The Damaging Myth of Patent Exhaustion

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Abstract

Patent exhaustion enjoys a reputation as a well-established doctrine of “over 160 years” with a further “impeccable historic pedigree” reaching back to Lord Coke’s seventeenth century property writings. The doctrine allows purchasers of patented goods to use those items according to common expectations without obtaining a further license. Its impact is both widespread and hotly debated in our technology-based economy where innovative product distribution models are constantly introduced. But the doctrine’s historical reputation is not well deserved. In fact, the modern account of the doctrine’s origin is both thin and demonstrably wrong—it is based on selective quotes from Coke’s annotation of a real property treatise and Chief Justice Taney’s dicta from a mid-nineteenth century opinion, both of which are taken out of context and do not support any sweeping rule of exhaustion.

The Supreme Court’s recent embrace of that modern account is not merely bad history; it also misses the serious implications that the revisionist history could have for central contract and property law mechanisms, including conditions precedent and subsequent. Either patentees have powerful work-arounds for a purported bright line exhaustion rule through the contractual clauses that maintain reversionary interests, or the common law of property and contract have suffered serious collateral damage in service of a historical myth. This Article introduces extensive original research on the history both of the rule against restraints on alienation of property and of “patent exhaustion” to argue that—contrary to the dominant modern account—certain restrictions on the use of purchased (patented) goods based on conditional transfers of property title have been carefully preserved by courts.

Introduction

In *Impression Products, Inc. v. Lexmark International, Inc.*, Chief Justice Roberts confidently asserted that “[f]or over 160 years, the doctrine of patent exhaustion has imposed a limit on [the patentee's] right to exclude."[1] Patent exhaustion, and its cousin, copyright first sale, limit the intellectual property ("IP") based avenues for producers to limit what customers do with purchased goods. So, while the sellers of patented printer ink cartridges or copyrighted movies on DVD can limit what you do with these items by *contract*, they cannot base these conditions on IP, or use property remedies such as injunctions or enhanced damages normally available for IP infringement.

Roberts' assertion was based on a canonical citation to Chief Justice Taney's 1853 opinion in *Bloomer v. McQuewan*.[2] But Roberts also dipped back another 200 years, quoting Justice Breyer's favorite reference to an alleged common law rule against "restraints on the alienation of chattels" of "impeccable historic pedigree."[3] This "rule" has been traced to Lord Coke's 1628 *Institutes of the Laws of England*.[4] However, these claimed origins of both the rule against restraints and the doctrine of patent exhaustion do not withstand close scrutiny.

This Article is not the first historical critique of these claimed origins. Judge Taranto, writing the Federal Circuit's decision in *Impression Products*, gave a trenchant analysis of how neither Coke's single quote should be taken as dispositive, given the intervening IP statutes enacted on both sides of the Atlantic, nor should the cited American cases be interpreted as overruling properly drafted conditional sales.[5] John Duffy and Richard Hynes placed *Bloomer* and subsequent "exhaustion" cases into the context of installment sale commercial arrangements (conditions precedent), while noting that the quoted Coke section, together with that immediately succeeding it, made clear that Coke was addressing only unconditional conveyances.[6] This was simply a logical inference for Coke: if *all* rights, title, and interest have been transferred unconditionally, then a grantor can hardly claim to have retained some rights to the property. H. Tomás Gómez-Arostegui, who has done extensive primary source research in England writes that "No case reported in print directly adopted [exhaustion] doctrine, nor have I found any manuscript case report expressly recognizing as much."[7] Adam Mossoff argued that the crucial lines in *Bloomer* were dicta and insightfully placed them into the context of the Chief Justice's Jacksonian

1 137 S. Ct. 1523, 1531 (2017).

2 55 U.S. (14 How.) 539, 549 (1853).

3 137 S. Ct. 1523 at 1536 (quoting Kirtsaeng v. John Wiley & Sons, Inc., 568 U.S. 519, 538 (2013)).

4 EDWARD COKE, I INSTITUTES OF THE LAWS OF ENGLAND § 360 p. 223 (1628) [hereinafter INSTITUTES].

5 Lexmark International, Inc. v. Impression Products, Inc., 816 F.3d 721, 750–52 (Fed. Cir. 2016).

6 John Duffy and Richard Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 VA. L. REV. 1, 52 (2016).

7 H. Tomás Gómez-Arostegui, *Patent and Copyright Exhaustion in England circa 1800* 16 (working paper, Feb. 9, 2017) *available at* http://ssrn.com/abstract=2905847 (last visited Dec. 9, 2020). While he continues, "Nevertheless, the doctrine does appear to have been on the minds of litigants in a handful of copyright infringement suits" and suggests its absence in the case law ". . . is because it was uncontroversial," *id.* at 16-17, it is equally likely that it was simply not an established doctrine. Notably, Gómez-Arostegui finds some "references" to the doctrine in the cases, but these seem to be simply circumstances where there was no legal obstacle to a purchaser reselling books. Ultimately, he does not focus on critiquing or contextualizing either Coke's or Taney's quotes, but rather just restates them as the canonical quotes in the literature.

Democrat politics and judicial activism.[8] However, none of these commentators delved deeply into the contextual details of Taney's or Coke's quotes.

Further, Roberts' assurance that "Congress enacted and has repeatedly revised the Patent Act against the backdrop of the hostility towards restraints on alienation"[9] is classic lawyerly misdirection at best. Appearing to connect the dots by claiming this "enmity is reflected by the patent exhaustion doctrine" and "the patent laws," he fails to disclose that Congress has consistently *declined* to codify this purely judicial doctrine, even as it did so for copyright's first sale doctrine beginning with the Copyright Act of 1909.[10] Congress has had any number of opportunities and excuses to codify patent exhaustion including in particular the major overhauls of the Patent Act of 1870[11], the Patent Act of 1952[12] and the more recent America Invents Act.[13]

This Article draws on detailed original research of the interlocking sets of transactions and litigation in which *Bloomer* was just one piece to confirm that the case did not even involve sales of goods, but rather a nationwide patent license and assignment franchising system. Such innovative "patent farming" methods developed in an era before complex machinery could be manufactured and distributed in volume. Thus, *Bloomer* could not have held that patent rights were exhausted by the sale of physical goods—*because there was no sale of goods at issue*. In fact, the Supreme Court would not adopt key parts of the modern exhaustion doctrine in cases involving actual sales of goods until decades later: 1873 for a use right on purchased goods,[14] and 1895 for a right of resale.[15] Even then, these rulings were limited to *unconditional* transfers of all rights, title, and interest to a chattel.

While Roberts' opinion appears to reject all exceptions to exhaustion for sales of goods, it fails to consider the collateral damage such a categorical rule would inflict on longstanding real and personal property conveyance mechanisms. The common law rules for which lesser estates or restrictive conditions *are* permissible are complicated enough to warrant entire treatises—such as those written by Edward Littleton, upon which Coke's *Institutes* is a scholastic commentary, and Harvard Law professor John Chipman Gray in the late nineteenth century. Duffy and Hynes persuasively argue that conditions precedent must survive as a matter of commercial law. Beyond this, for our purposes, if a chattel is conveyed with a permissible

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8 Adam Mossoff, *Commercializing Property Rights in Inventions: Lessons for Modern Patent Theory from Classic Patent Doctrine*, in COMPETITION POLICY AND PATENT LAW UNDER UNCERTAINTY: REGULATING INNOVATION (eds. Geoffrey Manne and Joshua Wright, Cambridge Univ. Press 2011); Adam Mossoff, *Exclusion and Exclusive Use in Patent Law*, 22 HARVARD. J.L. TECH. 321, 341 (2009); Adam Mossoff, *A Simple Conveyance Rule for Complex Innovation* 44 TULSA L. REV. 707, 718–719 (2009).

9 *Lexmark*, *supra* note 5, at 1532.

10 Copyright Act of 1909, § 41, Pub. L. No. 60–349, 35 Stat. 1075 (Mar. 4, 1909) (restated as Section 109(a) of the Copyright Act of 1976, Pub. L. No. 94–593, 90 Stat. 2541 (Oct. 19, 1976)).

11 Patent Act of 1870, 16 Stat. 198 (Jul. 8, 1870).

12 Patent Act of 1952, Pub. L. No. 82–593, 66 Stat. 792 (Jul. 19, 1952).

13 America Invents Act, Pub. L. No. 112–29, 125 Stat. 341 (Sep. 16, 2011).

14 *See infra* Part V.

15 *See id*.

reversion right under which the occurrence of a future contingent condition would vest title back in the grantor, then to say that patent exhaustion allows the purchaser to use or alienate the good in any way they wish is misleading. It may be that *patent* rights cannot be the basis for such restraints. But the grantor still has *property*-based rights as a basis, including for injunctive relief. This undercuts the conventional wisdom that sellers can only impose *contract* remedies to restrain certain uses and alienation for a good sold in commerce.[16] Thus, restraints on alienation through condition subsequent conveyances can indeed "stick remora-like to that item as it flows through the market," and Roberts should have known better when tossing off this amusing metaphor.[17]

The real issue that Littleton, Coke, and Gray were variously addressing was *abuse* of conditional conveyances. In particular, lesser estates and restrictive conditions, both precedent and subsequent, could be used to impose dead hand control or lock-up of real property. Conditions precedent, such as those used in installment payment purchase plans, mean that title is not transferred until the condition is met. Conditions subsequent, such as those setting reversionary interests, mean that title is transferred up front, but if the condition is later met title will revert back to seller or to a designated third party. The only categorical rule these commentators found was that against a *complete* restraint on alienation such that the grantee cannot rid herself of it through any legal mechanism. For example, Coke was concerned neither with patent rights nor commercial transactions, but rather with abolishing the remnants of hereditary feudal landholding arrangements such as the fee tails depicted in the popular television show *Downton Abbey*.[18] Gray was primarily concerned with the abuse of trusts to place assets beyond the reach of creditors.[19]

In fact, antebellum federal courts had little problem holding that patent owners could require that purchasers of the covered goods also secure an express license to use or resell the items.[20] By mid-century, Taney and other Jacksonian Democrat judges were concerned with perceived abuses of patent rights, in large part because of the connection to the federal versus state rights debates. But across the judicial spectrum, the unifying theme of decisions striking down restraints was not so much ideological as it was about preserving the contractual basis of the bargain for property recipients. Quite simply, the courts were policing improper "gotcha" tactics by patentee sellers. Whatever patent-based restrictions conveyers wanted to impose on the recipient's use or alienation of the good had to be a clear part of the negotiated transaction, it could not be sprung later nor attached as an inconspicuous "notice."

The Article proceeds in four parts. Part I shows how Coke's marginalia comment

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16 The payout of this conventional view has been that property rights allow for equitable injunctions against the use or alienation of property, while contract rights only allow for damages at law. But this is not really true either: courts often honor equitable remedies such as injunctions for breach of contract, particularly where the parties expressly authorized such remedies in the contract.

17 *Lexmark*, *supra* note 5, at 1538.

18 *See infra* Part I.A.

19 *See infra* Part I.C.

20 *See infra* Part II.

does not support current citations to it. Further, it outlines Taney's judicial support for at least one condition subsequent restraint on alienation and Gray's painstaking taxonomy of permissible and prohibited restraints. Part II summarizes original research on the set of transactions and litigation in which *Bloomer*—and Taney's dicta—was simply one piece. Part III discusses subsequent judicial activism that sought to bootstrap Taney's dicta into a "rule" that could apply to sales of goods as part of a broader anti-patent and limited federal government agenda by Jacksonian Democrats at the Supreme Court. Despite these efforts, such a rule was not adopted until later in the century—and even then only in part as to unconditional sales of goods. Part IV then shows how the modern term and concept of "exhaustion" only arose as part of early twentieth century antitrust initiatives. Finally, Part V analyzes the cases that called the question of exhaustion on conditional sales of patented goods. This Part concludes by arguing that either patentees in fact maintain a powerful property-based work-around to the purported bright line exhaustion rule in *Impression Products* or that decision has unwittingly inflicted serious collateral damage on contractual conveyances of property in service of a historical myth.

I. Coke's Common Law "Rule" Against Restraints on Alienation

In *Kirtsaeng v John Wiley & Sons, Inc.*, a case about copyright's statutory first sale doctrine, Justice Breyer selectively quoted Lord Coke:

> '[If] a man be possessed of . . . a horse, or of any other chattell . . . and give or sell his whole interest . . . therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest . . . is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him.'[21]

The quote from Coke is supposed to "explain[] the common law's *refusal* to permit restraints on the alienation of chattels" as if this were an elsewhere settled common law rule by Coke's time.[22] Breyer cites no authority other than Coke for this "rule," even as his mention that Coke was commenting upon Littleton implies (incorrectly) that a precursor could be found there. Littleton's *Tenures* is expressly limited to real property conveyances and does not establish anything like a "refusal to permit restraints on . . . alienation."[23] To the contrary, Littleton was carefully outlining *permissible* restraints.[24]

[21] Kirtsaeng v. John Wiley & Sons, Inc., 568 U.S. 519, 538–39 (2013) (quoting INSTITUTES *supra* note 4). Breyer cites a source here, leaving the reader with the impression that Breyer's view is the accepted reading of this quoted passage. *Id*. But the source only supports Breyer's uncontroversial statement that Coke was commenting on Littleton's earlier treatise, a proposition self–evident from the title page of the *Institutes* and thus not needing an independent authority. In fact, the quote as selectively edited first appeared in the case law as early as 1907. *See infra* Part IV.A.

[22] *Id.* at 538 (emphasis added).

[23] *See generally* LITTLETON'S TENURES IN ENGLISH (Eugene Wambaugh ed., John Byrne & Co., Washington D.C. 1903) [hereinafter TENURES].

[24] *Id*.

A. A more accurate account of Littleton and Coke

The Coke quotation is from his glossarial *The First Part of the Institutes of the Lawes of England; or, a Commentary upon Littleton*.[25] As the volume is nothing other than a printed marginalia annotation of Littleton's *Tenures*—in the tradition of Talmudic or Scholastic commentaries—then we can discuss both works from the relevant pages of Coke's *Institutes*:

Lib. 3. Cap. 5. Of Eſtates Sect. 359, 360.

(Ant. ſect. 354. 1. Roll. Abr. 454.) males of his body, the remainder over, &c. the Lord *Clifford* according to the licence infeoffed the chaplains, and before they made the reconveyance the Lord *Clifford* dyed, and it was adjudged that the heir might enter for the condition broken. For in this caſe the feoffees were bound by law to have made the gift in taile to the Lord *Clifford* himſelfe, albeit hee never made any requeſt, for otherwiſe they purſued not the licence, and if they ſhould make the ſtate to the iſſue of the Lord *Clifford*, then might the king ſeiſe the barony, &c. for default of a licence, and that in default of the feoffees. And then the ſame ſhould not be in the ſame plight and freedome as it was at the time of the feoffment made upon condition, which is worthy of obſervation.

(a. Rep. 79. 1. Leo. 167.) If a man grant an advowſon upon condition that the grantee ſhall regrant the ſame to the grantor in taile; in this caſe, if the church become void before the regrant or before any requeſt made by the grantor, he may take advantage of the condition, becauſe the advowſon is not in the ſame plight as it was at the time of the grant upon condition. And ſo was it reſolved, (*) *Paſch. 14. Eliz. in Communi Banco*, betweene *Andrewes* and *Blunt*, which I heard and obſerved, and which my Lord *Dier* hath omitted out of his report of that caſe, and therefore the grantee in that caſe at his perill muſt regrant it before the church become voide, or elſe he is diſabled, otherwiſe he hath time during his life if he be not haſtened by requeſt.

(*) Paſch. 14. Eliz. 311. Dier.

44. E. 3. 9. If the feoffee ſuffer a recovery by default upon a fained title, before execution ſued the feoffor may re-enter for this diſability, *et ſic de ſimilibus*.

Sect. 359.

ET en le fait eſt nul condition, &c. either in deed or in law.

(4. Rep. 25. a.) *Et le feoffment eſt en tiel force ſicome nul tiel fait uſt eſte fait.* And the reaſon hereof is, for that the eſtate paſſeth by the livery of ſeiſin (1). And in this caſe the feoffor upon the deliverie of ſeiſin muſt expreſſe the ſtate to him and his heirs, or to the heires of his body, &c.

18. E. 3. 19. 36. 17. Aſſ. p. 20. 8. H. 5. 8. 27. H. 6.

34. Aſſ. pl. 3. If an agreement bee made betweene two, that the one ſhall enfeoffe the other upon condition in ſurety of the paiment of certaine money, and after the livery is made to him and his heires generally, the ſtate is holden by ſome to be upon condition, inaſmuch as the intent of the parties was not changed at any time, but continued at the time of the livery.

