheless, the asserted patent claims were claims under which the devices themselves were licensed and for which license Helferich had already received compensation.37 In other words, the devices were licensed to perform the functions that formed the basis for the infringement accusations. The only reason patent exhaustion did not preclude these claims of infringement was because of the Federal Circuit’s new rule that exhaustion only excuses infringement by authorized acquirers of a licensed device and those who contribute to or induce such persons’ infringement.38

And so, despite the limitations on the holding of the Helferich decision, the opinion represents a foundational shift in the orientation of patent exhaustion. Does patent exhaustion adhere in the patented device, liberating that product and its intended uses from claims of patent infringement no matter who uses the product? Or does patent exhaustion operate as a defense that only benefits particular classes of persons who interact with the licensed device? Setting aside valid contractual restrictions, if a patent holder authorizes the sale of a patented device, are the patent rights in the device exhausted as to all persons, or only as to some particular class of persons? And what should the law be?

33. Id. at 1302.
34. Id. at 1299–1301.
35. Id. at 1300.
36. Id. at 1299 (“And we will proceed on the premise, accepted by defendants, that only handset owners/possessors, not those who practice the asserted content claims, 'use' the handsets.”).
37. Id. at 1296 (“Helferich licensed its portfolio to what, at least at one time, constituted most—we may assume all—of the manufacturers of mobile handsets for sale in the United States.”).
38. Id. at 1301–02 (“Exhaustion protects an authorized acquirer’s freedom from the legal restrictions imposed by the patent statute.”).
Part II of this Article begins to explore these questions by first asking what, in fact, the Supreme Court has said on the matter. Part II closely examines Supreme Court precedent to conclude that the Court has always framed patent exhaustion as adhering in the accused device, and not as applying to protect particular persons from claims of infringement. Where the Court has expressed policy in support of the doctrine, it is policy focused on the incentive provided to the patent holder, the proper scope of the Patent Act, and the alienability of goods in commerce—not policy regarding which actors should be held liable for patent infringement. Once patent rights are exhausted in a product, that product is free from claims of patent infringement, no matter who is the defendant.39

Part III of the Article asks whether patent exhaustion should adhere in the licensed or sold article, or if the Federal Circuit panel was correct to limit the defense to particular classes of defendants. Which is the better policy? Part III begins by examining Supreme Court precedent to determine what policies the Court has articulated in support of the exhaustion doctrine. Traditionally, commentators have grounded patent exhaustion in one of two theories. First, patent exhaustion prevents over-compensation for the patent holder for the use of its patented product, which is necessary to preserve the balance the patent laws must strike between the incentive to invent and the freedom required for innovation, industry, and a free market.40 Second, patent exhaustion prevents the Patent Act from interfering with the common law's policy of abhorring servitudes running with personal property.41 Recently, scholars have opined that patent exhaustion is justified by the need to define the domain of the Patent Act, such that it does not interfere with general commercial law.42 Once all patent rights in a particular product have been exhausted, the law of contracts, property, and commercial law govern the use of the property in commerce.43 Part III demonstrates that, in fact, the Supreme Court has relied on all three theories in support of the exhaustion doctrine since the nineteenth century. The Court has sought to enforce all three policies in its exercise of the exhaustion doctrine and, therefore, all three policies must be considered in determining whether exhaustion should adhere in the patented device or only as to particular classes of persons. Accordingly, Part III argues that all three policy justifications for the exhaustion doctrine support a conception of patent exhaustion as adhering in the sold or licensed device.

First, the best way to ensure that the patent holder does not receive double compensation for the use of its patented device is by exhausting

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39. See infra Part II.
40. See infra Section III.A.
41. See infra Section III.B.
43. See infra Section III.C.
all rights in the device, not only as to particular users. If the first sale or license of a device only triggers patent exhaustion as to particular parties, then it allows the patent holder to receive full compensation for the use of a patented device and then receive additional compensation for that use from third parties who facilitate the use.\footnote{44}{See infra Section III.A.}

Second, further patent-right interference with an item after it is sold or licensed under a patent allows the Patent Act to exceed its statutory domain and invade the province of general contract, commercial, and property law, which should now govern the use of the item in a free market. These areas of law reflect policies, such as consumer protection and freedom of contract, with which the federal law should not interfere.\footnote{45}{See infra Section III.C.}

Third, among those common law policies the exhaustion doctrine is meant to shield from the Patent Act is the policy against restraints on alienation of personal property. Patent exhaustion must adhere in the patented goods, rather than with respect to particular persons, to prevent annoyance and inefficiencies as goods pass through commerce, such that "competition, including freedom to resell, can work to the advantage of the consumer."\footnote{46}{Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351, 1363 (2013); see also infra Section III.B.}

II. SUPREME COURT PRECEDENT REVEALS THAT EXHAUSTION ADHERES IN PRODUCTS AND NOT AS TO PARTICULAR PERSONS

The Federal Circuit in \textit{Helferich} reviewed some of the Supreme Court opinions on exhaustion and noted a common feature in the fact patterns: the doctrine had, thus far, always been applied to shield from infringement liability either persons who had acquired the accused device or persons who were accused of inducing or contributing to the infringement of such authorized acquirers.\footnote{47}{Helferich II, 778 F.3d 1293, 1302 (Fed. Cir. 2015).} Thus far, according to the Federal Circuit, the Supreme Court’s cases had not excused infringement under the exhaustion doctrine by persons who did not cause authorized acquirers to infringe, but who practiced other patent claims under which the devices were also licensed.

