

THE VALIDITY OF CONDITIONAL SALES: COMPETING  
VIEWS OF PATENT EXHAUSTION IN  
*Quanta Computer, Inc. v. LG Electronics, Inc.*,  
128 S. Ct. 2109 (2008)

The doctrine of patent exhaustion limits the ability of a patentee to control the disposition of a patented article after the item is sold. In some instances, however, patentees may contract with buyers in order to exercise downstream control of patented items. When and to what extent patentees may use contract law to limit patent exhaustion, generally through restrictive licenses or conditions at the time of sale,<sup>1</sup> remains an open question.<sup>2</sup> The Supreme Court has not articulated a bright-line test for determining when the transfer<sup>3</sup> of an item from a patentee triggers the doctrine of patent exhaustion. Last Term, in *Quanta Computer, Inc. v. LG Electronics, Inc.*,<sup>4</sup> the Supreme Court unanimously reaffirmed that an unrestricted sale of a patented good triggers patent exhaustion. The Court's decision, however, does not squarely address the underlying question of whether a patentee may impose restrictions or conditions through licenses or other notice at the time of sale. By declining to address this issue directly, the Court left open at

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1. An example of such a condition is a notice affixed to the patented article stating "single use only." Such conditions are discussed in coordination with license restrictions because the condition, as one of the terms of the sale, can be understood as a contract.

2. The distinction between licensing and sales is important because in most cases patent remedies are more extensive than contract remedies. Thus, although it is clear that a patentee can likely contract with a buyer to control how the buyer uses the article (within the applicable contract law limitations), the remedy for breach will generally be capped at expectation damages. On the other hand, if the patentee can structure the sale or define a license in such a manner that the same action also makes the buyer liable for patent infringement, the patentee can seek the full range of patent remedies, including treble damages and attorney's fees for cases of willful infringement. For a discussion of patent remedies, see generally ROBERT P. MERGES & JOHN F. DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIALS* 933, 1029 (4th ed. 2007).

3. Here and throughout this Comment, "transfer" is used to refer both to unconditional sales of goods and to conditional sales or transfers of possession subject to a restrictive license.

4. 128 S. Ct. 2109 (2008).

least two potentially competing interpretations of how the exhaustion doctrine should deal with restrictions or conditions. As a result, lower courts have insufficient guidance to apply the Court's holding consistently and correctly.

LG Electronics (LG) owns a number of computer technology patents, three of which were at issue in *Quanta*.<sup>5</sup> Simply stated, these patents deal with technology and processes for transferring information to and from random access memory (RAM).<sup>6</sup> LG licensed the patents to Intel, authorizing Intel to manufacture and sell processors and chipsets that used the LG-patented technology.<sup>7</sup> Specifically, the LG-Intel License Agreement authorized Intel to "make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of" Intel products that practiced the licensed patents.<sup>8</sup> The License Agreement went on to limit the scope of the license with respect to third parties, stating that no license may be

granted by either party hereto . . . to any third party for the combination by a third party of Licensed Products of either party with items, components, or the like acquired . . . from sources other than a party hereto, or for the use, import, offer for sale or sale of such combination.<sup>9</sup>

Finally, the License Agreement stated that "[n]otwithstanding anything to the contrary contained in this Agreement, the parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products."<sup>10</sup>

In a separate agreement between LG and Intel (the Master Agreement), Intel agreed to notify its customers that Intel's license to sell the LG technology did "not extend, expressly or by implication, to any product that you make by combining an Intel product with any non-Intel product."<sup>11</sup> Intel sold components of the LG-patented systems to, among others, Quanta

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5. *Id.* at 2113.

6. *See id.* at 2113–14.

7. *Id.* at 2114.

8. *Id.* (internal citations omitted).

9. *Id.* (alterations in original) (internal citations omitted).

10. *Id.* (internal citations omitted).

11. *Id.* (internal citations omitted).