*ITEM, ſi un home fait un fait de feoffment a un auter, & en le fait eſt nul condition, &c. et quant le feoffor a luy voyle faire liverie de ſeiſin per force de meſme le fait, il fait a luy le livery de ſeiſin ſur certaine condition *; en ceſt cas rien de les tenements paſſa per le fait, pur ceo que le condition n'eſt compriſe deins le fait, & le feoffment eſt en tiel force ſicome nul tiel fait uſt eſte fait.*

ALSO, if a man make a deed of feoffment to another, and in the deed there is no condition, &c. and when the feoffor will make liverie of ſeiſin unto him by force of the ſame deed, hee makes livery of ſeiſin unto him upon certain condition; in this caſe nothing of the tenements paſſeth by the deed, for that the condition is not compriſed within the deed, and the feoffment is in like force as if no ſuch deed had beene made.

13. E. 3. tit. Eſtoppell 177. 19. E. 3. ibid. 184. If a man make a charter of feoffment in fee, and the feoffor deliver ſeiſin for life, the feoffee ſhall hold it but for life; but if the livery be expreſly for life, and alſo according to the deed, the whole fee ſimple ſhall paſſe, becauſe it hath a reference to the deed.

Sect. 360.

[illegible] dated 19. Apr. 1808.

ITEM ſi feoffment ſoit fait, &c. And

ITEM ſi feoffment ſoit fait ſur tiel

ALSO if a feoffment be made con-

* *&c.* added in L. and M. and Roh.

(1) Vid. ant. 48.

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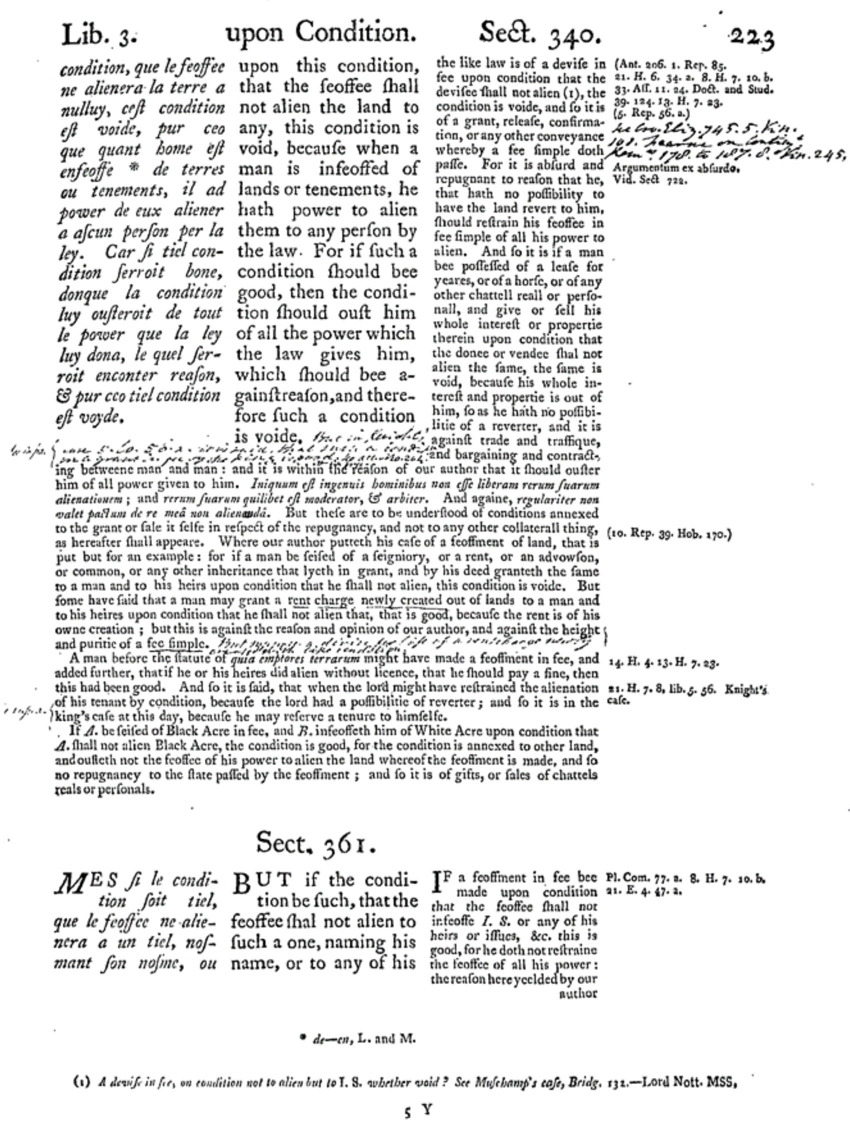
[25] INSTITUTES, *supra* note 4.



Lib. 3. upon Condition. Sect. 340. 223

*condition, que le feoffee ne alienera la terre a nulluy, ceſt condition eſt voide, pur ceo que quant home eſt enfeoffe * de terres ou tenements, il ad power de eux aliener a aſcun perſon per la ley. Car ſi tiel condition ſerroit bone, donque la condition luy ouſteroit de tout le power que la ley luy dona, le quel ſerroit enconter reaſon, & pur ceo tiel condition eſt voyde.*

upon this condition, that the feoffee ſhall not alien the land to any, this condition is void, becauſe when a man is infeoffed of lands or tenements, he hath power to alien them to any perſon by the law. For if ſuch a condition ſhould bee good, then the condition ſhould ouſt him of all the power which the law gives him, which ſhould bee againſt reaſon, and therefore ſuch a condition is voide.

the like law is of a deviſe in fee upon condition that the deviſee ſhall not alien (1), the condition is voide, and ſo it is of a grant, releaſe, confirmation, or any other conveyance whereby a fee ſimple doth paſſe. For it is abſurd and repugnant to reaſon that he, that hath no poſſibility to have the land revert to him, ſhould reſtrain his feoffee in fee ſimple of all his power to alien. And ſo it is if a man bee poſſeſſed of a leaſe for yeares, or of a horſe, or of any other chattell reall or perſonall, and give or ſell his whole intereſt or propertie therein upon condition that the donee or vendee ſhal not alien the ſame, the ſame is void, becauſe his whole intereſt and propertie is out of him, ſo as he hath no poſſibilitie of a reverter, and it is againſt trade and traffique, and bargaining and contracting betweene man and man: and it is within the reaſon of our author that it ſhould ouſter him of all power given to him. *Iniquum eſt ingenuis hominibus non eſſe liberam rerum ſuarum alienationem*; and *rerum ſuarum quilibet eſt moderator, & arbiter*. And againe, *regulariter non valet pactum de re meâ non alienandâ*. But theſe are to be underſtood of conditions annexed to the grant or ſale it ſelfe in reſpect of the repugnancy, and not to any other collaterall thing, as hereafter ſhall appeare. Where our author putteth his caſe of a feoffment of land, that is put but for an example: for if a man be ſeiſed of a ſeigniory, or a rent, or an advowſon, or common, or any other inheritance that lyeth in grant, and by his deed granteth the ſame to a man and to his heirs upon condition that he ſhall not alien, this condition is voide. But ſome have ſaid that a man may grant a rent charge newly created out of lands to a man and to his heires upon condition that he ſhall not alien that, that is good, becauſe the rent is of his owne creation; but this is againſt the reaſon and opinion of our author, and againſt the height and puritie of a fee ſimple.

A man before the ſtatute of *quia emptores terrarum* might have made a feoffment in fee, and added further, that if he or his heires did alien without licence, that he ſhould pay a fine, then this had been good. And ſo it is ſaid, that when the lord might have reſtrained the alienation of his tenant by condition, becauſe the lord had a poſſibilitie of reverter; and ſo it is in the king's caſe at this day, becauſe he may reſerve a tenure to himſelfe.

If *A.* be ſeiſed of Black Acre in fee, and *B.* infeoffeth him of White Acre upon condition that *A.* ſhall not alien Black Acre, the condition is good, for the condition is annexed to other land, and ouſteth not the feoffee of his power to alien the land whereof the feoffment is made, and ſo no repugnancy to the ſtate paſſed by the feoffment; and ſo it is of gifts, or ſales of chattels reals or perſonals.

(Ant. 206. 1. Rep. 85. 21. H. 6. 34. a. 8. H. 7. 10. b. 33. Aſſ. 11. 24. Doct. and Stud. 39. 124. 13. H. 7. 23. (6. Rep. 56. a.)

Argumentum ex abſurdo. Vid. Sect 722.

(10. Rep. 39. Hob. 170.)

14. H. 4. 13. H. 7. 23.

21. H. 7. 8, lib. 5. 56. Knight's caſe.

Sect. 361.

MES ſi le condition ſoit tiel, que le feoffee ne alienera a un tiel, noſmant ſon noſme, ou

BUT if the condition be ſuch, that the feoffee ſhal not alien to ſuch a one, naming his name, or to any of his

IF a feoffment in fee bee made upon condition that the feoffee ſhall not infeoffe *I. S.* or any of his heirs or iſſues, &c. this is good, for he doth not reſtraine the feoffee of all his power: the reaſon here yeelded by our author

Pl. Com. 77. a. 8. H. 7. 10. b. 21. E. 4. 47. a.

* *de—en*, L. and M.

(1) *A deviſe in fee, on condition not to alien but to* I. S. *whether void? See Muſchamp's caſe, Bridg.* 132.—Lord Nott. MSS.

5 Y

The format is Littleton's original text, first in Law French in the middle, then in the vernacular English of the time on the left margin, followed by Coke's commentary on the right. *Tenures* primarily concerned real property estates and did not cover chattel conveyances or commercial transactions in any significant sense. It focused on restrictive conditions that enabled the landed aristocracy to maintain a firm grip on the countryside. The devices locked out hard-working individuals who had the means and motivation to acquire and work the land. But such devices also created problems for descendants who were precluded from selling the land for desperately needed cash or who could not manage the estate.

Using the commentary format as a vehicle for original ideas, Coke's commentary emphasized limiting *complete* restraints on alienation.[26] Partial restraints, or conditions on use, or conditional limitations preventing conveyances to certain persons, appeared of little concern to Coke. Accordingly, the *Institutes* constantly draws lines between void or "repugnant" conditions that lock property into a devisee and those that simply place some contours around use or further conveyance. Coke seemed especially concerned with fee simple conveyances because by definition these were supposed to be complete, irrevocable transfers of title. This is what he likely meant by conditions on fee simple transfer being "absurd" or "against reason"—they did not make sense in the system. Yet Coke allowed complete restraints where de facto transfer could still occur, i.e., the legal result of their breach by an attempted restricted conveyance was automatic forfeiture and vesting of the property back to the grantor, or over to another party. These were distinguished from impermissible complete restraints that instead invalidated any attempted conveyance by the devisee. In the former, the devisee has a way out of title ownership, in the latter he does not.

Breyer's quote steers the reader away from all the foregoing by positioning this highly edited Coke quote as if it is a core proposition in either Coke's or Littleton's treatises. But a look at the actual source above shows that Littleton's Section 360 is the core proposition, which makes no mention of chattels. Personal property only appears in Coke's commentary, and then it must be inferential conjecture on his part because no authority is cited further to the right margin, where other authority is given in line with statements being supported. Further, this conjecture appears only *after* Coke has restated the core real property proposition in his comment:

> Also if a feoffment be made [on condition of complete restraint of alienation] the condition is voide, and so it is of a grant [etc.] or any other conveyance whereby a fee simple doth pass. For it is absurd and repugnant to reason that he, *that hath no possibility to have the land revert back to him*, should restrain his feoffee in fee simple of all his power to alien. And so it is if a man be possessed of a lease for years, *or of a horse, or any other chattel real or personal*, and give or sell *his whole interest or*

[26] *See, e.g.*, INSTITUTES, *supra* note 4 at pp. 11–12. In part, these issues of complete restraints drove the debate over the Enclosure movement, Locke's labor theory of property, and the valuing of "developed" over "undeveloped" land. Long before Downton Abbey, classic English literature works such as Pride and Prejudice and Middlemarch used the fee tail as a central plot mechanism to explore social mores. As far Coke's introduction of new ideas into a "commentary," the gambit could be traced at least to the medieval Scholastics, for whom "commentaries" became an established vehicle to show fealty to accepted authorities—and hence legitimacy—while actually positing new ideas and knowledge in the "comments." *See* Olaf Pedersen, *The First Universities: Studium Generale and The Origins of University Education in Europe* 300–01 (Richard North trans., Cambridge Univ. Press 1997, digital reprint 2009). Beginning with the medieval Scholastics, "commentaries" became an established vehicle to show fealty to accepted authorities—and hence legitimacy—while actually positing new ideas and knowledge in the "comments."

propertie therein . . . .[27]

The "absurd and repugnant" part of the quote shows the logical definitional nature of the core proposition. If the grantor has no reversion rights, and no other party has been granted rights—reversionary or otherwise—while all of grantor's right, title, and interest have been conveyed to grantee, then there is no other part of the estate outstanding and neither grantor nor anyone other than the grantee can control it. The only effect of allowing a complete restraint on alienation then would be to permanently vest the property in the grantee and her heirs or successors. We will call these "cul de sac restraints." And such permanent vesting beyond even the property owner's power to divest or alien was said to be void because it was both contradictory to holding full right, title, and interest to an estate in fee simple and predominantly a feudal vestigial tool of the landed aristocracy to keep land locked into bloodlines and legal heirs.

Only after this core proposition is restated does Coke move on to the inference that this particular rule should also apply to the conveyance of all rights, title, and interest—with no reversion rights—to other kinds of estates. Thus, where the grantor holds *only* a lease for years, then when he conveys all his ownership and rights under that lease to a third party—with no reversionary rights—he cannot condition the grant on a complete restraint on alienation of the lease. Likewise, for a horse and any other "chattel real or personal." This seems reasonable enough, again from the perspective of not wanting to permit dead-hand lock-up of property even as against the grantee herself.

But none of this means there can be no restraints on alienation, especially where lesser estates are conveyed. And in fact, Littleton's Section 361, and Coke's commentary on it, expressly permit partial restraints.[28] Restraints against alienating the property to a particular named person, and their heirs or successors, are perfectly acceptable on a fee simple conveyance.[29] We will consider the taxonomy of permissible and prohibited restraints on alienation as set out later by Gray in Part I.C. But for now, it is important that even Coke's allowance of restraints regarding named persons would provide a mechanism for modern firms like Lexmark to structure consumer transactions as they intended in the facts behind *Impression Products*. Lexmark could sell printer cartridges to consumers with a restrictive condition subsequent prohibiting any transfer of the cartridge by the customer to Impression Products or other named refurbishers, with any such transfer automatically reverting title to Lexmark. This could happen independently of patent rights and would be enforceable even if patent exhaustion was deemed to apply to the original sale.

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27 INSTITUTES, *supra* note 4 (marginalia comments, emphases added, and English spellings modernized in some cases).

28 *Id*. at § 361.

29 *Id*. (quoting TENURES, "But if the condition be such, that the feoffee shall not alien to such a one, naming his name, or to any of his heires, or of the issues of such a one, &c. or the like, which conditions doe not take away all power of alienation from the feoffee, &c. then such condition is good.").

The flawed interpretation of Coke may also turn on the slightly different formulation of the reversion phrase in the first and second parts of Coke's comment. In the first, discussed above, the absence of reversionary rights in the grantor is the premise for why a complete restraint on alienation will not lie against the grantee. But in the second, Coke mentions the absence of reversionary rights *after* stating that the grantor's "whole interest and propertie is out of him," which could be read as the absence of reversionary rights being a *consequence* of the transaction. Taken out of context from the core first part of Coke's comment, Breyer's selective quote then lays the groundwork for an argument that *any* kind of sale of property removes all reversionary rights. This in turn is leveraged to assert, quite incorrectly, "the common law's refusal to permit restraints on the alienation of chattels." However, the better reading of both mentions of the absence of reversionary rights is that the same is part and parcel of what it means to convey all rights, title, and interest in a fee simple conveyance. By definition, though, the conveyance of a restricted or lesser estate—i.e., one that does *not* convey all rights, title, and interest—means that some parts of the estate are retained by the grantor (or conveyed to another) and hence reversionary rights to the grantor or another specifically encumber the transfer.