The Federal Circuit’s reasoning in \textit{Helferich} consists of turning this coincidence in the fact patterns into a rule: “Exhaustion [only] protects an \textit{authorized acquirer}'s freedom from the legal restrictions imposed by the patent statute.”\footnote{48}{Id. at 1301 (emphasis added).} The court announced a new limit on exhaustion that focuses on the identity of the accused defendant rather than on the patent holder’s relationship to the patented article.
But what do the Supreme Court cases actually say? Has this feature of the fact patterns been the basis for the Court's decision in any case finding exhaustion? Close scrutiny of each Supreme Court case on exhaustion reveals that the Court has never suggested any restriction on patent exhaustion based on the identity of the accused defendant. Rather, the Court has consistently conceived of exhaustion as adhering in the patented article. This Part provides a close analysis of Supreme Court precedent to conclude that the Court determines exhaustion based solely on an assessment of the patent holder's relationship to the patented item. If the patent holder has relinquished all rights in the patented item, he has "exhaust[ed] the monopoly in that article" and "has thus parted with his right to assert the patent monopoly with respect to it."\(^{49}\)

The Federal Circuit justifies its reorientation of the exhaustion doctrine in *Helferich* by referring to the provision in the Patent Act that defines infringement:

The statute grants a patentee the right to exclude others from, *e.g.*, making or using or selling a patented invention, 35 U.S.C. § 154(a)(1), and it then imposes concomitant legal restrictions on acts that violate the exclusivity right by defining, in closely related terms, what it means for a person to "infringe" the right, § 271. Patent exhaustion removes those legal restrictions on certain persons in certain circumstances....\(^{50}\)

It is true that Section 271 of the Patent Act defines infringement as particular actions that violate the exclusionary right—for example, the unauthorized "mak[ing], us[ing], offer[ing] to sell, or sell[ing]" of a patented invention.\(^{51}\) But it does not therefore follow that "[p]atent exhaustion removes those legal restrictions on certain persons in certain circumstances."\(^{52}\) The Patent Act also defines the patent holder's "right to exclude others from making, using, offering for sale, or selling the invention."\(^{53}\) And in addressing exhaustion, the Supreme Court has focused on the patent holder's relationship to this exclusionary right and whether or not she has exhausted it with respect to particular goods. The identity of the accused user of the patented device is not relevant to determining whether there are any patent rights remaining in the device.

The Court established this conception of exhaustion adhering in the patented device as early as 1852. In the case of *Bloomer v. McQuewan,*\(^{54}\) the defendant purchased the right to construct and use patented planing

50. *Helferich II*, 778 F.3d at 1301.
52. *Helferich II*, 778 F.3d at 1301.
54. 55 U.S. 539 (1852).
machines during the term of the patent. The question for the Court was whether the patent holder could sue for infringement based on use of the machines during an extension of the patent term. The Court concluded that there was no cause of action for infringement because the patent holder, by authorizing the manufacture of the patented machine, had exhausted his patent rights in that particular machine: "And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." It is the patent rights in the device that are exhausted, not the right to enforce those rights against particular persons.

In fact, particular persons may still be liable under causes of action other than for patent infringement, because by sending the sold device outside the domain of the Patent Act, the Court allows the general commercial law to govern use of the device: "[I]f [the patent holder's] right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State, and not in the courts of the United States, nor under the law of Congress granting the patent." Patent exhaustion adhered in the patented planing machine; the question of who could interact with the machine subsequent to patent exhaustion was properly governed solely by the state law of personal property and contracts.

Indeed, every single Supreme Court case on patent exhaustion that this author has reviewed conceptualizes patent exhaustion as adhering in the sold or licensed device and not as to particular parties.