Computers.<sup>12</sup> Although Quanta received the notice specified in the Master Agreement, it manufactured computers combining Intel parts and non-Intel parts in a way that practiced the LG patents.<sup>13</sup> LG then sued Quanta for patent infringement.<sup>14</sup>

The district court granted summary judgment to Quanta, finding that the components in question, although not fully practicing the patents at the time of sale, sufficiently embodied the patents to trigger patent exhaustion.<sup>15</sup> In a later ruling clarifying its original summary judgment order, however, the district court ruled that patent exhaustion does not apply to method claims (that is, claims covering processes rather than devices).<sup>16</sup> Because each of the patents in question contained at least one method claim, the district court reasoned, the defense of patent exhaustion did not apply.<sup>17</sup>

The Court of Appeals for the Federal Circuit affirmed in part and reversed in part.<sup>18</sup> As to the method claims argument, the Federal Circuit agreed that patent exhaustion did not apply.<sup>19</sup> However, the Federal Circuit disagreed with the district court's conclusion that exhaustion applied to the other claims at issue.<sup>20</sup> The court reasoned that because the License Agreement did not authorize Intel to sell the products in question for use in combination, and because there had been no authorized, unrestricted sale of the goods, patent exhaustion did not apply.<sup>21</sup>

The Supreme Court reversed.<sup>22</sup> Writing for a unanimous Court, Justice Thomas held that the sale of the components by Intel did trigger the doctrine of patent exhaustion and that method claims are subject to patent exhaustion.<sup>23</sup> He employed

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12. *Id.* Though there were a number of petitioners in the case, the Court referred to them collectively by the first named party, Quanta.

13. *Id.*

14. *Id.*

15. *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 USPQ 2d 1589, 1589-1600 (N.D. Cal. 2002).

16. *LG Elecs., Inc. v. Asustek Computer, Inc.*, 248 F. Supp. 2d 912, 918 (N.D. Cal. 2003).

17. *Id.*

18. *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1381 (Fed. Cir. 2006).

19. *Id.* at 1370.

20. *Id.*

21. *Id.*

22. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct 2109, 2122 (2008).

23. *Id.* at 2113.

broad language to describe patent exhaustion, beginning with his opening statement: “For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item.”<sup>24</sup> Similarly, he noted 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.”<sup>25</sup> Applying the doctrine to the present facts, Justice Thomas determined that the LG-Intel License “authorize[d] the sale of components that substantially embody the patents in suit, [and therefore] the sale exhausted the patents.”<sup>26</sup>

In reaching his holding, Justice Thomas first recited the language of the License Agreement between Intel and LG. He characterized the language of the license as “broad”<sup>27</sup> but also noted the apparent limitation of the License Agreement and notice provision contained in the Master Agreement.<sup>28</sup> Justice Thomas then briefly reviewed the history of patent exhaustion, noting only one “short lived” instance, subsequently overruled, when the Court permitted “post-sale restrictions on the use of a patented article.”<sup>29</sup>

Justice Thomas then turned to *United States v. Univis Lens Co.*,<sup>30</sup> the Supreme Court’s most recent discussion of patent exhaustion. The patents at issue in *Univis Lens* covered certain types of lenses for use in eyeglasses.<sup>31</sup> The patent holder, Univis, attempted to set up a system whereby it sold unfinished blanks for the lenses to wholesale outlets, and the lenses subsequently were finished in stages and sold down the chain

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24. *Id.* This Comment does not delve into the arguments made by the lower courts concerning the applicability of patent exhaustion to method claims. It is sufficient to point out here that the Supreme Court disposed of this issue briefly, noting that if patent exhaustion did not apply to method claims, “[p]atentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus.” *Id.* at 2117. The Court described such a rule as an “end-run around exhaustion.” *Id.* at 2118.

25. *Id.* at 2115.

26. *Id.* at 2113.

27. *Id.* at 2114.

28. *See id.*

29. *See id.* at 2115–16 (discussing the holding and aftermath of *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912)).