Breyer and others also make much of the "against trade and traffique, and bargaining and contracting betweene man and man" phrase in this secondary language to infer a proto-modern free-flowing commerce justification for the purported rule against alienation restrictions. But given the systematic and definitional nature of the treatises (both Littleton's and Coke's), it more naturally follows that it would be the blurring of conveyance mechanisms that would cause problems for bargaining, contracting, and trade and traffic. If fee simple is supposed to mean the conveyance of all rights, title, and interest, with no possibility of reversion to the grantor, and the grantee pays the corresponding market rate for that kind of transfer, then it creates problems and confusion when the grantor seeks to add conditions on the transfer.

B. Chief Justice Taney and the Supreme Court allow conditions subsequent restraints on alienation in Antebellum America

Whatever the intervening centuries brought for interpretations or reliance on Coke's (and Littleton's) views on property conveyances in both English and then post-Revolution American common law,[30] the question of conditional restrictions on alienation was taken up by none other than Chief Justice Taney in 1843's *Williams v. Ash*.[31] Preceding by just a few years his circuit court opinion that presaged his dicta in *Bloomer*,[32] *Williams* concerned slaves who had been bequeathed in an analogue of fee simple but with conditions subsequent that they remain in Maryland and not be sold. Any breach of these conditions would free the slaves. The nephew who inherited the slaves lived in Tennessee, and likely because of this he sold plaintiff slave James Ash to another individual. Ash promptly filed a petition for his freedom in circuit

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30 *See, e.g.*, *Lexmark*, *supra* note 5, at 750–52.
31 42 U.S. 1 (1843).
32 *See* Part II.B.1, *infra*.

court, which granted it. The purchaser, William H. Williams, appealed to the Supreme Court.

Taney, writing for the Court, opined that the proviso conditions were not an improper restraint on alienation because, in effect, the devisee was not permanently stuck with the "property" in a cul de sac restraint. In particular, he analogized it to a different condition subsequent which, when met, would result in the property being conveyed to a third person. This latter would be good because it did not prohibit alienation in total, but rather it determined in advance to which person any alienation could go. In this way, it might take the *choice* of the grantee of any attempted alienation away from the original devisee. But the fact that taking steps to effect the "prohibited" alienation would still result in actual alienation meant that this was not a complete restraint on alienation. In other words, the devisee had the *power* of alienation, but not the right. When he exercised this power, then the conditions of the grant would operate automatically to convey the property to the named third party, resulting in de facto alienation.

The key move then was the analogy to emancipation. Asserting that "the bequest of freedom to a slave is a specific legacy," Taney accepted Ash's argument that the proviso condition on the bequest to the legatee nephew somehow also created a condition subsequent bequest to Ash's "freedom."[33] Thus, "if a bequest over to a third person would not be regarded as an unlawful restraint upon alienation, there can be no reason for a different rule where the bequest over is freedom to the slave."[34] The logic Taney has to employ is clever but complicated: "In the one case, the restriction on alienation ceases as soon as the devise takes effect; and in the other, the right of property ceases upon the happening of the contingency, and there is nothing to alien."[35]

Taney also relied on the property law principle that property title attached to "estates"—legal constructs—and not to the physical land or chattel itself. Thus, legal conveyances of title were transfers of the estate, which gave the new title holder rights and responsibilities toward the physical property, but not necessarily *powers* over the physical land or chattel. So, one way that property—in the form of title to an estate—could be alienated was to destroy or extinguish the title/estate altogether. In such a case, the former holder of that title had no more rights and liabilities with regard to the object of the property—be that land, a horse, or a slave. This could help heirs who were stuck with property they could neither afford to manage nor pay taxes on.

Thus, Taney opined that when the nephew triggered the condition subsequent by selling Ash, then the title to Ash was destroyed (given over to a free state), and so the nephew had no more legal title, rights, interest, or liabilities for Ash. But then, neither did the purchaser. A path to de facto alienation was preserved, and so the restraint was good. For our purposes, this means there was no more of a categorical

33 *Williams*, *supra* note 31, at 14.
34 *Id.*
35 *Id.*

rule against any restraint on alienation in antebellum American than there had been in Tudor-Stuart England.

The subsequent case of *Potter v. Couch* criticized Taney's rationale in *Williams*.[36] Skeptical of the validity of a "grant over" to "freedom," the *Potter* Court instead argued that *Williams* was justified solely because a man's freedom was at stake and there was relevant state statutory law. As one of many such allegations against Taney's proclivity to opine far beyond authoritative case law, *Potter* asserts that Taney's statement about conditions on a fee simple conveyance was both dicta and against the authoritative binding case law.[37] Notwithstanding this critique, the fact remains that Taney was well aware of the complex rules on restraint of alienation and supported the position that where such restrictions did not destroy all de jure or de facto paths to actual alienation they could be good.

C. Roberts' selective quote from Gray's Restraints on the Alienation of Property is grossly misleading

Beyond citing Breyer's selective quote of Coke, Chief Justice Roberts himself selectively quotes another major work on property law in *Lexmark*, Gray's late nineteenth century *Restraints on the Alienation of Property*,[38] to assert a false categorical rule against all restraints on alienation.[39] Robert's quote may be more egregious than Breyer's because the *Restraints* is a 300-page tome on nothing other than detailing good and void restraints.[40] Its *raison d'être* would vanish if there were a simple, categorical rule against all restraints on alienation. We will call this the "Broad Categorical Rule." That said, it is clear why the sentence is tempting as a standalone quote: "A condition or conditional limitation on alienation attached to a transfer of the entire interest in personalty is as void as if attached to a fee simple in land."[41]

Gray's work was an expressly displeased response to the 1876 decision of *Nichols v. Eaton*,[42] which upheld a restrictive condition subsequent restraining alienation of a spendthrift trust's assets to creditors in the event of bankruptcy of the beneficiary.[43] Gray thought this ruling, and the trend of states to enact statutes placing property such as homesteads and workmen's tools beyond the reach of creditors, was an affront to the law and a dangerous moral hazard for the self-discipline and work

36 141 U.S. 296, 317 (1891).
37 *Id*.
38 JOHN CHIPMAN GRAY, RESTRAINTS ON THE ALIENATION OF PROPERTY (2d ed., 1895) [hereinafter RESTRAINTS 2D.]. The first edition was published in 1883. JOHN CHIPMAN GRAY, RESTRAINTS ON THE ALIENATION OF PROPERTY (1883) [hereinafter RESTRAINTS 1ST ED.]. Citation will be made to the Second Edition, except where it is useful to point out differences between the first and second editions.
39 Lexmark, *supra* note 5, at 1532 (quoting J. GRAY, RESTRAINTS ON THE ALIENATION OF PROPERTY § 27, p. 18 (2d ed. 1895)).
40 With no apparent irony, Gray refers to the work as an "essay." RESTRAINTS 1ST ED., Preface, at xiii.
41 RESTRAINTS 2D at § 27, p.18
42 91 U.S. 716 (1876).
43 RESTRAINTS 1ST ED., *supra* note 38, at xiii.

ethic of Americans—perhaps even a short step away from socialism.[44] He is an odd champion for modern commentators, especially around exhaustion issues, because he saw the softening of strong freedom to contract and property rights over the course of the nineteenth century as an unmitigated disaster undoing the English system of law and social morality, which was "a wholesome one, fit to produce a manly race, based on sound morality and wise philosophy;" whereas "the new doctrine is contrary thereto."[45]

Restraints is expressly a work of normative advocacy then against both *Nichols* and the judicial trend towards permitting *more* restraints on alienation.[46] Accordingly, when Roberts quotes it as authoritative, he misrepresents the actual state of the law in the late nineteenth century. The *Nichols* Court, for example, opined that "We do not see, as implied in the remark of Lord Eldon, that the power of alienation is a *necessary* incident to a life-estate in real property, or that the rents and profits of real property and the interest and dividends of personal property may not be enjoyed by an individual without liability for his debts being attached as a necessary incident to such enjoyment."[47]

To understand why Roberts' quote does not provide the support he believes it does—even assuming *arguendo* that *Restraints* is in all respects an accurate statement of late nineteenth century law—we must place it into proper context within the book's scope and structure. *Restraints* is a systematic treatment primarily of restrictive conditions in trusts and estates, with only a secondary focus on "property" writ broadly. While it includes peripheral references to commercial transactions in property, there is no mention of the free flow of goods in commerce or anything similar. Most tellingly, Gray makes no reference to anything that sounds like the alleged exhaustion doctrine—supposedly justified primarily by the "rule" against restraints on alienation—which under the dominant modern account had been in place *for forty years*. Further, *Restraints* discusses the Taney opinion in *Williams* but makes no mention of *Bloomer* or other cases cited today as part of the exhaustion lineage. The most obvious inference is that these cases were not understood by expert property commentators at the time to be about restraints on the alienation of property. Such a connection was instead likely the invention of twentieth century commentators.

Within the work's historical sections, Gray sought to establish a grand narrative arc reducing the number of permissible restraints on alienation over time.[48] However, he both concedes that the reality was more of an ebb and flow and catalogs a system that seems not so different from that of Littleton and Coke.[49] As such, he bifurcates

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44 RESTRAINTS 2D, *supra* note 38, at iii–xii.

45 *Id*. at v. In his view, this system had brought England out of the feudal system and into modernity and economic prosperity. For example, "the general repeal of usury laws was the crowning triumph of the system." *Id.* at viii–ix.

46 RESTRAINTS 1ST ED., *supra* note 38, at iii; RESTRAINTS 2D, *supra* note 38, at iii–v.

47 91 U.S. at 725.

48 RESTRAINTS 2D, *supra* note 38, §4, at 2.

49 *Id.*

the *Restraints* around two major categories: I) Forfeiture for Alienation;[50] and II) (true) Restraints on Alienation.[51] The first permits many restraints because breach of the restrictive condition merely results in forfeiture and thus the estate can be divested. The second is disfavored as including cul de sac restraints because breach of the restrictive conditions voids any attempted assignment and the grantee "cannot rid himself of [the property]."[52] Even within this disfavored category, so long as any particular restraint within it is not absolute then its conditions and limitations can be valid and enforceable.

Each of the two broad categories are divided into: A) Estates in Fee Simple; B) Estates in Fee Tail; C) Estates for Life; and D) Estates for Years.[53] Within the first category, the division of Fee Simple is further subdivided into five parts: 1) *Unqualified Restraint on Alienation* (complete restraint); 2) *Restraints on Alienation Qualified as to Persons*; 3) *Restraints on Alienation Qualified as to Time*; 4) *Restraints on Alienation Qualified as to Manner*; and 5) *Gifts over upon Intestacy*.

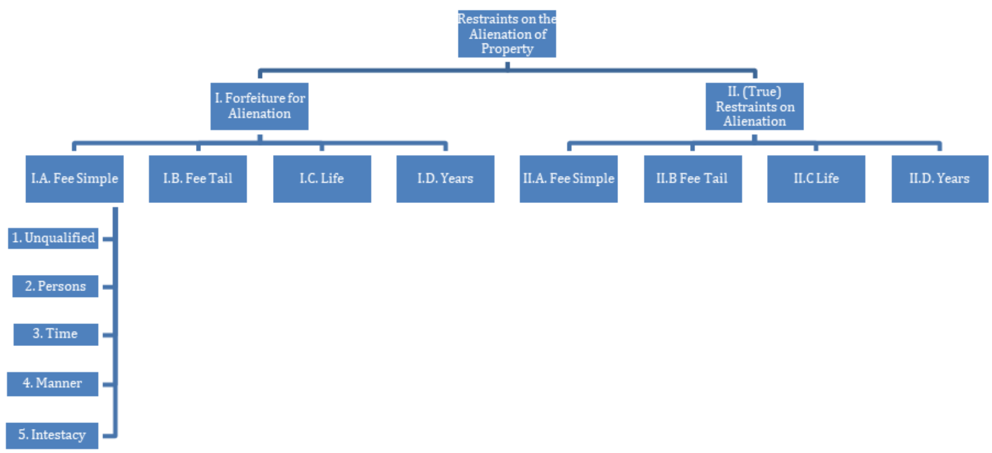

Figure 1 illustrates this structure.

Figure 1

Roberts' quote comes from Part I.A.1, Forfeiture for Alienation: Fee Simple: Unqualified Restraints.[54] Accordingly, as a preliminary matter, it only pertains to fee simple restraints. This means that where there are permissible restraints in the other divisions, such as estates for life and estates for years, they fall outside the scope of the quoted text and can provide their own avenues for valid restraints on the alienation

50 *Id*. at § 10.
51 *Id*.
52 *Id*.
53 *Id*. Of note, he mentions that the first, third, and fourth of each category and part will include discussion of personal property (as there is no estate tail mechanism for personalty).
54 *Id*. at §§ 13–30.

of chattels. Roberts would likely not disagree with this. It would also resonate with Breyer, who commented "So lease it" as a response to Monsanto's arguments as to why it needed to be able to engage in conditional sales without triggering exhaustion during the oral arguments in *Bowman v. Monsanto*.[55] In other words, leases and life estates are generally seen as not triggering exhaustion anyway. But the apparent logic behind this—grantor or others have reversionary remainder rights which justify limits on how the grantee can use or alienate the property—is just as valid for conditional fee simple conveyances or sales with conditions subsequent that can result in the grantee or others receiving the property upon occurrence of the condition.

Nonetheless, the Broad Categorical Rule would hold if no restraints on alienation were valid for any fee simple conveyance. However, like Littleton and Coke, Gray does not claim this. Rather, all of these commentators agree that restraints directed to named persons or to time on fee simple conveyances can be valid.[56] Notably, Gray opens the door for allowing not only restraints *prohibiting* alienation to certain persons—as Littleton and Coke expressly permitted—but also restraints *limiting* alienation to certain persons.[57] For our purposes, this suggests that a producer such as Lexmark could condition a fee simple sale of printer cartridges on certain uses and disposal, with Lexmark or other authorized firms then the only named persons to whom the property would go over to upon any occurrence of the restrictive condition. This would once again operate as purely a matter of *property* law and it would seem odd that patent exhaustion would instead seem to override it by permitting any use and alienation.[58]

Gray also provides a helpful example of a valid time-based restraint.[59] A trust that would pay out an annuity to A until his death, and then upon that event, sell the property and divide the proceeds amongst A's children. However, if any of the sons should become bankrupt after A's death but before the sale and distribution of proceeds, then that son's portion was "determined"[60] and would go over to the other sons. A British court held this qualified restraint was good even as the proceeds had indeed fully vested in that son—and thus title had passed—while the bankruptcy occurred both after that and after A's death. Accordingly, the restraint on alienation was effective even after fee simple title had passed.

Accordingly, the Broad Categorical Rule simply does not hold water—at least

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55 Duffy & Hynes, *supra* note 6, at 53 (quoting Transcript of Oral Argument at 54, Bowman v. Monsanto Co., 133 S. Ct. 1761 (2013) (No. 11–796), http://www.supremecourt.gov/oral_arguments/argument_transcripts/11–796.pdf, archived at http://perma.cc/9B5X-36F3).

56 These are covered in Parts I.A.2 and I.A.3 in the *Restraints*. For persons, Gray reports that "In 8 Hen. VII. 10, pl. 3, Huse, C.J., and Fairfax, J., said that a condition not to alien to a particular person was good." RESTRAINTS 2D, *supra* note 38, at § 31. He also quotes *Tenures* § 361.

57 *See* RESTRAINTS 2D, *supra* note 38, at 25–33.

58 Perhaps also with named backup persons in case the primary named person is dead or no longer existing (in the case of a legal person).

59 RESTRAINTS 2D, *supra* note 38, § 48, at 35.

60 Gray uses "determined" in the trusts and estates sense of limiting, voiding, or terminating an estate, devise, bequest, or gift.

as of 1895. At best, Gray provided an argument for what could be called the Narrow Categorical Rule: all unqualified or complete restraints on alienation in fee simple conveyances are void. However, even by his own admission this is probably not accurate. Instead, the only clearly supported scope is for such a rule limited to true restraints on alienation for fee simple conveyances as he sets out in Part II.A. These cul de sac restraints void any attempted alienation by the grantee, sticking him and his heirs or successors with the property bounded, if at all, only by the Rule Against Perpetuities.

Gray's problem is that the case law does not clearly support a Narrow Categorical Rule for Part I.A., forfeiture for alienation restraints.[61] Such a rule was precluded by cases such as *Doe v. Hawke*,[62] *Jackson v. Schutz*,[63] *Williams*, and follow-on cases.[64] For *Doe*, which upheld an unqualified restraint on alienation of all rights, title, and interest to a lease assignment (which is all the grantee held), Gray speculates that the actual issue of a restraint on grantee's entire estate was not put before the court and the validity of the condition simply assumed. Be that as it may, Taney expressly relied on *Doe* in *Williams*. And while the *Potter* Court critiqued *Williams*, much to Gray's satisfaction,[65] it did not overrule *Williams*. Gray's disapproval of *Jackson* and its progeny, however, may be heartening to those looking for evidence of a concern with the "free flow of commerce": "[These later cases may perhaps be predicated on] the desire not to utterly demolish *Jackson v. Schutz* . . . . [because] such a condition, if good, would greatly clog the conveyance of land. The question deserves careful consideration."[66] Nonetheless, these cases remained good law and disrupted Gray's desire to limit restraints on fee simple conveyances.