In *Mitchell v. Hawley* the patent holder avoided patent exhaustion by placing valid contractual restrictions on the use of its machines. But contractual restrictions aside, in describing the operation of the exhaustion doctrine, the Court plainly considered it a question of whether exhaustion had adhered in the patented device, and not as to particular persons:

[W]hen [the patent holder] has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it, or to construct and use and operate 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

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55. *Id.* at 548.
56. *Id.*
57. *Id.* at 549.
58. *Id.* at 549–50.
59. 83 U.S. 544 (1872).
60. *Id.* at 550. The Court's treatment of attempts to contract around exhaustion are not the topic of this Article. For a full analysis of this question, see Ernst, *supra* note 7, at 451–59.
that he ceases to have any interest whatever in the patented machine so sold and delivered or authorized to be constructed and operated.\textsuperscript{61}

Absent an effective contractual provision, patent exhaustion acts to drain all patent rights out of a sold or licensed device. The identity of any particular person accused of infringement by using that device does not enter into consideration. This is because the patent holder "ceases to have any interest \textit{whatever} in the patented machine."\textsuperscript{62} The machine has passed outside of the patent monopoly.

In \textit{Adams v. Burke},\textsuperscript{63} the plaintiff exhausted his rights in patented coffin lids by licensing a third party to make and sell the lids for use within a ten-mile radius of Boston.\textsuperscript{64} The patent holder could not sue the defendant for patent infringement when he purchased the lids and interred them in Natick, Massachusetts, seventeen miles outside of Boston.\textsuperscript{65} This had nothing to do with whether the defendant was an authorized acquirer of the lids. There was no suit for infringement because the coffin lids had "passe[d] without the limit of the monopoly."\textsuperscript{66} The Court held that after the coffin lid was sold, "so far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent."\textsuperscript{67} Patent exhaustion again liberated the device from patent rights, not particular classes of persons.

The Court again articulated exhaustion as adhering in the patented device in \textit{Keeler v. Standard Folding-Bed Co.}\textsuperscript{68} There, the defendant purchased patented beds from a Michigan licensee under the patent and resold them in Massachusetts. The Court held that patent exhaustion prohibited the Massachusetts licensee under the patent from suing for infringement based on the resale of the beds.\textsuperscript{69} The case did not turn on whether the defendant was an authorized acquirer of the beds, however. Rather, the sale of the beds to the defendant exhausted all patent rights \textit{in those beds}: "[T]he purchase of the article from one authorized by the patentee to sell it, \textit{emancipates such article} from any further subjection to the patent throughout the entire life of the patent . . . ."\textsuperscript{70} It does not matter who is accused of committing patent infringement with respect to the article; the article is emancipated from \textit{any} further subjection to the patent.

\begin{thebibliography}{10}
\bibitem{61} Mitchell, 83 U.S. at 547.
\bibitem{62} Id. (emphasis added).
\bibitem{63} 84 U.S. 453 (1873).
\bibitem{64} Id. at 454.
\bibitem{65} Id. at 454–56.
\bibitem{66} Id. at 456.
\bibitem{67} Id.
\bibitem{68} 157 U.S. 659, 663–66 (1895).
\bibitem{69} Id. at 666.
\bibitem{70} Id. (emphasis added).
\end{thebibliography}
Because exhaustion adheres in the patented device, rather than operating as a defense reserved for particular defendants, the Court early on decided that post-sale restrictions are ineffective to prevent patent exhaustion. In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, the plaintiff held a patent on film projectors and granted a license to a third party to manufacture and sell the projectors. The license agreement contained a clause purporting to place restrictions on the use of the devices after they were sold—a “post-sale restriction.” Specifically, the license provided that the machines were to be sold “under the restriction and condition that such exhibiting or projecting machine shall be used solely for exhibiting or projecting motion pictures containing the inventions of reissued letters patent No. 12,192, [another patent owned by the plaintiff] . . .” When Universal Film supplied to the purchaser of the patented projector with films that were not covered by that patent, Motion Picture Patents Company sued for infringement.

The Court ruled that the post-sale restriction could not prevent patent exhaustion because it purported to exercise the patent monopoly over devices that had left the domain of the Patent Act. “[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.” It did not matter that Universal Film was accused of contributing to the infringement of an authorized acquirer of the machines. All that mattered was the patent holder’s relation to the machines; the patent holder had exhausted all patent rights in the machines as to all uses of the device by anyone.

When the Court reaffirmed the ineffectiveness of post-sale restrictions to avoid exhaustion in *Quanta*, it relied on the same logic: post-sale restrictions fail to prevent patent exhaustion because the device has already been carried outside of the patent monopoly. In *Quanta*, the Court held that LGE’s patents on the methods of operation of its circuits were exhausted when it authorized Intel to make circuits that substantially embodied the claimed methods. LGE could not sue Quanta for infringing its method patents when Quanta purchased the circuits from Intel and put them to their intended use because “patent exhaustion pro-