30. 316 U.S. 241 (1942).

31. *Id.* at 244.

to wholesale and retail outlets then on to consumers.<sup>32</sup> Univis attempted to extract a license fee at each level of this chain of distribution.<sup>33</sup> Although the product did not fully practice the patent until the blanks were ground and the product finished,<sup>34</sup> the Court determined that the blanks “embodie[d the] essential features” of the patent because the blanks’ “only use” was to practice the underlying patent.<sup>35</sup> The *Univis Lens* Court therefore held that the sale of the lens blanks exhausted the patent holder’s right to collect further royalties.<sup>36</sup>

Holding for Quanta, the Court found *Univis Lens* controlling.<sup>37</sup> As in *Univis Lens*, the only reasonable and intended use of the components sold by Intel under the license agreement was to practice the underlying LG patents.<sup>38</sup> Accordingly, the Court found that the sale of the components triggered the exhaustion of the combination patents that those components embodied.

Finally, the Court noted that only authorized sales trigger patent exhaustion.<sup>39</sup> Analyzing the License Agreement, the Court reasoned that “[n]othing in the License Agreement restricts Intel’s right to sell [the components] to purchasers who intend to combine them with non-Intel parts” and that the agreement “broadly permits Intel to make, use, [or] sell” the patented products.<sup>40</sup> As to the notice requirement in the Master

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32. *Id.* at 243–46.

33. *See id.* at 244–45.

34. *Id.* at 248.

35. *Id.* at 249.

36. *Id.* at 250–51.

37. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2119 (2008).

38. *See id.* at 2120. As in *Univis Lens*, the LG patents covered the finished product. Though Intel was only selling components of the combination patents, the Court found that these components “all but completely practice[d] the patent.” *Id.* Wary of attempts to avoid patent exhaustion, the Court noted that triggering exhaustion only when the item sold completely practiced the patent would allow patentees to “extend their rights through each downstream purchaser” by selling items that lack only some minor step in the process. *Id.* at 2118.

39. *Id.* at 2121.

40. *Id.* (final alteration in original) (internal quotation marks omitted). Although Intel and LG apparently both understood the agreement to limit how individual components could be used, it appears that they both contemplated the components would be sold individually. Though the Court was not clear on this point, it appears that for this reason the Court was willing to discount the language of the License Agreement which stated that no license was granted “to any third party for the combination by a third party . . . [with] components, or the like acquired . . . from sources other than a party hereto.” *Id.* at 2114 (second alteration in original).

Agreement, the Court found that, although Intel had agreed to give such notice, Intel's authority to sell the components was not conditioned on compliance with the notice provision.<sup>41</sup> Because the components substantially embodied the patents at issue and the patentee authorized the sale of those components, patent exhaustion precluded a finding of infringement against Quanta.

Notwithstanding the Court's broad explanation of the applicability of patent exhaustion, the decision explicitly noted that "[e]xhaustion is triggered only by a sale authorized by the patent holder."<sup>42</sup> The issue the Court did not address in *Quanta* is what exactly constitutes an authorized sale. This is particularly problematic in understanding the current state of the law for two reasons: first, because there appears to be some tension between *Quanta* and *General Talking Pictures Corp. v. Western Electric Co.*,<sup>43</sup> and second, because the Federal Circuit explicitly relied on the concept of restricted or conditional sales in finding for LG in the decision below. Although the Supreme Court overturned the Federal Circuit's holding, the Court did not explain how it reached a different factual conclusion than the lower court about whether the sale was restricted.

As a result, the Court's holding appears consistent with at least two potentially contradictory approaches to patent exhaustion and conditional sales. On one hand, the decision suggests that the set of circumstances in which a patentee can enforce post-sale conditions through patent law is very narrow. On the other hand, the Court may be tacitly endorsing, or at least tolerating, the reasonableness approach employed by the Federal Circuit to determine when conditions of sale may limit the reach of patent exhaustion. Separate analyses of these competing approaches illustrate the ambiguity that confuses application of *Quanta* to conditional sales.