It is also important to note that Gray rejected Coke's notion that restraints on unqualified fee simple conveyances were disfavored because of the absence of a reversion right.[67] Instead, Gray argued that the English Quia Emptores statute "put[] an end to subinfeudation, [and] did away with reversionary interests after a fee simple [grant].[68] Before this, an unqualified condition against alienation would have been good because the grantor could retain a reversionary right, and hence could condition the "fee simple" grant against alienation—and presumably other things such as

61 RESTRAINTS 2D, *supra* note 38, §§ 24, 24a, 25, 25a, 26, at 15–18.
62 102 Eng. Rep. 453; 2 East. 481.
63 18 Johns. 174 (1820). (holding that a condition on a grant in fee not to sell without offering to the grantor was good).
64 RESTRAINTS 2D, *supra* note 38, § 26, at 18.
65 *Id.* § 28. While Gray cites *Potter* with approval, he also suggests that the restraint in *Williams* could perhaps be viewed as one qualified as to time—the life of the devisee or certainly the life of the slave. In this manner, he suggests it was possibly good—and hence Taney not wrong in upholding it as a general qualified restraint. If not so justifiable, then Gray would join the *Potter* Court and limit the holding to the peculiar facts of the case centered on a matter of human freedom. *Id*.
66 *Id*. § 26.
67 *Id*. § 20. "The absence of reversionary interest cannot be the real reason for the rule, for that would strike at the root, not only of unqualified conditions against alienation, but of qualified conditions against alienation, and indeed of all conditions on fees whatsoever." *Id*. § 21.
68 *Id*. § 20.

waste—to preserve the value for himself upon any reversion.

Ultimately, Gray posits that the rule is simply based on public policy. He cites British authorities agreeing that the presence or absence of a reversionary interest is not the test, but rather that "the reason for holding a condition invalid is 'le inconveniencie'" and "that a condition on a fee not to alien would be bad, for it would be 'discordant a la ley' that the tenant should have a fee, and yet could not alien."[69] Care must be taken in too quickly translating this Law French term "le inconveniencie" into the ordinary modern English "inconvenience," as a mere bother, however. The Law French term "discordant a la ley" in fact is probably better here, and it may undercut Gray's argument by returning us to the logical incoherence approach to limiting restraints on unqualified alienation of fee simple grants.

Finally, Gray also distinguishes two senses of conditional limitations that turn on whether the property was fully vested in the grantee before any conditional divestment. The first, which he considers the usual and permitted sense can be illustrated as such: "a devise to A. and his heirs, *but if A. dies unmarried then to B.*"[70] In this case, the devise has fully vested in A, and is only transferred somewhere else if the condition occurs. The second disapproved sense is illustrated as: "a devise to A. *so long as he remains unmarried*."[71] The latter, Gray argues seems to only tentatively or uncertainly vest the estate in the first heir. It *conditions* the grant continuously—A. must keep himself in the state of being unmarried—while the first sense simply sets a limiting condition on the vested fee simple that, *if* it occurs, then the estate is conveyed over to someone else. The second also fails to say what happens to the estate if A. does not maintain his state of bachelorhood.

II. *Bloomer* and Woodworth's Patent Farming Empire in Antebellum America

This Part unpacks the context of Taney's canonical quote.[72] First, given limited manufacturing and distribution capacity for machines in antebellum America,[73] patentees used franchising systems in which local businesses financed, constructed, and operated patented machines under license. To maximize profits for themselves

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69 *Id*. § 21.

70 *Id*. § 22 (emphasis in original).

71 *Id*. (emphasis in original).

72 For even more detail, see Sean M. O'Connor, *Origins of Patent Exhaustion in Jacksonian Politics, Patent Farming, and the Basis of the Bargain* (working paper, 2017) *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2920738 (last visited Dec. 9, 2020).

73 *See* Carolyn C. Cooper, *A Patent Transformation: Woodworking Mechanization in Philadelphia, 1830–1856*, *in* EARLY AMERICAN TECHNOLOGY: MAKING AND DOING THINGS FROM THE COLONIAL ERA TO 1850 (Judith C. McGaw ed., 1994); Carolyn C. Cooper, SHAPING INVENTION: THOMAS BLANCHARD'S MACHINERY AND PATENT MANAGEMENT IN NINETEENTH-CENTURY AMERICA (1991); Carolyn C. Cooper, *Social Construction of Invention through Patent Management: Thomas Blanchard's Woodworking Machinery*, 32 TECH. & CULT. 960 (1991); DAVID A. HOUNSHELL, FROM THE AMERICAN SYSTEM TO MASS PRODUCTION, 1800–1932: THE DEVELOPMENT OF MANUFACTURING TECHNOLOGY IN THE UNITED STATES (1984); *see also*, Christopher Beauchamp, *The First Patent Litigation Explosion*, 125 YALE L.J. 848, 860–66 (2015).

and their franchisees, patentees carefully allocated exclusive rights for specific numbers of machines in cities and towns across the country. Confusingly, they used the terminology of "selling machines" even though no physical machine or parts were changing hands. Second, in a still-new patent system, courts grappled with how to treat improvement patents, especially for machines. Did the patent cover the "improved machine" as a new unitary thing or just the improvement as a severable abstraction? Third, the Patent Act of 1836 established an administrative process for granting patent term extensions,[74] and an 1839 amendment added prior user rights.[75] While both of these were primarily intended to strengthen protections for inventors, they each contained important provisos to protect reasonable interests of assignees/ licensees or those in business or employment relationships with the patentees. But the proviso for term extensions was ambiguously written and led to significant litigation in which the courts sought to determine and enforce the basis of the bargain between patentees and existing assignees/licensees from the original patent term. In particular, if the extension reinvested all rights in the patentee for the new term, then did the proviso *preserve* some rights for some existing grantees into the new term, or *grant them afresh* as a form of statutory compulsory license? This debate formed the basis of the cases consolidated as *Wilson v. Rousseau*, which in turn provides crucial context for *Bloomer*.

In 1828, William Woodworth secured a patent for an improved wood-planing machine and took on a partner to commercialize it.[76] But Uri Emmons, partnering with a syndicate led by Daniel Toogood ("Toogood"), secured a similar patent under the registration-only system of the 1793 Patent Act.[77] The inevitable clash between the two teams was settled through a cross-assignment that resulted in each team holding exclusive ownership rights under both patents for their negotiated territories.[78]

Learning from the mistakes of Eli Whitney,[79] as well as the successes of Ithiel Town and Thomas Blanchard,[80] in commercializing machine patents, both the Woodworth and Toogood teams deployed multi-level franchising systems rather than attempt to manufacture and distribute machines directly. "Assignees" were

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74 Patent Act of 1836, ch. 357, § 18, 5 Stat. 117 [hereinafter "Section 18"]. Congress could still extend patents by private bill, as it had done for Oliver Evans in 1808, but Section 18 regularized the practice in the Patent Office.

75 Patent Act of 1839, ch. 88, § 7, 5 Stat. 353 [hereinafter "Section 7"].

76 *See* Wilson v. Rousseau, 45 U.S. 646, 647–48 (1846) (reproducing the patent specification).

77 Because no examination occurred, it was common for quite similar patents to issue under the 1793 system. *Id*. at 651–67 (reproducing Emmons' patent and describing syndicate).

78 *Id*. at 655–57, 685.

79 Whitney did not manufacture and distribute his cotton gin, but rather built and operated it himself as a service business directed to plantation owners. However, he could not assemble machines quickly enough to satisfy demand and pirated versions put him out of business. JEANETTE MIRSKY & ALLAN NEVINS, THE WORLD OF ELI WHITNEY 96–97 (1952).

80 Town pioneered the franchising model with systematic licensing to local bridge builders of his patented lattice-truss. *Id.;* Cooper, *Social Construction of Invention*, *supra* note 73 at 978. Blanchard, inventor of a pioneering lathe for asymmetric objects, was one of the most (in)famous to exploit this model. *Id*. at 978–79.

wholesalers of rights with ownership and the power to enforce the patents for specified territories, who then granted rights to "licensees" who were local businesses that built and operated machines under the patent. Industry and the courts referred to both assignments and licenses under this model as "purchases" of alternately "rights," "franchises," or "machines," even though no manufactured physical object was changing hands.

As there were aspects of both abusive, extortionist litigation and beneficial, pro-active business dealings,[81] I refer to these systems as "patent farming." This is analogous to the ancient practice of "tax farming" in which a sovereign authorized locals in different regions throughout his domain to collect taxes on his behalf in exchange for a percentage of the collections.[82] And just as today a franchisor might talk of "placing stores" by "selling franchises," the courts referred to Woodworth and his assignees as "placing machines" through contracts described as "sales of machines," but which were actually sales of *franchises*, not of manufactured machines as goods.[83]

The Patent Act of 1836 took the United States back to an examination-based patent system and, under Section 18, authorized the Patent Office to issue term extensions to patentees who could show inadequate remuneration during the patent's initial term ("Section 18 extensions").[84] Confusion arose from a proviso that "the benefit of such renewal shall extend to assignees and grantees of the right to use the *thing patented*, to the extent of their respective interest therein" (the "Assignee-Grantee Proviso").[85] Ambiguously drafted, it drove extensive litigation within the even larger universe of litigation over Woodworth's patent farming enterprise.[86] Were assignees and grantees two separate classes? Assuming so, were they both modified by "of the right to use the thing patented," or did this apply only to grantees? Did "their respective interest" mean respective between assignees and grantees as separate classes, or just among the particular individuals collectively across assignees and grantees?

A. Wilson v. Rousseau consolidated cases in the circuit courts

After Woodworth died, his son, William W. Woodworth ("Woodworth Jr."), obtained first a Section 18 extension and then both a Congressional private bill extension and a reissue.[87] On the premise that all first term assignments and licenses

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81 *See* Beauchamp, *supra* note 73 at 848; Cooper, *A Patent Transformation*, *supra* note 73; Cooper, SHAPING INVENTION, *supra* note 73; Cooper, *Social Construction of Invention through Patent Management*, *supra* note 73 at 960.

82 *See* Beauchamp, *supra* note 73 at 874; Cooper, *Social Construction of Invention through Patent Management*, *supra* note 73 at 962–63.

83 For example, in *Bloomer*, Taney notes that a patentee could "place around [a local non-exclusive licensee] as many planing machines as he pleases." *See, e.g.*, 55 U.S. at 550.

84 *See* Section 18.

85 *Id*. (emphasis added). Thanks to John Duffy for suggesting this name over my opaque original.

86 For a list of over 50 such cases, see later case reporter's endnote in *Bicknell v. Todd*, 3 F.Cas. 334 (C.C.D. Ohio 1851).

87 *See* 45 U.S. at 658–62. The original term would have expired in 1842. The Section 18 extension

ended at that term's expiration, Woodworth Jr. granted new assignments and licenses for the Section 18 extension. These were primarily executed through a new partner, James Wilson, acting as a kind of prime assignee.[88] However, many first term grantees continued using their machines on the opinion that the Assignee-Grantee Proviso extended their rights into the new term. Complicating matters further, first term grants had changed hands repeatedly among local players, assisted by Woodworth, Wilson, and other assignees who repurchased and reallocated rights, or covertly held interests in trust.

Among the many resultant lawsuits, four were consolidated on appeal at the Supreme Court as *Wilson v. Rousseau*: *Wilson v. Turner*, *Simpson v. Wilson*, *Woodworth & Bunn v. Wilson*, and the eponymous case.[89] In the circuit courts, Supreme Court justices riding circuit had effectively tried out their different interpretations of the Assignee-Grantee Proviso in these cases. Nonetheless, all of them agreed both that inventors were the primary intended beneficiaries of Section 18 extensions and that the patent law governed, with no mention of countervailing common law rights for defendants who possessed machines.

Although Justice Story passed away before the Supreme Court heard the consolidated *Wilson v. Rousseau* cases, his circuit court decision in a prior unconsolidated case on the Assignee-Grantee Proviso was influential on the other justices. In *Woodworth v. Sherman*, Justice Story opined that neither party knew extensions were possible and thus they could not have negotiated for rights under it, leaving the defendant with no license for the Section 18 extension.[90] For Story, the purpose of the Assignee-Grantee Proviso was to vest new *legal* assignment or license rights in a grantee where the parties had expressly negotiated for continued rights in any extension up front. Because such grants were conveyed by title deed at the time,[91] and such deeds could only convey title existing at conveyance, then grantees would only hold *equitable* title to extension rights. The Proviso automatically transformed any such agreements for extension rights into legal title by operation of law, eliminating the need for the patentee to issue out a new deed.[92] The heart of the matter was the parties' bargain, with the Proviso simply a legal mechanism to facilitate the effect of that deal.

changed this expiration date to 1849, and the Congressional extension to 1856. The reissue "corrected" the scope of the patent.

88 *Id*. at 661.

89 Wilson v. Rousseau, 30 F.Cas. 162 (C.C.D.N.Y. 1845) (later produced case report summarizing only counsels' arguments in circuit court; court's opinion reproduced only in prefatory materials to Supreme Court opinion); *See* Woodworth & Bunn v. Wilson, 45 U.S. 712 (1846) (not reported at the circuit court level); Simpson v. Wilson, 45 U.S. 709 (1846) (not reported at the circuit court level); Wilson v. Turner, 30 F.Cas. 223 (C.C.D. Md. 1845).

90 Woodworth v. Sherman, 30 F.Cas. 586, 589–90 (C.C.D. Mass. 1844). This ignored the possibility of Congressional extensions and assumed a flat fee royalty such that Sherman would get "free" rights if allowed to keep using the machine during the extension.

91 Mossoff, *Simple Conveyance Rule*, *supra* note 8, at 711.

92 30 F.Cas. at 587–88. Story was actually citing to his own unreported opinion in a Maine case involving the Assignee-Grantee Proviso.

Only two of the consolidated *Wilson* cases were reported at the circuit court level: *Wilson v. Turner* and *Wilson v. Rousseau* itself. In the former, the Turners held a first term license for a machine that they constructed and operated in Baltimore.[93] Wilson sought an injunction against continued use during the Section 18 extension, and the Turner's defended on the basis of the Assignee-Grantee Proviso.[94] Taney agreed with Story that the matter should turn on the parties' bargain. Story construed silence on term extensions in a grant to mean the grantee would have no rights under any such extension. But, Taney interpreted it to mean that the parties would have intended for it to continue, because upon the expected term expiration—and with no administrative extensions available before Section 18 was enacted—both parties would have expected that the Turners could freely use the machine as it would be unpatented.[95]

Taney then interpreted the Assignee-Grantee Proviso to protect grantees from a technical "gotcha" when the patent was unexpectedly extended.[96] This was especially so where grantees had "erected costly machines and encountered expenses" under the franchise which could be unfairly exploited by the patentee to demand exorbitant new patent fees—the first example of the sunk costs argument that would permeate proto-exhaustion cases.[97] Further, anticipating his equitable arguments in *Bloomer*, Taney reasoned that assignees were not given rights under Section 18 to secure patent term extensions because they were mere commercial speculators, as opposed to the patentee who had contributed something to society.[98] But this in turn meant that patentees should not be able to effectively rescind their own commercial wagers in the form of assignments and licenses granted during the first term—they had received the agreed compensation from such grantees and could not now demand more.[99] Importantly, *in none of this extensive discussion did Taney make any claims for a common law right of use or rule against restraints on alienation.*

Exemplifying his proclivity to proclaim broad new "law" through unnecessary dicta—as he later infamously did in *Dred Scott v. Sandford*[100]—Taney then "justified" his reading of the Proviso by linking it to a tortured reading of the 1839 prior user rights in *McClurg v. Kingsland*.[101] Under a plain reading, prior user rights

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93 The Turner's license to the Woodworth patent actually came from Toogood under its cross-license. *See Wilson v. Turner*, 30 F.Cas. at 235.

94 *Id*. at 235–56.

95 *Id.* at 236–37. Like Story, Taney glossed the possibility of private act extensions, even as he later mentioned Evan's extension. *Id.* at 237–38.

96 *Id*. at 237.

97 *Id*.

98 *Id*. at 238.

99 *Id*.