71. 243 U.S. 502 (1917).
72. Id. at 505–06.
73. Id. at 506.
74. Id. at 507–08.
75. Id. at 516.
76. In arriving at this decision, the Court overruled its opinion in *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), which held that post-sale restrictions could prevent patent exhaustion. Id. at 518. Notably, in committing this legal error, the *Henry* opinion misstated patent exhaustion as protecting the rights of purchasers of the device, rather than as relating to the exhaustion of patent rights in the device. 224 U.S. at 19 (“By a sale of a patented article subject to no conditions, the purchaser undeniably acquires the right to use the article for all the purposes of the patent, so long as it endures.”).
vides that the initial authorized sale of a patented item terminates all pat-
ent rights to that item." 78 LGE argued that patent exhaustion was avoid-
ed by a post-sale restriction in one of its agreements with Intel providing 
that no license was granted to any third party, such as Quanta, to use the 
patented circuits in combination with non-Intel parts. 79 The Court reject-
ed this argument on the basis that LGE could not assert patent rights over 
an item in which all patent rights were exhausted. "[T]he question 
whether third parties received implied licenses is irrelevant because 
Quanta asserts its right to practice the patents based not on implied li-
cense but on exhaustion. And exhaustion turns only on Intel’s own li-
cense to sell products practicing the LGE Patents." 80 In other words, ex-
haustion does not turn on the identity of accused infringers. Rather, ex-
haustion turns only on the question of whether the patent holder has dis-
posed of its patent rights in a particular item. "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." 81 Patent exhaustion adheres in the sold or 
licensed article, and not as to particular parties who later interact with the 
article.

The Supreme Court’s steadfast adherence to the principle that patent 
exhaustion adheres in the patented article has also redounded to the ben-
efit of the patentee. In Bowman v. Monsanto Co., 82 the question was 
whether the patent holder, Monsanto, could sue a farmer who used pa-
tented soybeans not only to grow soybean crops, as was permitted, but 
also to create new soybeans for replanting the following season. 83 The 
Court held that patent exhaustion did not shield the farmer from in-
fringement liability because the sale of a patented article "does not allow 
the purchaser to make new copies of the patented invention." 84 This is 
because "[t]he doctrine of patent exhaustion limits a patentee’s right to 
control what others can do with an article embodying or containing an 
invention." 85 Because patent exhaustion adheres in a licensed or sold 
item, and not as to particular persons, "the doctrine restricts a patentee’s 
rights only as to the ‘particular article’ sold it leaves untouched the pa-
tente’s ability to prevent a buyer from making new copies of the patent-
ed item." 86 Hence, the Bowman Court is consistent with all of the other 
Supreme Court precedent finding that patent exhaustion removes the

78. Id. at 625, 638.
79. Id. at 623.
80. Id. at 637.
81. Id. at 638.
82. 133 S. Ct. 1761 (2013).
83. Id. at 1764.
84. Id.
85. Id. at 1766 (emphasis added).
86. Id. (citation omitted).
licensed or sold article from the patent monopoly; it does not act merely to shield particular persons from infringement liability.

Indeed, every Supreme Court opinion this author has identified—too many to describe in detail here—frames the exhaustion doctrine in this way. The Court explains the operation of patent exhaustion in exceptionally clear terms in *United States v. Univis Lens Co.*:

>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 Supreme Court has always conceived of patent exhaustion as adhering in the article sold or licensed by the patent holder. Exhaustion removes the sold article from the patent monopoly and the patent holder cannot sue anyone for patent infringement based on an interaction with that article.

Accordingly, the Federal Circuit’s decision in *Helferich*, announcing that patent exhaustion only adheres to the benefit of a particular class of persons, is a new limit on patent exhaustion. The Federal Circuit may be correct that the Supreme Court has never decided a case in which the party obtaining protection from the exhaustion doctrine was neither an authorized acquirer of the patented device or someone who induced or contributed to an authorized acquirer’s infringement. But this has never been the basis for the Supreme Court’s decisions finding patent exhaustion. The question has, rather, always turned on the extent to which the patent holder has parted with her rights in the patented article. Absent an effective contractual restriction to prevent exhaustion, once patent exhaustion occurs, it occurs in the patented item, allowing for its intended use free from restriction by the Patent Act. Under this conception of patent exhaustion, one would assume the doctrine would shield third parties from claims of infringement as well—parties such as content providers to a licensed device, who interact with the device using a method the device

87. See, e.g., Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 457 (1940) ("And by the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold."); Bos. Store of Chi. v. Am. Graphophone Co., 246 U.S. 8, 25 (1918) ("[O]ne who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied."); Bauer & Cie v. O'Donnell, 229 U.S. 1, 17 (1913) ("[T]his 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.").

88. 316 U.S. 241 (1942).

89. *Id.* at 250.