*Option 1: A Broad View of Patent Exhaustion,  
Limiting Conditional or Restricted Sales*

*Quanta* may be understood as standing for a broad interpretation of patent exhaustion. As already noted, the opinion

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41. *See id.* at 2122. The Court did note that there was no allegation of breach of contract, but if there were, LG may have been entitled to contract damages even though exhaustion precludes patent damages. *See id.* at 2122 n.7.

42. *Id.* at 2121.

43. 304 U.S. 175 (1938).

employed broad language when describing the doctrine; the dicta of the decision appear to curtail the ability of a patentee to impose post-sale restrictions on patented goods. Although the Court clearly conceded that “[e]xhaustion is triggered only by . . . authorized” sales,<sup>44</sup> it affirmed equally clearly that “the initial authorized sale of a patented item terminates *all* patent rights to that item.”<sup>45</sup> Thus, under this understanding of the opinion, any sale authorized by the patentee will trigger exhaustion.

Indeed, some have interpreted *Quanta* in exactly this way: as a decision broadly supporting the rights of purchasers and limiting the ability of the patentee to control the downstream disposition of goods.<sup>46</sup> Both the language employed in the opinion and the outcome of the decision support this interpretation. Taken alone, Intel and LG’s notice to purchasers was not enough to condition the sale, nor was the license restriction sufficient to make it unauthorized. Thus, the *Quanta* decision strengthens the doctrine of patent exhaustion by requiring a patentee to do more than Intel and LG did here to make a sale unauthorized.

Nevertheless, the Court did not hold that all sales of patented goods trigger patent exhaustion, and even cited *General Talking Pictures* as an instance in which an unauthorized sale did not trigger patent exhaustion.<sup>47</sup> There, the patentee contracted with another party to manufacture and sell amplifiers and speakers for home use.<sup>48</sup> The license expressly prohibited sales for commercial use; nevertheless, the licensee sold patented products to commercial entities.<sup>49</sup> The Court found that, because the sale of the item by the licensee was outside the scope of the license, the sale was unauthorized, and therefore patent exhaustion did not apply.<sup>50</sup> The Court distinguished the facts in *Quanta* from those in *General Talking Pictures*, however; whereas in *General Talking Pictures* the licensee was not author-

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44. *Quanta*, 128 S. Ct. at 2121.

45. *Id.* at 2115 (emphasis added).

46. See, e.g., Posting of Fred von Lohmann to Deeplinks Blog, <http://www.eff.org/deeplinks/2008/06/supreme-court-victory-patent-first-sale-doctrine> (June 9, 2008) (describing the case as “a victory for the principle of ‘you bought it, you own it,’” but also noting the narrowness of the decision).

47. *Quanta*, 128 S. Ct. at 2121.

48. *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. at 179.

49. *Id.* at 179–80.

50. *Id.* at 180–81.

ized to sell the product to the buyers at issue in the case, in *Quanta* Intel's license was sufficiently broad that Intel did have such authority.<sup>51</sup> Patent exhaustion applied because the licensee was authorized by the patent holder to sell the product.

Even relying on this formal distinction between *Quanta* and *General Talking Pictures*, a broad reading of the Court's opinion in *Quanta* severely limits the scope of *General Talking Pictures*. Though the Court discounted the limiting language of the License Agreement,<sup>52</sup> that agreement reflected an attempt by LG and Intel to limit the scope of the license. In the end, even though LG attempted to limit the breadth of the license, its effort falls somewhat short of the *General Talking Pictures* standard.<sup>53</sup> Under this reading of the decision, *Quanta* limits the reach of *General Talking Pictures*, and perhaps even confines *General Talking Pictures* to its specific facts.<sup>54</sup>

Further, this first reading of *Quanta* effectively overrules the Federal Circuit's decision in *Mallinckrodt v. Medipart*.<sup>55</sup> Though the Supreme Court never mentioned *Mallinckrodt* in *Quanta*, the Federal Circuit relied on *Mallinckrodt* in finding for LG in the decision below. In that case, *Mallinckrodt*, the patentee, marked certain pieces of patented medical equipment as limited to "Single Use Only."<sup>56</sup> Medipart began refurbishing and reselling the

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51. *Quanta*, 128 S. Ct. at 2121–22.