100 60 U.S. 393 (1857). Once Taney found that Scott was not a citizen—as an African-American—the case was resolved as Scott would have no standing. *See, e.g.*, Jason H. Silverman, *The Odd Couple of American Legal History*, 10 GREEN BAG 2d 511, 523 (2007). The ruling on the Missouri Compromise and other issues were then extrajudicial actions. *See, e.g.*, "Dred Scott vs. Sandford: Dissenting Opinions, Human Rights Constitutional Rights Documents," *available at* < http://www.hrcr.org/docs/US_Constitution/dscott4.html> (last visited Sep. 14, 2016).

101 42 U.S. 202, 205 (1843).

applied only to machine, manufacture, and composition of matter patents—as patents with tangible embodiments—and allowed those who had acquired or constructed such embodiments *before* the inventor applied for a patent to continue using *those particular* embodiments even after a patent issued.

In *McClurg*, James Harley invented an improvement to injection casting machines and modified some existing ones at the behest of his employer, Kingsland.[102] The firm declined his offer to sell the invention, and he then assigned it to his new employer, McClurg. When McClurg patented the inventions and sued Kingsland for its continued use of modified machines, the trial court found for Kingsland on both implied license and prior user rights defenses.

The Supreme Court easily affirmed the implied license, but struggled with prior user rights. Apparently intent on affirming both grounds, the Court faced two related issues: the patent was arguably for an improved *process* ("improvement in the *mode* of casting . . .") and thus outside prior user rights; but interpreting it to cover an improved *machine* instead meant that Kingsland would be limited in prior user rights to only those machines it possessed before McClurg applied for the patent. This was based on an interpretation of improvement patents covering the whole machine as a unitary thing. Implicitly invoking *Evans v. Eaton*,[103] however, the Court construed the invention to be an abstract improvement. This was plausible enough in the Harley invention, because it consisted primarily of changing the angle of the injection feeding tube.[104] The payout for the Court was a ruling that Kingsland could keep using this abstract improvement by modifying or building entirely new machines going forward.[105] Yet, this could vitiate the value of the patent because such prior users could effectively make, use, and sell improved machines in direct competition with the patentee. But because prior user rights were later repealed, *McClurg* is better known today for its implied license or "shop rights" holding, which is limited to use at the original shop in which the employee made the invention.

Taney then leveraged this convoluted reading of prior user rights to opine that the Assignee-Grantee Proviso likewise gave first term grantees unlimited make, use, and vend rights of Woodworth's improvement because "there can be no reason for

102 *Id.* at 204.

103 20 U.S. 356, 428–35 (1822); 16 U.S. 454, 513–18 (1818). Evan's patent seemed to encompass the whole Hopperboy machine assembly without delineating his improvement. If the whole machine was claimed, then the patent was invalid on prior art. If only the improvement were claimed, then it was inadequately described. The Court found the latter and declined to enforce the patent.

104 *McClurg*, *supra* note 101, at 204–205.

105 The relevant language of Section 7 reads: "That every person . . . who has . . . purchased or constructed any *newly-invented* machine, manufacture, or composition of matter, prior to the [patent] application . . . shall be held to possess the right to use, and vend to others to be used, the *specific* machine [etc.]" Section 7 (emphasis added). Under the Court's reading, "newly-invented machine" meant the embodied machine as improved, while "specific machine" signified only the abstract improvement. Thus, so long as the defendant had in its possession the "newly-invented machine" before the patent application, then it could use the abstract improvement ("specific machine") to modify any other physical machines now and going forward for its own use, or to sell to others. *See McClurg*, *supra* note 101, at 209.

denying to a purchaser, who makes his purchase *after* the patent, the privileges which the law obviously intended to secure to the party who made his purchase or obtained the license of the inventor before."[106] But Congress had established prior user rights and the Proviso as separate provisions, with different purposes, in different statutes, and the equities are simply not the same for both groups.[107] Ironically for those seeking the origins of modern exhaustion in Taney's jurisprudence, his take here veered *away* from chattel-based rights to purely patent-based ones.

Turning to the circuit court decision in *Wilson v. Rousseau* itself, Rousseau and Easton were sued by Wilson for continuing to use a patented machine during the extension term.[108] Curiously, the statement of facts in the case showed they did not acquire their rights from Toogood, despite the syndicate holding exclusive rights to the territory under the first term in the cross-assignment.[109] Notwithstanding, while Rousseau and Easton also defended on other grounds, such as invalidity of the patent, they seemed to defend in part as if they *did* hold some rights under either term.[110] Further, both the circuit court and the Supreme Court seemed to treat them as something other than straightforward naked infringers too. None of this was explained in the extensive records at both levels of the case. But all would become clear in a follow-up case, *Gibson v. Barnard*, in which it turned out that Woodworth Jr. had engaged in some covert dealing with Rousseau and Easton even as Toogood ostensibly still had exclusive rights in the territory.[111]

The circuit court judges in *Wilson v. Rousseau* were divided on ten key questions, which along with nine facts, were certified to the Supreme Court.[112] Most of the questions were technical issues about the validity of the patent, its extension, and the reissue.[113] But Question Two asked whether the extension vested all the rights back in Woodworth Jr., divesting all first term assignees and licensees.[114] Question Three asked, essentially, that if the extension did not vest all rights back in Woodworth Jr., whether the cross-assignment to Toogood was valid and still in effect.[115] Question Four asked whether Wilson could enforce the patent in Toogood's (possibly former) territory, or whether Toogood alone had standing to do so—which would bar Wilson's suit for lack of standing even against naked infringers.[116] And

[106] Wilson v. Turner, 30 F.Cas. at 239.

[107] For example, prior users can include those with no privity to the inventor or patentee, whereas only assignees or grantees of the patentee can get the benefits of the Assignee-Grantee Proviso.

[108] Wilson v. Rousseau, 45 U.S. 646, 669, (circuit court's opinion reproduced only in prefatory materials to this Supreme Court opinion; case report for circuit court, 30 F.Cas. 162, No. 17,832 (C.C.N.D.N.Y. 1845), was produced later and only summarized counsels' arguments in circuit court).

[109] *Id*. at 672.

[110] Wilson v. Rousseau, 30 F.Cas. 162, 187–215.

[111] Gibson v. Barnard, 10 F.Cas. 307, 307 (C.C.N.D.N.Y. 1848).

[112] *Rousseau*, *supra* note 76, at 669–71 (quoting unreported C.C.D.N.Y. certification request).

[113] *Id*. at 669.

[114] *Id*.

[115] *Id*. at 669–670.

[116] *Id*. at 670.

finally, Question Six asked whether if Wilson only held exclusive *use* rights in the relevant territory, that grant gave him authority to enforce the patent there.[117] Thus, in many ways, the real issue was the status of *Toogood's* cross-assignment in the extension term, even though it was not a party to the case. But resolution of these questions would allow the circuit court to decide the dispute.

B. Wilson v. Rousseau consolidated cases at the Supreme Court

Not all the consolidated cases involved the Assignee-Grantee Proviso, but rather seemed grouped as Woodworth patent extension cases on appeal around the same time from various circuits. Nonetheless, *Wilson v. Rousseau* was treated as the lead case, with the most detailed opinion (and dissents), and to which the other cases referred for important points.

1. The lead case: Wilson v. Rousseau

Finding the Assignee-Grantee Proviso "obscure,"[118] the Justices—majority and dissent—nonetheless agreed that Section 18 extensions re-invested all patent rights back into the patentee.[119] Thus, Justice Nelson, writing for the Court, held that all first term assignments and licenses were extinguished by the extension.[120] This applied to existing machines in grantees' possession.[121] As a secondary holding, however, the Court found the Assignee-Grantee Proviso to grant a kind of compulsory license providing *new* nonexclusive, use-only rights to first term assignees/grantees for the extension.[122] This meant, as against Taney's *Wilson v. Turner* circuit court opinion, that grantees could not construct new machines with the improvement, or sell improved machines, but only continue using existing ones in their possession.

In the circuit court, Rousseau had actually argued for something that sounded like exhaustion on a hypothetical involving the true sale of manufactured stoves (and not a license to make one's own stove).[123] Stoves were likely chosen as they were articles of manufacture that could be produced and distributed centrally by a patentee or his assignee. In other words, an analogy was being made from transactions that *were* sales of goods to franchise deals that only gave franchisee-licensees permissions to locally assemble and use complex machines. But this was an argument only for use in the extension term and not a claim of an existing exhaustion doctrine for manufactured goods. In fact, Rousseau implicitly conceded that the patentee might control use or resale of goods sold during the original term based on whatever deal

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117 *Id*.
118 *Id.* at 677.
119 *Id*. at 678 ("The whole structure of the eighteenth section turns upon the idea of affording this additional protection and compensation to the patentee, *and to the patentee alone* . . . ." (emphasis added)).
120 *Id*. at 682.
121 *Id*. ("Purchasers of the machines, and who were in the use of them at the time, *are disabled from further use immediately*, as that right became vested exclusively in the patentee." (emphasis added)).
122 The Court explained that Congress' policy was likely to "protect[] individual citizens from any special wrong and injustice on account of the operation of the new grant." *Id*. at 684.
123 Wilson v. Rousseau, 30 F.Cas. 162, 203.

had been struck between the parties.

The specific problem raised was that a strong view of the re-vesting of patent rights on a term extension might enable the patentee to demand new fees from an individual who had already purchased a stove for use, or a dealer who had purchased for resale, even just one day before expected expiration of the patent. This could certainly raise questions about the basis of the parties' original bargain and equitable considerations for such purchasers. But, Rousseau raised this *for purchasers who could not be construed as assignees or grantees* because they would not be covered by the Proviso. No authority was cited for this equitable argument and the Court's holding was against it by indeed re-vesting all rights in patentee, with only the caveat of the Proviso's compulsory license.

The Supreme Court further construed the Assignee-Grantee Proviso to cover a unitary set of assignees and grantees with the same rights.[124] The "extent of their respective interests therein" was interpreted to mean the number of machine franchises they acquired during the original term.[125] However, the Court did distinguish between assignees with exclusive make and vend rights—who then participated in the patent rights as the "thing patented"—and licensees with use rights only, for whom the "thing patented" was the constructed machine itself.[126] This contortion resulted from the Court's need to square its interpretation of "thing patented" with that of the *McClurg* Court.[127] Notwithstanding, both assignees and licensees were only granted the same use right for existing machines.[128] The Court believed this compulsory license adequately addressed the sunk costs argument.[129] Finally, the license was positioned as a default in the absence of express language to the contrary in the original term grant[130]—thus extending what to Duffy and Hynes seems like simply a statutory interpretation case into one in which the statute provided background rules while the main interpretive work was in ascertaining the parties' bargain.

On the face of its final Order, the Court seemed to find for Wilson on all relevant issues: the extension vested all rights back in Woodworth Jr.; the covenants in the cross-assignment were insufficient to extend Toogood's assignment into the extension term (converting it into a use-only license); anyone not claiming rights under Toogood from the initial term could be sued by the proper Section 18 extension assignee; and even though Wilson was only an assignee of an exclusive right to use two machines in the territory relevant to Rousseau, he had standing to enforce the

124 *Rousseau*, *supra* note 76, at 680–81.
125 *Id*. at 683.
126 *Id*.
127 *Id*.
128 *Id*. at 681.
129 This was underscored by reference to the statutory clause immediately following the Assignee-Grantee Proviso that precluded patentees from obtaining extensions after the initial term expired. *Id*. at 683–84.
130 *Id*. at 685–86.

patent there.[131] And yet, Rousseau and Easton would ultimately be allowed to continue using their machine. Further, a number of relevant issues for the Assignee-Grantee Proviso and extension rights were not addressed by the Order. Accordingly, interpreting "*Wilson v. Rousseau*" for its oft-cited role in the development of exhaustion only on the basis of the lead case opinion, and its Order, can be misleading. To understand the full import of this set of consolidated cases, one has to review the short opinions and orders for the other cases following the lead case opinion in the reporters.

2. Simpson v. Wilson

The second consolidated case, *Simpson v. Wilson*, concerned whether a territorial assignment limited the assignee's sale of *products* of the patented machine.[132] This was fundamental in patent farming because the franchises were priced on economic exclusivity in the local market; the commercial value of the machine to the franchisee was in selling products or services of the machine, not the machine itself.[133] If a territorial assignee could deliver products outside his own market, and into that of another, this would disrupt the pricing and sales volume estimates. The uncertainty of this issue may partially explain the apparent importance of franchising specific numbers of machines within a territory, rather than the territory generally. Limited to a certain number of machines, each territorial assignee could process finite quantities of materials and, if estimates of local demand were roughly accurate, have little excess capacity to process for customers outside the territory. Some franchises also specified that product sales were limited to the territory. Defendant franchisees here had obtained a general territorial assignment in West Florida during the first term, but then sold planed products in New Orleans as well. Under the Court's interpretation of the Assignee-Grantee Proviso, defendants had a compulsory license to continue using the existing machines they had constructed in the territory, but no longer had make and vend rights. However, the patent's vend right covered only sales of the *machines* themselves, not sales of the *products* of the machine. Thus, defendants were free to dispose of such products in any manner.

3. Woodworth and Bunn v. Wilson

The third consolidated case, *Woodworth and Bunn v. Wilson*, had little to do with the Assignee-Grantee Proviso even though it was a patent term extension case.[134] Bunn's extension assignment was upheld and Wilson was enjoined from further use of the machine he constructed as he held no first term rights to it. Of note, Bunn's assignment contained an express restriction on selling the machine's *products* outside

[131] *Id*. at 687–88.
[132] Simpson v. Wilson, 45 U.S. 709, 709–711 (1846).
[133] In other words, local woodworking or lumber firms made money by processing boards and other items through the Woodworth machine, delivered as either sold goods or possibly a service similar to Whitney's cotton gin service model.
[134] 45 U.S. 712 (1846). It is unclear whether defendant "James Wilson" is the same James G. Wilson who was plaintiff in the other cases as Woodworth's prime assignee.

the assigned territory.[135]

4. Wilson v. Turner

The final consolidated case, *Wilson v. Turner*,[136] was the appeal from Taney's circuit court decision. Nelson's opinion simply stated that the judgment in *Wilson v. Rousseau* "dispose[d] of the questions in this case, and affirms the decree of the Circuit Court."[137] Accordingly, we do not know whether any or all of the arguments put forth by Taney in the circuit court were accepted by the Supreme Court majority. It is curious why Taney joined the majority in *Wilson v. Rousseau* when he seemed to be arguing for much more than a use right, but this may have been a pragmatic political decision to ensure his case was affirmed. In fact, if Taney were playing the long game, his gambit indeed paid off as avoiding a reversal of his circuit court opinion here allowed him to reintroduce it as dicta in *Bloomer*.

5. Wilson dissents

The dissents in *Wilson v. Rousseau* clarified the debate over the Assignee-Grantee Proviso and support an argument that the parties' bargained-for expectations were paramount. Justices McLean, Wayne, and Woodbury had separate dissents, although Wayne never filed his.[138] McLean argued for Story's account.[139] Anything else defeated the purpose of Section 18, as the patentee would not be able to receive further remuneration, especially in cases such as Woodworth's where grants had already issued nationwide. Further, the majority's position was an odd compromise that overrode the parties' bargain.[140] McLean also countered the sunk costs argument by arguing that grantees actually received a windfall under the Court's decision because they had a head start during the first term and now received a free continued right to use in the extension term; non-grantees would have to pay market rate for rights in the new term, as well as construct machines and businesses from scratch. In any event, the Patent Office should have taken these counterbalancing equities into account when deciding whether to grant the extension in the first place. The process was open to public opposition and the original assignees in fact opposed the extension, to which McLean slyly noted, how "[l]ittle did they suppose at the time that they were resisting a boon secured to them by the above section."[141]

Justice Woodbury generally agreed with McLean (and Story), but would distinguish "assignees" and "grantees of the right to use the thing patented" as two distinct classes.[142] Conflating these was unfair to assignees who only received a third

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135 *Id.* at 714–15.
136 *See Wilson v. Turner*, 45 U.S. 712, 712 (1846).
137 *Id*.
138 *Rousseau*, *supra* note 76, at 692–93.
139 *Id*. at 688 (McLean dissenting).
140 *See id*. at 692 (explaining that "in my judgment he takes the whole extent of his [negotiated] interest,—the whole or nothing[, which] appears to be the construction given by the court").
141 *Id*.
142 *Id*. at 704.

of the value they had under the original grant (use, but not make and sell rights).[143] Woodbury was the most focused on the basis of the bargain approach and adamantly pointed out that the original contract expressly granted a *fourteen-year* patent assignment, no more, no less.[144] Parties were free to draft patent conveyances in other ways that granted rights for longer terms, shorter terms, extension terms, etc.—and these "solemn compacts" as private obligations should not be tampered with by Congress taking from one party and giving to another against the parties' clear negotiated intent.[145] He further argued that the Assignee-Grantee Proviso was less a benefit to grantees than a limitation: it modified the main provision of Section 18 which otherwise transformed a fourteen-year term into one of twenty-one years, so that grantee's rights only lasted so long as they had negotiated.[146] Finally, Woodbury noted that the issue was transitory: only pre-1836 grants presented the confusion; those made after would have knowledge of Section 18 extensions. The point is important in that Taney took a transitory aberration that would have worked itself out over time as the market adjusted to the extensions—or the statutory extensions provision was repealed as it would be later in the century—and leveraged it to effect a permanent and fundamental change in patent law.