90. *Helferich II*, 778 F.3d 1293, 1302 (Fed. Cir. 2015).
is licensed to perform. The Federal Circuit’s pronouncement to the contrary is new law, even taking into account the many limitations on the court’s holding.\footnote{91}

III. ALL THREE THEORIES OF THE EXHAUSTION DOCTRINE ARTICULATED BY CONTEMPORARY SCHOLARS SUPPORT EXHAUSTION ADHERING IN THE PATENTED DEVICE, AND NOT AS TO PARTICULAR PERSONS

Given that the Supreme Court has never imposed an authorized acquirer restriction on the patent exhaustion doctrine, and given that the restriction was only imposed by a panel of the Federal Circuit, it is fair game to inquire into whether such a limitation is good policy. Should patent exhaustion only apply to protect from infringement liability “authorized acquirers” of the accused device or those who induce or contribute to their infringement? Or, should patent exhaustion adhere in the licensed or sold product, freeing it from claims of infringement against all parties who come to interact with that product?

Answering these question requires consideration of the three major policy arguments that have been advanced in favor of the patent exhaustion doctrine. Scholars have long theorized that exhaustion is justified either by a policy to prevent patent holders from obtaining overcompensation for the value of their patented inventions, the policy against “double-recovery,” or by the common law policy against servitudes running with personal property.\footnote{92} Recently, scholars have posited a third justification for patent exhaustion: the exhaustion doctrine serves to police the domain of intellectual property law, such that it does not displace the general commercial law of contracts, property, and antitrust (hereafter, “the domain theory” of patent exhaustion).\footnote{93}

Adherents to the domain theory of patent exhaustion have suggested that it has been the only theory animating the Supreme Court in applying the exhaustion doctrine.\footnote{94} Professors John F. Duffy and Richard Hynes have argued that “[t]he legal doctrine in the area pursues not common law policies disfavoring encumbrances or restraints on alienation, but instead the more nuanced goal of limiting the scope or domain of IP statutes to avoid displacing the law in other fields, such as general contract, property, and antitrust law.”\footnote{95}

In fact, as explained in this Section, the Supreme Court has repeatedly invoked all three policy justifications for patent exhaustion in developing the doctrine. The Supreme Court has at times grounded patent

\footnotesize{91. See id. at 1299–1301.  
92. See Ernst, supra note 7, at 465–75.  
93. See Duffy & Hynes, supra note 42, at 1–2, 7.  
94. See id. at 6–7.  
95. Id. at 7.}
exhaustion in a policy to ensure that the patent holder receives no more compensation for the value of her patented invention than is commensurate with the scope of the invention and as is necessary to encourage innovation. The Supreme Court has also repeatedly justified the exhaustion doctrine in the common law policy against servitudes running with personal property. And the Court has often emphasized the need to police the boundaries of the Patent Act, such that it does not interfere with general commercial law. These policies are not incompatible with one another; in fact, they are complementary policies. As argued below, all three policies favor, even require, that patent exhaustion adhere in the patented device and not only as to particular parties.

A. The Policy Against Double Recovery Supports Exhaustion Adhering in the Patented Device

The policy against double recovery proceeds on the premise that "[t]he patent holder should be rewarded for [her] original contribution to the art with a [reward] that is commensurate with the [value] of [the] invention as determined by the free market," and no more than is necessary to spur innovation. The Supreme Court has invoked this policy in justifying patent exhaustion because patent exhaustion ensures that the patent holder does not charge duplicative royalties on a device from multiple parties as the device passes through the stream of commerce.

Hence, for example, in Motion Picture Patents Co., the Court invoked exhaustion with the remonstrance that "this court has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is 'to promote the progress of science and the [sic] useful arts.'" Accordingly, the inventor should receive a royalty for his invention that is determined by the value of the invention on the free market:

If his discovery is an important one, his reward under such a construction of the law will be large, as experience has abundantly proved; and if it be unimportant, he should not be permitted by legal devices to impose an unjust charge upon the public in return for the use of it.

The exhaustion doctrine serves as a check on such "legal devices," such as the post-sale restriction at issue in the Motion Picture Patents Co. case, ensuring that the patent holder does not receive overcompensation for the patented invention. Patent exhaustion asks if there has been
an authorized first sale because "[t]he 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."\textsuperscript{102}

The Court has invoked the policy against double recovery in patent exhaustion opinions going back to the very beginning of the doctrine. In \textit{Mitchell} the Court wrote that patent holders

\begin{quote}
are never entitled to but one royalty for a patented machine, and consequently a patentee, when he has himself constructed a machine and sold it without any conditions, \ldots 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 \ldots.\textsuperscript{103}
\end{quote}

The Court relied on the policy against double recovery in \textit{Adams} as well, writing that patent exhaustion occurs because "the patentee or his assignee ha[s] 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."\textsuperscript{104} In \textit{Univis Lens Co.}, the Court explained that patent exhaustion applies because, in selling the patented device, the patent holder "has received in the purchase price every benefit of that monopoly which the patent law secures to him."\textsuperscript{105} Exhaustion ensures that the patent holder receives no additional reward, which would improperly "extend his monopoly."\textsuperscript{106} Hence, the policy against double recovery has been consistently articulated by the Supreme Court as a policy that animates patent exhaustion.