52. See *supra* note 40 and accompanying text.

53. Because the Court did not overrule *General Talking Pictures*, one assumes there could be a set of facts close enough to those in *General Talking Pictures* to warrant analysis under that opinion. Although the Court did not explain a specific "standard" to reach such an analysis, it appears that in the future a patentee must do more (or draft better) than LG did in this case.

54. The Court did not indicate in its opinion that it intended to confine *General Talking Pictures*. Yet there is sufficient tension between *General Talking Pictures* and *Quanta* to require either a narrow view of *General Talking Pictures* or some standard or rule for determining which of the two cases controls in restricted sales cases. These two options correspond to the two interpretations of *Quanta* described in this Comment: a broad view of patent exhaustion on the one hand and a Rule-of-Reason-type analysis on the other (discussed further below). In other words, another way to understand the ambiguity in the *Quanta* opinion (and therefore the two competing analyses) is in terms of how to deal with *General Talking Pictures*. Such an understanding brings the ambiguity of *Quanta* into sharp relief. That is, the Court declined to address the question of what constitutes a restricted sale, yet it cited a valid restricted sale (in *General Talking Pictures*) in the course of invalidating a restricted sale (in *Quanta*) without discussing what actually distinguishes the two cases.

55. 976 F.2d 700 (Fed. Cir. 1992).

56. *Id.* at 702.

used items.<sup>57</sup> The Federal Circuit ruled that Medipart may be held liable for patent infringement, reasoning that the initial sale was conditional and that patent exhaustion did not apply to the extent that the conditions of the sale were violated.<sup>58</sup> Under the first understanding of *Quanta*, the sale in *Mallinckrodt*, though limited by a clear condition, probably would have triggered patent exhaustion as an authorized sale. Indeed, if the limitation language of the License Agreement and the provision for notice of downstream purchasers under the Master Agreement in *Quanta* were insufficient to make the sale of the parts unauthorized for a particular use, merely stamping “Single Use Only” on a part is even less sufficient to achieve that end. Thus, although the Supreme Court never mentioned *Mallinckrodt*, this interpretation of *Quanta* suggests the Court would not approve of that decision.

At first glance, this interpretation is the most natural reading of the *Quanta* opinion. The Court very clearly stated—if only in dicta—that it intended to give patent exhaustion a broad reach. Intel and LG’s attempt to restrict the sale, though arguably extensive, was insufficient to overcome this robust version of the doctrine. Nevertheless, the Court’s opinion is not perfectly consistent with this understanding. First, it requires limiting the holding of *General Talking Pictures* even though the Justices gave no explicit indication they intended such a result. Further, if the Court meant to overrule *Mallinckrodt*, it is unclear why it did not do so explicitly. Thus, although the language of the decision strongly favors a broad interpretation of patent exhaustion at first glance, the Court’s opinion does not entirely support that result.

*Option 2: Recognizing the Patent Exhaustion  
Trigger as a Reasonableness Inquiry*

Notwithstanding the support for the first interpretation of the case, the Court stopped somewhat short of giving the patent exhaustion doctrine its maximum scope. That the Court neither overruled *General Talking Pictures* nor so much as mentioned *Mallinckrodt*—even though it was integral to the decision in the Federal Circuit—suggests the Court may be wary of adopting too rigid a standard for triggering patent exhaustion. Under this interpretation, the Court in *Quanta* can be seen as tacitly endors-

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57. *See id.*

58. *See id.* at 708–09.

ing, or at least reserving judgment on, the type of reasonableness approach employed by the Federal Circuit in *Quanta* for determining what conduct will trigger patent exhaustion.