C. The canonical Taney quote in context

The Woodworth litigation saga was far from over because all of the foregoing was just prelude to *Bloomer*. Woodworth was busy trying once again to reset the assignment/license map, this time under the Congressional extension set to run from 1849 to 1856, while also seeking yet a *further* Congressional extension, which was denied.[147] In the meantime, more clarity emerged as to his covert patent farming dealings and litigation arose over whether the Assignee-Grantee Proviso also applied to the Congressional extension term. Part and parcel with this, Congressional, judicial, and public sentiment began turning against him and other patent-farming entrepreneurs, in part contributing to a new anti-patent sentiment.

1. Setting the stage for Bloomer

Gibson revealed the background of *Wilson v. Rousseau*. Woodworth probably intended to cut out Toogood through the Section 18 extension, and executed new deals redrawing the franchise map before, during, and after acquiring the extension—

143 *See Rousseau*, *supra* note 76, at 704–07 (citing 1836 Patent Act §§ 11, 14 and employing the word "respective" to distinguish between these two classes, not the number of machines granted).

144 *Id*. at 693.

145 *See id*. at 694–98.

146 *See id*. at 699–700 (elaborating that without it, the main provisions of Section 18 might be argued to extend the status quo including grantees' rights, to the extension term because "'the said patent shall have the same effect in law as though it had been originally granted for the term of twenty-one years.'" But this would be "hostile to the design of inserting the whole [Section 18].").

147 Attempts in 1850 and 1852 failed. The first bill contained an express proviso extending use rights to both licensees and assignees upon extension of royalties into the new term. *See* H.R. Rep. NO. 31–150, at 1 (1850). The second bill drew a scathing House report concluding that Woodworth Jr. hid revenues, engaged in vexatious litigation, and already received more remuneration than the invention was worth. *See* H.R. REP. NO. 82–156, at 7–8 (1852).

even while awaiting the results of *Wilson v. Rousseau* itself.[148] Rousseau and Easton held a covert license from Woodworth to make and use one machine in the first term, even though this was Toogood's exclusive territory.[149] But John Gibson also had some sort of rights from Woodworth to one machine in the same town during the initial term. For the Section 18 extension, Woodworth assigned all of New York State to Wilson—except for Albany County, which was assigned to Gibson, and that with an exception for Rousseau and Easton's machine in Watervliet. But before securing the extension, Woodworth had also arranged with Rousseau and Easton that, for $200 down, he would commit to secure their rights if any extension indeed issued, together with rights to Gibson's machine (which he had licensed back from Gibson), upon full payment of $2,000 in four installments. Woodworth assigned this contract to Wilson, who then sued Rousseau and Easton when they failed to make all the payments. Speculatively, Rousseau and Easton may not have raised the first term license in *Wilson v. Rousseau* because they knew Toogood held the territorial rights and the deal had been done on the sly.[150] However, it seems that the license was disclosed in unreported proceedings after the circuit court resumed the case once it received the Supreme Court's answers to the certified questions, as Nelson, writing the circuit court decision in *Gibson* appeared unperturbed when ascribing the existence of such a license to the *Wilson* proceedings.

While *Wilson v. Rousseau* was pending, Wilson licensed Frederick Barnard to make and use the two Rousseau and Easton Watervliet machines for $4,000, of which $2,000 was paid that day and the rest conditioned on Wilson prevailing in his suit (if he lost he would also refund the $2,000 down payment). When Barnard built and used the machines after the Supreme Court's decision—apparently also believing that Wilson had won—Gibson unexpectedly sued Barnard.[151] The circuit court ruled that because the Woodworth-Rousseau contract had vested Rousseau and Easton with their patent rights, subject only to a reversion that would have to be effected through a proceeding in equity, Wilson had no rights to grant Barnard.[152] Further, even if an annulment of the contract in equity was fashioned, Wilson could only grant one use right to Barnard (the one Woodworth had licensed back from Gibson), because Rousseau and Easton's other use right was secured to them under the Assignee-Grantee Proviso from the first term. The Supreme Court dismissed Barnard's appeal

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[148] *See Rousseau*, *supra* note 76, at 658 (articulating that the Emmons patent was not extended). While it was presumptuous of Woodworth Jr. to assume that the cross-assignment would not continue into the extension, this may have been the expectation of many parties, and was mostly upheld by the Court.

[149] *See Gibson*, 10 F.Cas. at 308–09 (refusing to clearly describe the license, but it was apparently enough to trigger the Proviso compulsory license for the one machine already in use).

[150] Nowhere in 53 pages of plaintiff and defense arguments in the circuit court proceedings, and 63 pages of exhaustive prefatory materials for the Supreme Court's decision in *Wilson v. Rousseau*, was there a hint that Rousseau and Easton held some sort of grant from Woodworth.

[151] *See Gibson*, 10 F.Cas. at 307 (outlining how it was "unexpectedly" because Wilson had actually secured a release from Gibson to bring the suit in *Wilson v. Rousseau* out of an "abundance of caution," with Gibson seeming to concur that Wilson already had the superior rights and standing to sue).

[152] *Id.* at 307–308.

on grounds that the circuit court decree was not final, and as such the Court had no jurisdiction.[153]

Other cases grappled with both the repercussions of *Wilson v. Rousseau* as well as the new question of whether the Assignee-Grantee Proviso applied to the Congressional extension. *Wilson v. Simpson*, one of the consolidated *Wilson* cases returned to the Supreme Court on an amended complaint, established the repair-reconstruction rule on a basis of the bargain analysis.[154] *Bicknell v. Todd*, a circuit court decision, extended the repair-reconstruction doctrine while asserting a right for licensees to *buy* and use an existing lawfully made machine from a third party if their original machine broke beyond repair.[155] Two other circuit court decisions declined to apply the Proviso to the Congressional extension, which itself was silent as to assignee/licensee rights.[156] *Wilson v. Sandford* was to have been another case about license rights reverting upon failure to make payments, but the circuit court dismissed and on appeal Taney, writing for the Supreme Court, turned it into a debate over whether license disputes arose under patent or contract law.[157] Deciding the latter, and because the amount in dispute was less than two thousand dollars, the Court dismissed for lack of jurisdiction.

Woodworth's patent farming enterprise was at its labyrinth peak. The blizzard of assignments and licenses—many recorded with the Patent Office—documented in the various cases make sense only as part of a sophisticated patent franchising system. Woodworth and Wilson, his prime assignee, were carefully disaggregating rights along three axes: i) make, use, and sell rights; ii) territorial rights; and iii) rights to specified numbers of machines. But other than some local transactions in constructed machines, the entire enterprise was based on patent assignments and licenses, not sales of manufactured machines.

2. Bloomer v. McQuewan

The first term patent assignees for a region including Allegheny County—and the City of Pittsburgh within in—granted an exclusive license to one Barnet to construct and use fifty machines there during that term.[158] This grant in turn was

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153 *Barnard v. Gibson*, 48 U.S. 650, 658 (1849).

154 The Woodworth machine used off-the-shelf knives that wore out frequently. Replacing these was ruled not to be a new making or reconstruction of a machine but simply repair of an existing one built under the franchise grant. *Wilson v. Simpson*, 50 U.S. 109, 122–24 (1850); *see also* Mark D. Janis, *A Tale of the Apocryphal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law*, 58 MARYLAND L. REV. 423, 439–40 (1999). While the Court again used phrases that sounded like a manufactured object had changed hands—e.g., "bought" the machine—discussion in the case made it clear defendants constructed the machines.

155 *Bicknell v. Todd*, 3 F.Cas. 334, 335 (1851).

156 Gibson v. Gifford, 10 F.Cas. 317 (C.C.N.D.N.Y. 1850); Bloomer v. Stolley, 3 F.Cas. 729 (C.C.D. Ohio 1850). Elisha Bloomer would be the plaintiff in *Bloomer v. McQuewan*.

157 51 U.S. 99 (1850).

158 Some courts seemed to use "assignment" and "license" interchangeably at this time, although they may have correctly been referring to an assignment of a license, in the sense of conveyance of the contractual rights or obligations of the license agreement to a third party. *See, e.g.*, George Ticknor Curtis, A TREATISE ON THE LAW OF PATENTS FOR USEFUL INVENTIONS 236–37 (Charles C. Little and

assigned through various intermediate transactions to the firm of McQuewans and Douglas, who constructed and used two machines in Pittsburgh. While the Assignee-Grantee Proviso covered continued use in the Section 18 extension, Bloomer, who had secured the assignment for the territory under both extensions from Wilson, sued when the McQuewan firm continued using the machines in the *Congressional* extension. The circuit court found for McQuewan and dismissed the bill.

Writing for the Supreme Court on appeal, Taney clearly understood that no machines were being manufactured and sold as goods.[159] The core holding was that Congressional extensions were "ingrafted" onto the general Patent Act in pari materia, as they did not contain all of the provisions needed to stand on their own.[160] This meant the Assignee-Grantee Proviso applied and the McQuewans could continue using the machines. Once the ingrafting holding was reached, the matter was straightforward and fully resolved.

But, yet again, Taney embarked on unnecessary dicta in an effort to establish broad "law" well beyond the case at hand. Whether for honest or devious purposes, Taney "justified" both the Assignee-Grantee Proviso and *Wilson v Rousseau* by giving a new rationale that conveniently resembled his dicta from *Wilson v. Turner*. Taney cited no legislative history or other authority for his explanation of the Proviso. This was pure judicial activism twisting statutory text into something quite different. Consistent with Jacksonian Democrat rhetoric, Taney advanced a vision of the Woodworth licensees who built and operated machines as honest, hardworking contributors to their local economies, who should not be put out of business by some distant patent shark under overreaching federal powers. Distinguished from regional assignees, who participated in the "franchise" of the patent by being able to license and enforce it in their territory,[161] the local "licensees-for-use" gained no such benefits and held their self-constructed machines as their only asset in this regard.[162]

Taney used this opinion to also radically recast patents as purely negative rights to exclude.[163] This in turn allowed him to argue perpetual use rights for licensees,

James Brown, Boston, 1849). But *cf.* Mossoff, *Exclusion and Exclusive Use in Patent Law*, *supra* note 8 (tying the original use of "assignment" and "license" in patent law to the field's early conceptualization as analogous to real property law); Mossoff, *A Simple Conveyance Rule for Complex Innovation*, *supra* note 8 (same).

159 55 U.S. at 548 ("defendants purchased the right to construct and use a certain number of these machines . . . . the two machines mentioned in the bill were constructed and used by the respondents soon after purchase was made").

160 *Id*. at 548. Congressional private act extensions before and after passage of the 1836 Act varied between including and not including provisos for licensee use, however. *Id.* at 543-44 (listing grants and any provisions for existing grantees). Taney glossed over this fact.

161 *Id.* at 549.

162 *Id*. at 544-47. This logic worked only for nonexclusive licensees, as exclusive grantees derived benefit from their exclusivity, even if they could not directly enforce it.

163 "The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent." *Id*. at 549. Mossoff rebuts this as a correct statement of the law at the time. Mossoff, *Exclusion and Exclusive Use in Patent Law*, *supra* note 8, at 341.

regardless of any extensions the patentee might secure, because all the licensees had purchased were effectively covenants-not-to-sue. Holding neither positive nor negative rights under the patent, licensees should not be limited or disturbed by its various terms.

This idea that the local franchisee was not using or profiting from the patent "monopoly" as a business, but rather was simply operating a physical machine for a woodworking business, was illustrated in a rhetorically powerful paragraph that would become the canonical origins citation for exhaustion:

> But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life [i.e., the licensee], stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. *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*.[164]

The italicized sentences form the key quote. Read alone, or even in the context of the full paragraph, they seem to mean that the Court is discussing the sale and conveyance of a pre-manufactured physical object sold in commerce. But this was neither the case at hand, as Taney knew, nor the facts of the *Wilson* cases or any of the Woodworth or other patent farming enterprises of the time. Neither are there any cites to such a rule, implied or express, in U.S. or British law. In fact, none of the major patent treatises of the time mentioned such a rule impacting the sale of patented goods either.[165]

So either Taney was stating an unsupported "rule" for manufactured things as an unstated or disconnected analogy for what should happen with machines constructed by licensees, or he meant that when the make and use license ("sale of the machine") was conveyed ("passes to the hand of the purchaser"), the licensee did

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164 *Id*. (emphasis added).

165 Fessenden's essays did not address the rights of purchasers at all. THOMAS G. FESSENDEN, AN ESSAY ON THE LAW OF PATENTS FOR NEW INVENTIONS (D. Mallory & Co., Boston 1810); THOMAS GREEN FESSENDEN, AN ESSAY ON THE LAW OF PATENTS FOR NEW INVENTIONS (2d ed., Charles Ewer, 1822). Phillips' discussion of a case involving patentee's lease of premises cut against an exhaustion right because landlord needed express permission from patentee to continue using the machine at end of lease even though patentee agreed to leave the machine and thereby convey title to landlord at that time. WILLARD PHILLIPS, THE LAW OF PATENTS FOR INVENTIONS 346 (American Stationers' Company, Boston, 1837) (citing Reutgen v. Kanowrs and Grant, 1 Wash. C. C. R. 168). Curtis suggested something like exhaustion when distinguishing assignees from licensees: "Thus, when the patentee sells to another a patented machine, made by himself, or permits such person to make the machine, the party thus authorized becomes a licensee, with the right of selling the machine, which carries with it the right of using it." Curtis, *supra* note 158 at 233. However, Curtis cited no authority for this—which he did for his other major points—and it was unclear whether one who bought from the *licensee* could in turn resell the machine. Further, Curtis characterized these rights as a *license* and not an independent limitation on patent rights. This is likely better understood as a default implied license to effect the basis of the bargain *in the absence of express language to the contrary*.

not rely on the patent franchise or monopoly per se to build and use the machine, or derive value from it.[166] The latter explains another Taney quote sometimes also used as evidence for a common law basis of exhaustion:

> And if [the *licensee'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. The implement or machine becomes his private, individual property, 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.

Modern commentators take this to mean that the physical object is now governed *only* by state law (e.g., property and contract law) and that the *patentee* has no more rights over this object (except at the limit of reconstruction). But that misunderstands whose rights Taney was talking about. A close read shows that he was analyzing the *licensee's* rights to the physical object, as the edited quote above clarifies. With only one exception,[167] the male pronoun in the paragraph always signifies the licensee ("the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life"), who is being distinguished from the assignee analyzed in the preceding paragraph, whose rights *only* exist under the patent law (as he is buying a "portion of the franchise which the monopoly confers"). When we plug in "licensee" to the key sentences about moving from federal to state law, a very different meaning emerges. Because courts of the time were consistently finding that holders of make and use rights alone were not (part) owners of the "monopoly" (i.e., the patent)—which meant they could not sue to enforce the patent—then if a third party "infringed" the licensee's right to the implement or machine, say by trying to seize the machine or block its use, or perhaps even by building or using competing machines when the licensee's rights were exclusive, then the licensee could *only* sue in state courts and not in federal courts as it was not an action under the patent act. Likewise, any contracts the licensee entered into with regard to this personal property were enforceable under state law alone; and as property governed by state law, state taxes applied as well.[168]

This reading completely turns around the meaning of the passage: far from being an "exhaustion" of the *patentee's* federal patent rights, it is a kind of exhaustion—or more accurately rebuttal—of any purported enforceable federal patent right by the exclusive territorial licensee. This explains the dicta's location within the equitable sunk costs argument. If all that licensees hold are personal property rights to the object

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[166] 55 U.S. at 550.

[167] "The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way." It would seem that "him" means the purchaser/assignee while "he" signifies the inventor, who may or may not have taken out a patent on the invention. This simply underscores the notion that even without a patent, an individual can still sell an invention.