Scholars have debated whether patent exhaustion is necessary to prevent double recovery. Professor Herbert Hovenkamp describes an argument made by the "Chicago school writers" that "in any multi-stage distribution chain there is but a single monopoly profit to be earned."\textsuperscript{107} Hence, according to these scholars, patent holders will be prevented from charging duplicative or excessive royalties at multiple stages as a product passes through the stream of commerce because the price of the patented product will be too high, and sales will be lost.\textsuperscript{108}

Other scholars have countered these arguments by pointing out that the market can fail to check double recovery in a world without patent exhaustion because purchasers of patented products may have insuffi-

\textsuperscript{102} United States v. Masonite Corp., 316 U.S. 265, 278 (1942).
\textsuperscript{103} Mitchell v. Hawley, 83 U.S. 544, 547 (1872).
\textsuperscript{104} Adams v. Burke, 84 U.S. 453, 456 (1873).
\textsuperscript{105} United States v. Univis Lens Co., 316 U.S. 241, 252 (1942).
\textsuperscript{106} Id.
\textsuperscript{108} Id. at 515.
cient notice of the patent rights that encumber their purchase. For example, a consumer may pay a market-determined price for a cell phone with the expectation that it is licensed to perform its intended core function of requesting and receiving content from content providers. Indeed, in the Helferich opinion itself, Helferich had obtained a royalty from cell phone manufacturers for all of its patents: compensation for the handset claims practiced by consumers and compensation for the content claims practiced by content providers. The market had determined a price for that intellectual property and this price had presumably been passed through to the consumer. But if patent holders can then charge an additional royalty to those very content providers for interacting with the device in this way, this royalty will also presumably be passed through to consumers in the higher expense of obtaining content for devices. This royalty has not been checked by the market price of the device because the consumer has had no notice of it. The device is now charged with the same royalty to the same intellectual property twice... unless the patent exhaustion doctrine solves the problem.

Hence, the policy against double recovery calls for a vigorous patent exhaustion doctrine to prevent supra-market compensation to the patent holder for the value of the patented invention. It is essential to the operation of the policy against double recovery that patent exhaustion adhere in the patented device and not only to protect particular defendants. This is because the doctrine prevents overcompensation that occurs when a patent holder charges a royalty on the same device for the same intellectual property as it passes through the stream of commerce. In the scenario described above, because the Federal Circuit decided in Helferich that patent exhaustion only excuses infringement by authorized acquirers, the patent holder was able to charge two royalties for the same intellectual property in the reception of content for mobile devices: one royalty to handset manufacturers and an additional royalty to content providers.

As properly framed, the exhaustion doctrine would prevent this double recovery because it operates on the patented device. Hence, as the Supreme Court stated in Univis Lens Co.:}

[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of

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110. Helferich II, 778 F.3d 1293, 1296 (Fed. Cir. 2015) ("Helferich licensed its portfolio to what, at least at one time, constituted most—we may assume all—of the manufacturers of mobile handsets for sale in the United States.").
112. Helferich II, 778 F.3d at 1301.
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 en-
joyment of the thing sold.113

The only way to ensure that multiple royalties are not charged for
the same intellectual property is for patent exhaustion to adhere in the
patented device and not as to particular classes of individuals.

B. The Policy Against Servitudes Supports Exhaustion Adhering in the
   Patented Device

An additional, related policy supporting patent exhaustion is the
traditional common law policy against servitudes running with personal
property. This policy holds that goods should pass through commerce
unencumbered by retained rights, easements, and servitudes that restrict
and tax further alienation and result in unnecessary notice and research.
costs.114 Patent exhaustion prevents servitudes in the form of retained
patent rights by exhausting all patent rights in an article that is sold or
licensed under the patent.115

The Supreme Court has consistently invoked the policy against per-
sonal property servitudes to support its decisions applying patent exhaus-
tion. In Motion Picture Patents Co. the Court found that the patent holder
had exhausted all rights in its patented film projectors because it could
not be allowed “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.”116 All rights
were exhausted by the sale of the projectors because “[t]he 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.”117

The Court was similarly animated by its abhorrence of personal
property servitudes in Straus v. Victor Talking Machine Co.118 The Court
held that the patent holder’s post-sale restriction attached to its patented
phonographs providing that they could only be used with the patent
holder’s products was insufficient to prevent patent exhaustion.119 The
Court’s reasoning was based almost entirely in the common law policy
against servitudes:

Courts would be perversely blind if they failed to look through such
an attempt as this “License Notice” thus plainly is to sell property for

114. Ernst, supra note 7, at 473–75.
115. Id.
117. Id.
118. 243 U.S. 490 (1917).
119. Id. at 500–01.
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.120