The Court formally distinguished *General Talking Pictures* from *Quanta* on the ground that the licenses were different: Intel had authority under the license to sell whereas the licensee in *General Talking Pictures* did not.<sup>59</sup> Although the licenses are not identical and are therefore distinguishable, the Court did not address the next logical issue: what language, if any, LG possibly should or could have employed in the License Agreement that would have limited to LG's satisfaction Intel's authority to resell.<sup>60</sup> In light of the Court's condemnation of LG's attempt to achieve multiple royalties on one invention, one doubts that the outcome would have been different had LG simply altered the wording of the license agreement.

Consistent with the language of the opinion, one can understand *Quanta* as a case where the Court was simply unwilling to let the patentee overextend its monopoly rights. So viewed, LG, like *Univis* before it, simply attempted to use its patent monopoly to extract royalties at numerous points along the downstream path of its patented items. *Quanta* could be seen, then, as one of a set of decisions that tacitly endorses a reasonableness approach to patent exhaustion. Under such an approach, the trigger for exhaustion hinges on whether the behavior at issue tends to extend the patent monopoly unreasonably.

Although earlier Supreme Court decisions do not explicitly state that such a reasonableness test exists, existing precedent is consistent with this approach. Many of the earlier patent exhaustion cases the Court cited in *Quanta* involved conduct that can be seen as attempting to extend the patentee's monopoly. One such example is *Univis Lens*, discussed above.<sup>61</sup> Another example is *Universal Film*, a case cited by the Court in which the patentee attempted to use a license to require purchaser-licensees of a patented projector to use a particular type of un-

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59. See *supra* note 51.

60. Chief Justice Roberts raised this point at oral argument, questioning the advocate as to whether the case turned on poor contract drafting or if more was at issue. Transcript of Oral Argument at 5–6, *Quanta Comp., Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937).

61. See *supra* text accompanying notes 30–36.

patented film.<sup>62</sup> The Court held that this attempted tie-in arrangement overextended the rights of the patentee because it was an attempt to use “patents to secure market control of related, unpatented items.”<sup>63</sup>

Further support for this reading of *Quanta* comes from the Supreme Court’s failure to mention *Mallinckrodt* in its *Quanta* opinion. As mentioned above, the Court was certainly aware of *Mallinckrodt*, given its importance to the Federal Circuit’s holding. *Mallinckrodt* employed a reasonableness standard in reaching its decision,<sup>64</sup> and the Federal Circuit, in deciding the case that became *Quanta*, cited *Mallinckrodt* and its progeny to apply a reasonableness test.<sup>65</sup> Reviewing much of the same precedent as the Court did in *Quanta*, the Federal Circuit in *Mallinckrodt* concluded that the proper way to evaluate conditions on the sale of an item is to determine “whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.”<sup>66</sup> The Court’s failure to address *Mallinckrodt* in *Quanta* may indicate either that the Court tacitly agrees with this reasonableness analysis or, at least, that it is not willing to condemn such an analysis in all situations.

Of course, it may be that the Court did not mention *Mallinckrodt* simply because it did not reach the issue. That is, in *Quanta* the Supreme Court may have merely interpreted the sale and licensing contracts, found the sale to Intel unrestricted and Intel’s resale authorized, and applied classic patent exhaustion doctrine. The Court did not have to reach the question of which

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62. See *Quanta*, 128 S. Ct. at 2116 (citing *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917)).

63. *Id.* at 2115–16 (also discussing *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1853), as another example of the application of patent exhaustion resolving an attempt by a patentee to extend the patent monopoly).

64. *Mallinckrodt v. Medipart*, 976 F.2d 700, 708 (Fed. Cir. 1992) (“The appropriate criterion is whether *Mallinckrodt*’s restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.”).