[168] 55 U.S. at 550. The importance of the tax reference is likely related to the great dispute of the time as to whether patented goods—coming under a federal franchise—were subject to state taxes, or only federal taxes.

they construct, then all the more important to allow them the Assignee-Grantee Proviso use license under Congressional extensions as well. Or, looked at another way, once the licensee built the machines at his own expense it would seem inequitable to allow the patentee licensor (or his regional assignee) to take legal control of the machine or restrict its use in the term extension.

Taney's dicta quote is thus better placed in the case law regarding licensee standing to sue to enforce underlying patents—usually centered around *Waterman v. Mackenzie*[169] and *Pope v. Gormully*[170]—than in the exhaustion case law, which is further supported by his intent focus on federal courts' jurisdiction. It also fit perfectly with the states' rights and limited federal power views of Jacksonian Democrats.[171] Further, licensees held use-rights only, so they could not resell the machine without permission of the patentee or territorial assignee, further distinguishing this from modern exhaustion and showing the machine was hardly "outside the monopoly" in all regards.

All of this, however, was couched in a basis of the bargain perspective.[172] Any interpretation of Congressional extensions that would take away that use-right would constitute a Constitutional taking and inadequate due process.[173] The basis of the bargain between patentee and licensee was a license running for the life of the *machine*, and not the life of any *patent term*.

In an insightful article delineating "pre-classical" American patent law focused on public works economic development from "classical" patent law employing an exclusively private property rights approach, Herbert Hovenkamp positions Taney's objective as to introduce "economic substantive due process in *Bloomer*."[174] Part of this was a concern over Congressional "retroactive and single-owner" extensions as a form of legislative capture resulting from influential lobbying. However, while that sentiment might be appropriate for the Congressional extension in *Bloomer*, this overlooks that Taney had already introduced the same arguments in the context of Section 18 extensions in *Wilson v. Turner*. These were exactly the kind of objective administrative term extensions by the Patent Office available to all patentees upon showing of inadequate compensation that Hovenkamp seems to laud as part of the Patent Act of 1836's push to counter "special interest favoritism for a single patent."[175]

Complementary to my focus on the courts seeking to discern and enforce the parties' bargain, Hovenkamp also asserts that the facts of *Bloomer* are more closely

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[169] 138 U.S. 252 (1891).

[170] 144 U.S. 248 (1892).

[171] *See, e.g.*, Mossoff, *Exclusion and Exclusive Use in Patent Law*, *supra* note 8, at 341–42.

[172] 55 U.S. at 553 ("The right to construct and use these planing machines, had been purchased and paid for without any limitation as to the time for which they were to be used.").

[173] *Id*. at 553-54. This approach had been first set out in *McClurg*, *supra* note 101.

[174] Herbert Hovenkamp, *The Emergence of Classical American Patent Law*, 58 ARIZ. L. REV. 263, 289–92 (2016).

[175] *Id*. at 292.

related to Constitutional Contract Clause concerns than formal due process ones (or IP Clause ones for that matter). "*Bloomer's* principal concern was retroactive legislation that undermined settled expectations in a sale of property that had already occurred."[176] Where we diverge is that Hovenkamp fully accepts Taney's view of the equities in this regard while I think Nelson and McLean's view on them in dissent—discussed below—were equally compelling.

For my purposes, we need not resolve whether the majority or dissent has the better take on the parties' bargain and the equities involved. We are in a poor position more than 150 years later, and with no access to the full record, including witnesses, presented in the trial court to do so. Rather, the important point is that Taney, as much as most other nineteenth century judges and justices, was simply trying to ascertain and enforce the parties' bargain.

Ultimately, Hovenkamp allows Taney's sleight of hand in ginning up a "rule" for sales of goods out of a case involving only assignments and licenses for grantees to make and use their own machines. While Hovenkamp accurately portrays the underlying assignment/license transactions as the facts of the case, he still writes as if modern exhaustion—use and resale—actually were established by Taney in *Bloomer*.[177] But Taney's canonical statement could not have been the holding—as Hovenkamp portrays it in line with other commentators under the conventional account—because there was no sale of goods here. Further, while Hovenkamp claims that "the patent-exhaustion rule does not depend for its existence on a legislative term extension,"[178] *Bloomer* was all about term extensions and the application of the Assignee-Grantee Proviso. It would not be until Taney's protégé Justice Clifford incrementally worked it into subsequent decisions discussed below that Taney's dicta would become untethered from the Proviso and be repositioned as a free-floating common law rule.

Bloomer was decided by a mere plurality of four Jacksonian Democrat justices, including: Taney, a Jackson appointee; Justice Catron, another Jackson appointee; Justice Daniel, appointed by Van Buren (Vice President and Secretary of State for Jackson); and Justice Grier, appointed by Polk. Yet not all Jacksonian Democrats joined the plurality. McLean, a Jackson appointee, joined Nelson, a Tyler (Whig) appointee, in a scathing dissent.[179] Justice Wayne was sick and did not sit in the case.[180] Justice Benjamin Curtis—whose brother was patent and copyright treatises author George Ticknor Curtis— had served as counsel to other opponents to the defendants and so recused himself.[181] One seat was vacant due to McKinley's

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[176] *Id.*
[177] *Id.* at 291 ("The judge-made first sale doctrine that the Court announced did not necessarily condemn all retroactive term extensions. Rather, the Court *held* that once a patented good had been *sold* under an original patent whose term had expired, the patentee could not revive royalty obligations by relying on a subsequent patent term extension . . . .").
[178] *Id.*
[179] *Id.* at 554-62.
[180] *Id.* at 539, 562.
[181] *Id.*

death.[182] Determining what might have happened had the full bench been available is difficult. Wayne's views are hard to discern from the record. But Curtis was openly against Taney and the Democrats on this and on *Dred Scott*, joining McLean as the only other dissenter in that case.[183]

McLean and Nelson's dissent recapitulated their arguments from *Wilson v. Rousseau*, with the extra fillip that the Congressional extension intentionally, in their view, left out any grant of rights for assignees and grantees.[184] They also described a very different perspective on the equities. Barnet had paid $4,000 to make and use up to fifty machines expressly *only* for the "residue" of the original fourteen-year term (about ten years). Barnet assigned his rights (save seven machines) to the McQuewan firm, which then had already received the unexpected windfall of an extra seven years for the Section 18 extension under *Wilson v. Rousseau*. On the other side, Wilson had paid $25,000 for an assignment of make, use, and vend rights in a territory that included Pittsburgh just for the Congressional extension—which was on top of what he had paid Woodworth for the assignment under the Section 18 extension. The dissent does not record what Bloomer paid for his rights under the two extensions, but presumably it was also significant. Thus, the plurality's holding giving a free continued use right for the McQuewan firm under the Congressional extension was as much a taking of Woodworth's and Wilson's property as a reverse ruling would have been a taking of McQuewan's property.[185]

More importantly for the dissent, the express basis of the bargain was a limited-in-time grant—not one for the life of the machine—in exchange for what seemed to be a reasonable market rate for that grant.[186] And again, the worst case scenario for grantees who had constructed machines under the licensed term was that they had to either buy a new license (in which they were actually better off than new entrants as the licensees had already built and likely recouped the costs of their machine) or sell the machine's presumably fully paid off components to others.[187] At any rate, grantees buying for a limited term must have speculated that they would profit even with the start-up costs and limited run. If they were wrong on this, and they could not then profit using the components in alternate ways in any unlicensed extension term, or in the same manner during post-patent free competition, then this was simply the risk of business investments. This is not so different from other speculative capital-intensive

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[182] *See, e.g.*, Bloomer v. Millinger, 68 U.S. 340, 348 (1863) (noting statement of counsel for appellant Bloomer).

[183] *See id*. Curtis left the Court after arguments with Taney for deceptively withholding the printed *Dred Scott* decision that Curtis needed to finalize his own dissent. In a further interesting twist, Curtis' brother, George Ticknor Curtis, represented Scott.

[184] *Id*. at 554-62. Unhappy with a four-Justice plurality decision, McLean noted that the majority of Justices who had opined on the matter in circuit court and Supreme Court cases over time would have given a clear majority for the dissent position. *See* 55 U.S. at 553. He committed to cause the Court to revisit the issue in the future. *Id*.

[185] *Id*. at 557.

[186] *Id*. ("When Barnet purchased the *franchise* for the fifty machines, he did not buy the *machines* for a term as long as the machines could run, but for nine years and six months.").

[187] *Id*. at 556–57.

ventures subject to legal or regulatory restriction, such as pharmaceutical research and development in advance of Food and Drug Administration approval or manufacturing set up by a firm in the face of another's known pending patent application.

3. Summarizing the state of the law upon issuance of Bloomer

Despite the value of Taney's dicta rhetoric for later courts and commentators, upon the issuance of *Bloomer* there was still nothing even vaguely resembling the exhaustion doctrine in federal case law. If the notion of free alienability of chattel was so deeply ingrained as a fundamental principle of common law, such as Breyer's opinion in *Kirtsaeng* would have it, then one would expect at least a passing reference to this in *Bloomer* or the myriad Woodworth and other patent farming cases. American courts of this era certainly had no problem raising points of British law. And we know that Taney was well aware of the rules around restraints on alienability—and was quite capable of expressly referring to them—from his detailed discussion in *Williams*. Indeed, he had actively *upheld* a condition subsequent that restrained alienation in that case. Thus, the conclusion must be that Taney created this principle out of whole cloth exclusively for the patent farming scenarios apparently as a means to cabin federal law and advance the interests of local craftsmen and workers as part of the overall Jacksonian agenda. Taney's dicta *sounds* like law, and he does mention articles of manufacture, but both the context and the fact that he cites no authority—nor even posits it as a principle of the common law or maxim of equity—show that this was a bootstrapped equitable argument simply for the purpose of showing why licensees deserved the Assignee-Grantee Proviso license during Congressional extensions. And, again, the legal matter at issue was fully resolved once he determined that the Congressional extensions were "ingrafted" onto the Patent Act so none of this other discussion was needed.

Further, everything pointed away from a proto-exhaustion doctrine at this point. First, an express license was needed for use, even by users purchasing manufactured implements or machines from authorized vendors. Second, the parties could vary any terms of assignment, licensing, or sales of patented goods in these express contracts. Taney and his followers merely believed that benefit of the doubt, or default, should be towards perpetual licenses through any extensions. Terms like "for the life of the patent," or where no express time given, should be construed as meaning for the life of the implement or machine. By contrast, McLean and others following Story thought the default should be the patent term under which the grant was given. Thus, the silence of the Woodworth Congressional extension was a perfect litmus test: Taney et al. construed it to mean that rights continued; McLean et al. interpreted it to mean they did not. But all agreed that an express term in the original grant that tied it to a period less than the extant patent term, or that clearly said it did not continue into any extensions, would mean that the grantee would have to stop using the machine at the end of that time, regardless of how much the machine had cost him, etc. In *Bloomer*, the justices simply disagreed as to the meaning of the exact language in the grants. Third, without an express right to vend, no authorized owners of a machine could resell it, at least as a combined working unit.

Ultimately, across all these cases, the driving perspective and common ground amongst the justices was upholding the basis of the bargain. What did the parties bargain for and was that reflected in the express patent grant language? Patent assignments and licenses were being sliced and diced along the three axes mentioned above, and the courts had no problem upholding these arrangements, even where they might have been unlawful under modern antitrust law. There was no hint that these transactions were limited in any way, or that users had any rights beyond those expressly negotiated or granted under statutes such as the Assignee-Grantee Proviso.

III. Bootstrapping Taney's Dicta Into "Emancipation" of Purchased Patented Goods in the Late Nineteenth Century

Bloomer was a narrow case extending *Wilson's* Assignee-Grantee Proviso use-only license for existing assignee/licensees to Congressional extensions. It should have had limited impact as the resolution to an ephemeral issue that would pass as the novelty of statutory and Congressional extensions was regularized in the marketplace with contract drafting practices catching up. There was no judicial common law rule or doctrine created or relied on—the holding simply interpreted and applied a statutory compulsory license. Indeed, this was how George Ticknor Curtis interpreted the case in the second edition of his treatise published the following year.[188] He included a citation to *Bloomer* only in the patent term extension section—and not in the transfer of rights section in which arguably there was already a suggestion of use and resale rights for patented goods sold in commerce. That latter section remained unchanged from the first edition, with no authority given for the example of a purchaser of patented goods as an implied licensee with rights to use and resell (and convey rights to use with the resale).[189] If *Bloomer* was an advancement of an existing common law exhaustion doctrine, or the creation of a new one, we might expect one of the major patent treatises to have treated it as such. This would be especially true of Curtis who incorporated extensive text of both the *Wilson v. Rousseau* and *Bloomer* opinions in his section on term extensions.[190]

Thus, Taney's dicta might have quietly disappeared but for the persistent efforts of his fellow Jacksonian, Justice Clifford, who adopted it and Taney's penchant for advancing "law" through dicta. Clifford migrated this powerful rhetoric incrementally into mid-century patent decisions. In particular, he was the first to adapt it to the sale of patented goods in the 1859 circuit court decision *Goodyear v. Beverly Rubber Company*.[191] In essence, Clifford steadily untethered the Assignee-Grantee Proviso license from its *statutory* mooring in a series of opinions that allowed it to be viewed as a free-standing doctrine of judicial *common law* by later courts.

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[188] George Ticknor Curtis, A TREATISE ON THE LAW OF PATENTS FOR USEFUL INVENTIONS §§ 118–19 (2d. ed., Little, Brown, and Company, Boston, 1854).

[189] *Id*. at § 195.

[190] *Id*. at § 118.

[191] 10 F. Cas. 638 (C.C.D. Mass. 1859).

At the same time, Nelson advanced his own independent implied license-for-use in the sale of a manufactured machine in the 1855 circuit court decision *Blanchard v. Whitney*.[192] As noted above, Blanchard's patent farming enterprise for his asymmetric object lathe was a model for the Woodworths' business empire. But in one instance, his firm did build and deliver a lathe to Eli Whitney's son—who like Woodworth Jr. had taken over the family business. Blanchard pulled exactly the kind of "gotcha" tactic courts were wary of, however, when he later secured a patent extension and then demanded Whitney Jr. pay more or cease using the machine.[193]

Because Blanchard had imposed no conditions on the original sale of the lathe, and the parties had in all other respects treated it as a standard manufacturer's sale of unpatented goods,[194] Nelson found an implied license for continued use until the machine wore out. Notably, he expressly rejected *Wilson* and *Bloomer* as having any bearing on the sale of patented goods.[195] While he distinguished chattel title from patent rights, he noted that a patentee who presumptively held all rights to the patent had the authority and power to transfer both chattel title and any of the patent's rights when he built and sold a machine embodying his patent.[196] Importantly, Nelson found an implied license here simply as a basis of the parties' bargain.[197] Far from a ruling based on the alienability of chattels, Nelson limited this to a use-only license with no right of resale. It was also a default, which could be altered by express, mutually assented provisions in the transaction.[198]

Thus, judicial ideas about allowing relatively unfettered use of patented goods by end users were "in the air" as the American Industrial Revolution got fully under way. This might explain later views that the doctrine which ultimately emerged as exhaustion was longstanding common law. Yet, the Supreme Court itself would not endorse anything like actual exhaustion—including not only use but also resale or alienability—until *Adams v. Burke*, two decades after *Bloomer*.[199] The Court in fact expressly noted it as a case of first impression.

This Part traces the transformation of Taney's dicta into the "emancipation" doctrine throughout the second half of the nineteenth century, culminating in the 1895 decision of *Keeler v. Standard Folding Bed Co.*[200] Initial impetus for this development came from patent farming enterprises: not only Woodworth's, but also

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[192] 3 F. Cas. 651 (C.C.D. Conn. 1855).
[193] *Id.* at 651.
[194] *Id*. at 652. Nelson cited no authority for the proposition that there was a "right of the vendee as against the vendor or manufacturer in ordinary cases; and that relation existed between these parties."
[195] *Id*. at 651 ("However this might be in a case where the patentee had simply sold a right to construct and use a machine under the previous term, we are inclined to think that the reasoning is not applicable to a case where the patentee has manufactured and sold the machine himself to the party sought to be enjoined.").
[196] *Id*. Nelson distinguished these complete rights from those of a regional assignee who held a lesser estate in the patent title.
[197] *Id*. at 652.
[198] *Id*.
[199] Adams v. Burke, 84 U.S. 453 (1873).
[200] Keeler v. Standard Folding-Bed Co., 157 U.S. 659 (1895).

Goodyear's and a competitor's vulcanized rubber franchising. As central, or at least regional, manufacture and distribution systems for all manner of articles of manufacture, machines, and compositions of matter developed over time, new kinds of pressure emerged for what would become the emancipation doctrine.