The Court enforced this policy by holding that all patent rights in the patented projectors were exhausted "after the plaintiff had been paid for them."121

Indeed, even in these modern times, courts cite to the policy against personal property servitudes in justifying exhaustion. The Supreme Court recently relied upon the policy in *Kirtsaeng v. John Wiley & Sons, Inc.*122 in holding that the authorized reproduction of a copyrighted book overseas exhausts all rights in that copy.123 The Court stated that its holding was supported by "the common law’s refusal to permit restraints on the alienation of chattels."124 The Federal Circuit recently extended this policy to the realm of patent exhaustion in holding that giving away a patented product for no consideration triggers patent exhaustion.125 The court discussed the Supreme Court’s reliance on the policy against personal property servitudes and then stated that, absent patent exhaustion, "consumers’ reasonable expectations regarding their private property would be significantly eroded."126

Hence, the common law policy against servitudes running with personal property is a major policy animating the exhaustion doctrine. Professor Hovenkamp has observed that in antitrust opinions, the Supreme Court has rejected reliance on the policy against servitudes because it "reflected "‘formalistic line drawing’ rather than ‘demonstrable economic effect.’"127 However, in the realm of intellectual property, the policy against servitudes continues to have significant justifications. Professor Molly Shaffer Van Houweling has identified three ways in which personal property servitudes are harmful even in the absence of the anticompetitive effects that are the target of the antitrust laws.

First, personal property servitudes impose notice and information costs on patented goods as they pass through commerce.128 At every stage, persons who acquire or interact with the patented device must either expend resources to determine what patent restrictions remain in the device or be subject to infringement liability. For example, under the rule of the *Helferich* opinion, content providers seeking to transmit content to a device owned by an end user must investigate whether the device re-

120. *Id.*
121. *Id.* at 501.
122. 133 S. Ct. 1351 (2013).
123. *Id.* at 1363.
124. *Id.*
126. *Id.* at 1377.
tains patent restrictions to prevent such broadcasting, even though the device has been the subject of a first sale.\footnote{See Helferich II, 778 F.3d 1293, 1301–03 (Fed Cir. 2015) (holding that the authorized first sale of cell phones did not exhaust claims against content providers on the basis that they were not “authorized acquirers” of the device).}

Second, personal property servitudes may result in “underuse or inefficient use of the resources subject to the restriction.”\footnote{Van Houweling, supra note 111, at 939.} For example, if content providers must pay an additional royalty to patent holders for broadcasting content to devices that are already fully licensed under the patents, it may result in less content being broadcasted or content being broadcasted at a higher price.

Third, personal property servitudes can “waive public-regarding limitations built into intellectual property law.”\footnote{Id. at 946.} By defining the exclusive right and the patent term, Congress has struck a balance between encouraging innovation and allowing the public to incur the harm of a limited monopoly. Once the patent holder receives its market-determined compensation for the invention, allowing the patent holder to use contractual devices to obtain additional compensation from subsequent parties thwarts this balance.\footnote{Id. at 939.} This justification for the policy against servitudes intersects that theory with the theory against double recovery and the domain theory described below.

Hence, the common law policy against servitudes running with personal property is a policy that animates patent exhaustion, both in Supreme Court precedent and among scholars. Plainly, this policy requires that patent exhaustion adhere in the patented article that has been sold or licensed and not as to particular persons. The policy requires that once an article has been sold for full price, there can be no further restraints upon its use and alienation.\footnote{Straus v. Victor Talking Mach. Co., 243 U.S. 490, 500–01 (1917).} Further patent restraints on the use or resale of the device result in “inconvenience and annoyance to the public.”\footnote{Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 667 (1895).} For example, once a cell phone is sold for full compensation and licensed under patents related to its core function of receiving content, further patent-based restraints on the device’s ability to receive content from particular providers represents a servitude running with personal property in violation of the common law policy against such servitudes. Full effectuation of the policy against servitudes requires that the sold or licensed item be free from claims of infringement as to all parties that come to interact with the device.
C. The Domain Theory Supports Patent Exhaustion Adhering in the Patented Device

The third policy supporting the exhaustion doctrine that scholars have recently written about is what may be called domain theory. Under this theory, patent exhaustion serves to limit the scope of the Patent Act so that it does not interfere with generally applicable commercial law, specifically contract law and antitrust law. Patent rights are exhausted to allow the contract law policies related to such things as privity of contract and unconscionability to be enforced. Patent rights are exhausted to prevent the Patent Act from interfering with antitrust law's maintenance of free competition.

The domain theory of patent exhaustion, like the other two theories discussed above, has long been a theme relied upon by the Supreme Court in finding patent exhaustion. The Court found patent exhaustion in Bloomer because after the sale of a patented machine, the machine was "not protected by the laws of the United States, but by the laws of the State in which it is situated. Contracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction." Hence, if there were any restriction on the ability of the owners of the machines to use the machines for their intended purpose, such restrictions would have to be consistent with the law of contracts.