65. See *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (citing *Mallinckrodt* and *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997)).

66. *Mallinckrodt*, 976 F.2d at 708. The court concluded that contract law allows a patentee to condition a sale unless such conditions violate some other law or policy—in this case patent misuse or antitrust. The court therefore borrowed from antitrust jurisprudence to use the Rule of Reason as the standard for determining whether a condition of sale is allowable. *Id.*

conditions on sale could validly limit the scope of patent exhaustion because it found no conditions in the contract at issue. Even so, in not reaching the question, the Court's opinion in *Quanta* does not prohibit future courts from analyzing cases according to a reasonableness standard.<sup>67</sup>

The obvious problem with this second interpretation is that the Court never specifically mentioned or endorsed a reasonableness test. While this criticism is valid, some form of a reasonableness inquiry may still be implicit in the Court's decision. The Court was clear that, although LG's sale of the components was authorized, the sale at issue in *General Talking Pictures* was not. Although the Court did not articulate a test for determining when a sale is authorized, the Court's reluctance to overturn *General Talking Pictures* suggests the possibility of valid conditions on sales and therefore implies that some test must exist to determine whether a sale is authorized.

#### CONCLUSION

In the end, both interpretations are vulnerable to criticism. The first analysis requires one to limit the scope of *General Talking Pictures*, yet the Court did not state any intention to overrule that decision or confine it to its facts. On the contrary, nothing in the Court's discussion of *General Talking Pictures* explicitly casts doubt on that opinion. Similarly, the second interpretation requires one to acknowledge a reasonableness test that the Court never mentioned or explained. Indeed, much of the language in the opinion cuts in favor of a broad reach for patent exhaustion (something close to a *per se* rule) and against a reasonableness inquiry.

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67. It should be noted that the *Quanta* decision was unanimous. It may well be that the Court is more divided on the further point of valid conditions on sale, making it all the more likely the Court would refrain from deciding the issue until it is necessary to a decision. This explanation for the outcome is even more appealing in light of Chief Justice Roberts's explicit goal to seek more unanimity by deciding cases narrowly. See e.g., James Taranto, *Getting to Yes*, WALL ST. J., July 1, 2006, at A11, available at <http://www.opinionjournal.com/extra/?id=110008593> ("Chief Justice John Roberts said he strives for 'unanimity or near unanimity' on the Supreme Court in order to 'promote clarity and guidance' to lawyers and lower courts. 'The broader the agreement among the justices, the more likely it is that the decision is on the narrowest possible ground.'").

Further complicating the picture, the two approaches outlined above are not mutually exclusive; indeed, the actual state of the law may be a hybrid of the two analyses. While the Court cannot at the same time simply endorse both a more stringent and more relaxed trigger for patent exhaustion, the Court may be generally endorsing a renewed stringency for patent exhaustion while leaving room to apply a reasonableness inquiry in certain circumstances. To put it differently, *Quanta* may endorse a broad scope for patent exhaustion but still explicitly recognize that not every transfer will trigger the doctrine. Unfortunately, the Court's reluctance to explain how *Quanta's* rule, whether it is a hybrid doctrine or not, should be applied in future cases involving restricted sales complicates the doctrine, leaving lower courts unsure of how to rule and patentees unsure of their rights relating to restricted sales. Whatever the Court's reason for not addressing it, the question of conditional sales will not be resolved until the Court revisits the issue.

At the core of this confusion is the question the Court declined to address: whether (or under what conditions) a patentee may impose restrictions or conditions on a sale such that breach by the buyer constitutes patent infringement. It is unclear why the Court avoided this issue. It may be that narrow grounds of decision were necessary to preserve unanimity or that the Court did not find these particular facts conducive to establishing a revised rule. Whatever the reason, the Court's avoidance of this central question leaves the doctrine somewhat ambiguous and subject to competing interpretations that will likely mark the boundaries of a future legal battlefield.

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