The Court used patent exhaustion to police the domain of the Patent Act again in Keeler. In finding that there was no cause of action for infringement based on the resale of beds in Massachusetts that had been lawfully purchased in Michigan, the Court made clear that it was avoiding treading into the territory of contract law:

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.

The law of contracts would likely not have provided a remedy for the plaintiff in Keeler either, because the defendant was not a party to the contract prohibiting the sale of the beds in Massachusetts. In this way, the Court's use of patent exhaustion to place a limitation on the domain of the Patent Act prevents the federal law from interfering with the common law policies surrounding privity of contract.

The current Supreme Court is similarly conscious of the need to apply patent exhaustion in a way that permits the policies of contract law to

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135. Duffy & Hynes, supra note 42, at 1–6.
137. Keeler, 157 U.S. at 666.
138. Id. at 661–62.
be effected free from the interference of the Patent Act. In *Quanta*, the Court took pains to note that its ruling that patent exhaustion precluded a claim for infringement "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."\(^{139}\) The Court’s drawing of boundaries between the Patent Act and the general commercial law allows for the enforcement of restrictions imposed by the law of contracts that may not be reflected in the Patent Act—in particular, the restriction requiring privity of contract. Hence, the Court wrote in *Motion Picture Patents Co.* of the need to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract, which, however, are subject to the rules of general, as distinguished from those of the patent, law.\(^{140}\)

The Court has also used patent exhaustion to prevent patent law from interfering with antitrust law and policy. In *Boston Store of Chicago v. American Graphophone Co.*,\(^{141}\) the Court held that the patent holder’s post-sale restrictions on price were ineffective to prevent patent exhaustion in part because a contrary conclusion would interfere with the policies of antitrust law:

[T]here can be no doubt that the alleged price-fixing contract disclosed in the certificate was contrary to the general law and void. There can be equally no doubt that the power to make it in derogation of the general law was not within the monopoly conferred by the patent law and that the attempt to enforce its apparent obligations under the guise of a patent infringement was not embraced within the remedies given for the protection of the rights which the patent law conferred.\(^{142}\)

Hence, patent exhaustion occurred because the sale of the patented machine "placed the machine so sold beyond the confines of the patent law."\(^{143}\) And beyond the confines of patent law lies antitrust law, under which the price restrictions were unenforceable based on the policies of that body of law.

The Court used patent exhaustion to avoid interference by the Patent Act with the domain of antitrust law again in *Ethyl Gasoline Corp. v. United States.*\(^{144}\) After finding patent exhaustion rendered unenforceable

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141. 246 U.S. 8 (1918).
142. *Id.* at 25.
143. *Id.*
144. 309 U.S. 436 (1940).
post-sale restraints on the price of patented fuel additives, the Court held that "[s]uch contracts or combinations which are used to obstruct the free and natural flow in the channels of interstate commerce of trade even in a patented article, after it is sold by the patentee or his licensee, are a violation of the Sherman Act."\footnote{\textit{Id.} at 458.}

Hence, patent exhaustion liberates a patented product from regulation under the Patent Act and allows the generally applicable law of contracts and antitrust to govern whether further restraints on the product are enforceable. This domain theory of patent exhaustion is consistent with the other two policies of patent exhaustion, not opposed to those theories. By preventing the Patent Act from interfering with general commercial law, patent exhaustion preserves the common law’s policy against servitudes running with personal property. By preventing the duplicative collection of royalties for the use of patented products, patent exhaustion allows for the availability of this double recovery to be determined by the general law of contracts, including the rule requiring privity of contract.

The domain theory of patent exhaustion, like the other theories discussed above, requires exhaustion to adhere in the patented article, and not to protect only particular classes of defendants. Such an understanding of patent exhaustion has always been central to an articulation of domain theory. Once a patented article is sold or licensed, "it is no longer within the limits of the [patent] monopoly. It passes outside of it, and is no longer under the protection of the act of Congress."\footnote{\textit{Bloomer v. McQuewan}, 55 U.S. 539, 549 (1852).} This passage of the accused product outside of the domain of the Patent Act is what allows other areas of generally applicable commercial law to govern further use of the article.

\textbf{IV. CONCLUSION}

The doctrine of patent exhaustion provides that once a patented product is sold or licensed, patent rights in that article are exhausted, such that patent holders cannot pursue the article down the stream of commerce to obtain double recovery, place further restraints on alienation, or otherwise use the Patent Act to interfere with generally applicable commercial law. In order to effectuate these policies, patent exhaustion must be conceived as adhering in the patented product, and not applying only to protect particular classes of defendants who interact with the patented product. Patent exhaustion must liberate the patented product, and not just people, so that it may navigate the stream of commerce free and clear of the patent thicket.