A. Goodyear patent farming cases

Charles Goodyear was not the first to develop cured rubber products, but his patented "vulcanizing" process produced better results than those of competitors.[201] Like the other inventors discussed above, he commercialized his patent through carefully farmed out franchises. Assignees and licensees financed and constructed their own machines to employ the patented process, selling the resultant rubberized articles of manufacture in commerce. In part because his process was so broadly applicable across a range of products (garments, boots, hoses, tubes, belts, etc.), Goodyear also innovated in patent farming by adding systematic field-of-use grants.[202] Also like other inventors we have considered, Goodyear worked with a partner and prime assignee, while confronting a business nemesis with another patent and team—in this case Horace Day, competing on the Chaffee rubber patent.[203] The Goodyear and Day teams engaged in ongoing "coopetition" as Woodworth and Toogood had, leading to a complex record of assignments, licenses, and litigation with changing parties often disguising the reality of Goodyear and Day behind it all.[204] Goodyear was also able to secure the product-by-process interpretation of his patent for some material that had eluded other patentees and allowed him to enforce it as to products of his process as well.[205]

Two Goodyear circuit court cases following *Bloomer* exemplified the evolving doctrine around patents, contracts, and chattel. *Day v. Union India Rubber Company* picked up on Taney's dicta to assert that a patent extension was a taking of personal

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[201] Goodyear solved the problem of rubber products' sensitivity to temperature and oils by adding sulphur and "white lead" to the raw rubber and curing it beyond the temperature and time conventional wisdom held could beneficially be applied. U.S. Patent No. 3,633. *See also Beauchamp*, *supra* note 73, at 889 n.205; Goodyear v. Day, 10 F. Cas. 678, 680 (C.C.D. N.J. 1852) (No. 5569).

[202] *See, e.g.*, Goodyear v. Central R. Co. of N.J., 10 F. Cas. 664, 664 (C.C.D. N.J. 1853) (No. 5563) (vulcanized rubber springs for railroad cars); Day v. Candee, 7 F. Cas. 230, 233 (C.C.D. Conn. 1853) (No. 3676) (boots and shoes); Day v. Union India Rubber Co., 61 U.S. 216, 217–18 (1857) (cloths, ships' letter and mail bags, wearing apparel, army and navy equipment, and sheet rubber); Day v. Stellman, 7 F. Cas. 262, 265 (C.C.D. Md. 1859) (No. 3690) ("shirred" or corrugated goods (generally clothing), baby jumpers, door springs, paper holders or bands, and belting); Chaffee v. Boston Belting Co., 63 U.S. 217, 220 (1859) (belts and other parts for machines).

[203] The Chaffee patent has been characterized as a process for "grinding India rubber without a solvent," Candee, *supra*, at 232, but by its own account was "a new and useful improvement in the preparing, coloring, and applying india-rubber to cloth of all kinds, leather, and other articles without the use of solvent." U.S. Patent No. 16. (1836).

[204] *See Central R. Co. of N.J.*, *supra* note 202, at 671; *Candee*, *supra* note 202, at 230; *Union India Rubber Co.*, *supra* note 202, at 216–18; Hartshorn v. Day, 60 U.S. 217–19 (1856); 7 F. Cas. at 262–63; *see also Beauchamp*, *supra* note 73, at 864-65; *Log-Rolling at Washington*, ATLANTIC MONTHLY, Sep. 1869, at 369.

[205] *Central R. Co. of N.J.*, *supra* note 202 at 671.

property rights as to existing machines because they were "outside" the monopoly.[206] This may have been in part because the judge was skeptical of *Wilson v. Rousseau* as an untenable compromise between two extreme positions.[207] The Supreme Court affirmed on different standing grounds regarding ownership of the patent,[208] once again leaving a dubious circuit court opinion unchallenged.

Goodyear v. Union India Rubber Company involved the question of patent versus contract remedies for breach of patent assignments and licenses.[209] The court distinguished two classes of grants: those with express language allowing termination of the grant upon any breach of covenants by grantee; and those without.[210] The first gave the grantor the choice between continuing the contract and suing in state court for breach of contract damages, on the one hand, and terminating the contract and suing in federal court for injunction or damages under patent law (as the grantee no longer was operating under a lawful patent rights grant), on the other. Grants without express termination language could only result in state breach of contract actions.

In 1859, Clifford appeared to make his move, managing to establish a true precursor for modern exhaustion doctrine, albeit controlling only in one circuit. He achieved this by citing his own dicta planted in a Supreme Court opinion that same year. Writing for the Supreme Court in *Chaffee v. Boston Belting Company*, Clifford followed Taney and added gratuitous dicta to an otherwise straightforward technical reversal of the circuit court. Whereas the lower court held there was an Assignee-Grantee Proviso compulsory license upon finding defendants had secured rights under the original patent term, Clifford and the Court decided there were no such first term rights.[211] This fully resolved the matter, but then Clifford went on in dicta to speculate what might happen if the defendants *did* have such rights, allowing him to restate Taney's dicta while making it sound like an established common law doctrine that Congress had simply codified.[212] In context, Clifford's dicta was further jarring

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[206] 7 F. Cas. 271, 273-74 (C.C.S.D. N.Y. 1856) (No. 3691).

[207] The opinion relied on a misleading selection of Congressional patent extensions to argue that grantee rights must always survive. Oddly, it also flipped the developing distinction between assignees and licensees to give the former *greater* rights in the sense that they could procure new machines while the latter could only continue using existing machines. *Id.* at 274–76.

[208] *Union India Rubber Co.*, *supra* note 202 at 217–21

[209] 10 F. Cas. 726 (C.C.S.D.N.Y. 1857) (No. 5586).

[210] *Id.* at 727–28.

[211] *Chaffee*, *supra* note 202, at 222–224. The case history is convoluted. Day initiated the suit in 1853 to enforce Chaffee's patent extension term as *Day v. Boston Belting Co.*, 7 F. Cas. 221 (C.C.D. Mass. 1853) (No. 3674). But when the assignment to Day was found defective in *Candee*, *supra* note 202, subsequent decisions were in Chafee's name. *See, e.g.*, *Day v. Hayward* which became *Chaffee v. Hayward*. 61 U.S. 208, 210 (1857); *Log-Rolling at Washington*, *supra* note 204, at 369; *Kansas and the Administration—Proclamation of Governor Walker*, THE N.Y. HERALD, Sep. 28, 1857 at 4.

[212] "When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly. . . . Applying these principles to the present case, . . . there would be no difficulty in sustaining the instructions given to the jury, *provided it appeared that the machinery used by the defendants had been legally purchased by them of the patentee or his assigns during the original term of the patent*." 63 U.S. at 223-224 (emphasis added). "[The Assignee-Grantee Proviso compulsory license] rests upon the *doctrine* that the purchaser, in using the machine under such

because *Wilson* governed the facts in front of him—a Section 18 extension—and not *Bloomer,* which governed *Congressional* extensions. Further, he mischaracterized Taney's dicta as being part of the "decision" in both *Bloomer* and *Wilson*.[213] Notwithstanding all this, Clifford's opinion was still clearly based on facts involving patent *grants*, and not sales of goods, and notably omitted any claim for resale rights.[214] Thus, this Supreme Court opinion did not itself advance a proto-exhaustion rule.

The payoff came when Clifford subsequently applied both his and Taney's dicta as established doctrine in the circuit court case *Goodyear v. Beverly Rubber Company*.[215] Infrequently mentioned as the source of exhaustion doctrine, the decision also extended the earlier dicta to include an express resale right. Beverly Rubber Company bought worn-out vulcanized rubber shoes and broke them down through a time and energy intensive chemical process to reclaim the basic rubber and manufacture new articles.[216] Clifford ruled that Beverly Rubber was not using Goodyear's process and that its devulcanizing process successfully transformed the source material into something else.[217] But the company used the source material in the process—"and in point of fact they cannot use any other."[218] To find for the defendants nonetheless, Clifford bootstrapped a new rule:[219] "the unconditional sale of the manufactured article carries with it the absolute dominion over the material as well as over the manufactured article."[220]

Nonetheless, Clifford imposed important limits and context on this new rule.

circumstances, exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or the exclusive privilege granted to the patentee." *Id*. at 223 (emphasis added).

213 "According to the *decision of this court in the cases before mentioned*, [the patented machine] then passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights." *Id.* Note the plural "cases" when only *Bloomer* contained this language. Clifford incorrectly placed it into *Wilson* as well.

214 "Hence it is obvious, that if a person legally acquires a title to that which is the subject of letters patent, he may continue to use it until it is worn out, or he may repair it or improve upon it, as he pleases, in the same manner as if dealing with property of any other kind." *Id*.

215 Goodyear v. Beverly Rubber Co., 10 F. Cas. 638, 641 (C.C.D. Mass. 1859) (No. 5557). While the case is listed for October Term, and *Chaffee* listed for the Supreme Court's December Term, *Goodyear* cites *Chaffee* and adapts its holding.

216 *Id*. at 638–40.

217 *Id*. at 640.

218 *Id*.

219 *Id*. at 641 ("That rule, as was held in *Chaffee v. Boston Belting Co. . . .*").

220 *Id*. at 640. Clifford added a resale right to the Taney principle that included repurposing of component parts: "Suppose it to be an implement or machine, he may devise it or sell it, and if it be composed of various parts he may break it up and use the materials for any other lawful purpose. Second purchasers acquire the same rights as the seller had, and may do with the article or its materials whatever the first purchaser could have lawfully done if he had not parted with the title." *Id*. at 641. This also addressed Goodyear's field of use argument: manufacturer was licensed only to make and sell shoes; purchasers of the shoes could have no greater rights than manufacturer held and so the shoes of their material could not be used for other purposes. Under Clifford's view, defendants were "using" the vulcanized rubber only in an extractive process to obtain the substrate rubber which was then the material made, used, or sold in other forms.

First, he repeatedly included the qualifier that it applied only to *unconditional* sales.[221] Second, it was couched in a basis of the bargain analysis.[222] Third, he conceded that this was a case of first impression and that *Bloomer* and *Wilson* were simply the "nearest" precedents which, when coupled with the absence of cites to common law or other authorities, implied that there was indeed no longstanding common law basis for this principle.[223]

Hovenkamp would interpret both *Chafee* and *Goodyear* as a steady trajectory from *Bloomer* to demarcate federal law's control of the patent franchise itself from state laws' control of ownership and licensing of the chattel produced under patents.[224] Whatever the merits of this distinction as a normative theory or policy, it ignores the reality that *Chafee* was decided on Assignee-Grantee Proviso grounds—and the defendants were found *not* to have had rights in the first patent term and accordingly did *not* have rights to continue using the machines as the Proviso's supplemental or compulsory license was not available.[225] What Hovenkamp tracks is instead Clifford's *hypothetical* of what would have happened had defendants in fact held rights under the original patent term, which confusingly is planted in the middle of the overall discussion finding no such rights and then reversing the lower court's ruling of use rights.

B. Bloomer v. Millinger (Bloomer II)

By 1863, the Civil War was turning in the North's favor and Lincoln was appointing justices to the Court, limiting the influence of Jacksonian Democrats. Notwithstanding, Clifford made headway with what might better be called the "Taney principle,"[226] nearly making it part of a Supreme Court holding in *Bloomer v.*

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221 "By virtue of the contract of sale, and the *unconditional delivery* of the manufactured article"; "if a purchaser acquires an *absolute, unconditional title* to that which is the subject of a patent"; *Id*. (emphases added).

222 "Having manufactured the material and sold it for a *satisfactory compensation* . . . the patentee . . . has enjoyed all the rights secured to him by his letters-patent . . . ." *Id*. at 640 (emphases added).

223 *Id*. ("Few decided cases are to be found bearing on this question, and none perhaps where it has been directly determined.").

224 Herbert Hovenkamp, *Patent Exhaustion and Federalism: A Historical Note*, 102 VA. L. REV. ONLINE 25, 29-30 (2016).

225 Chaffee, *supra* note 202, at 223–24 ("Applying [Assignee-Grantee Proviso] principles to the present case . . ., there would be no difficulty in sustaining the instructions given to the jury, provided it appeared that the machinery used by the defendants had been legally purchased by them of the patentee or his assigns during the original term of the patent. But nothing appears in the evidence reported to warrant the inference that they were either assignees or grantees of the thing patented . . . . and having failed to establish any right or license to use their machinery during the extended term by any other proof, they appear in the record as naked infringers. Their right to continue to use the machinery as against the plaintiff is predicated in the instruction upon the assumption that they had a title to it, and were rightfully in the use of it under that title, before and at the time the original letters patent expired. That assumed fact finds no support in the evidence reported.").

226 This follows the usage of the first Supreme Court decision to actually rely on the principle *by analogy* to find a use right following an unconditional or absolute sale of a patented good. Adams v. Burke, 84 U.S. 453 (1873) (discussed below).

Millinger ("*Bloomer II*").[227] This final Woodworth patent case involved assignees who had secured their rights under the Section 18 extension, sold them to Bloomer on condition of some sort of grant back to continue using three machines they had constructed and put in use, but were then sued by Bloomer under the Congressional extension. Thus, the lingering question of whether the Assignee-Grantee Proviso license applied only to *first* term grantees came to a head.

Writing for a unanimous Court affirming the lower court's dismissal, Clifford ran roughshod over the facts in the record to achieve his goal. Millinger and his partner were assignees with make, use, and sell rights that they bought and sold on speculation, even as they did make and use machines in their own business. Further, their grant had expressly been set to terminate in 1849.[228] But Clifford mischaracterized them as only licensees for use during "the lifetime of the patent as then existing."[229] Coupled with a gloss on which term they received their rights under allowed Clifford to technically rule that Millinger and his partner were simply covered by the Assignee-Grantee Proviso's compulsory license, while styling it as somehow part of the Taney principle's unsupported and presumably common law rule.[230] The reframing also allowed him to assert the "one royalty" principle.[231] Yet, Millinger's transactions and profit from the patent itself put him and his partner on the wrong side of Taney's equities. Notably, however, Clifford omitted any mention of resale rights in the opinion—despite his circuit court decision in *Goodyear v. Beverly Rubber*. Presumably, he was not able to persuade enough of his fellow justices to join such an opinion.[232]

Hovenkamp similarly picks up on the Taney principle language in the decision while disregarding two important factors.[233] First, there was no sale of goods, so this once again could not be a true exhaustion ruling. Second, the decision expressly

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227 68 U.S. 340 (1863).

228 *Id*. at 349–350. The original grant conveyed, "the right to construct and use, and vend to others to construct and use" the patented machine and a confirmatory deed granted rights "'to construct and use exclusively the patented machine in the county of Allegheny, . . . and also within said territory to license and empower any other person or persons to construct and use machines.'" *Id*. at 342.

229 *Id*. at 350.

230 Clifford restated the Taney principle as if it were both a freestanding rule and applied to sales of goods. *Id.* at 351–52. But the facts of the case as he acknowledged were that Millinger made his own machines. *Id*. He also mistakenly cited *Wilson* for distinguishing assignees and licensees/grantees in the Assignee-Grantee Proviso, and brushed off a call for reexamination of *Bloomer I*. *Id.* at 351. Further, Clifford misleadingly asserted that *Bloomer I* had "been several times decided by this court" and "unanimously affirmed" by *Chaffee v. The Boston Belting Co*. *Id.* at 351–52.

231 *Id* at 350. ("[Patentees] are entitled to but one royalty for a patented machine, and consequently when a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, or to construct and use and operate it, and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceases to have any interest whatever in the machine so sold or so authorized to be constructed and operated.").

232 Alternately, he may have been distinguishing between an actual sale of patented goods in *Goodyear* and a grant of rights to construct one's own machine in *Bloomer II*, signaling a break between his prior consistent efforts to blur just this line that would become express in *Aiken v. Manchester Print Works*, discussed below.

233 Hovenkamp, *supra* note 224 at 29.

turned on finding an Assignee-Grantee Proviso compulsory use license. Accordingly, the Taney principle language was simply dicta.

C. The Supreme Court Finally Applies the Taney Principle to Sales of Goods

Ten years on from *Bloomer*, the Supreme Court still had not adopted any rule that allowed purchasers of patented goods to use or resell them without an express license. All of the cases finding a use right to date had turned on implied licenses or patent extension situations. Licensed users had an implied license to repair, but not reconstruct, their machines. On the right facts, the Court may have been willing to allow an implied license if it were clearly part of the parties' bargain. But there was no general default rule that sale of a patented good carried with it a use, much less a resale, right. At the same time, Clifford's opinions seemed to mellow in the post-war period and after Taney died. For example, while clarifying that the right of repair did not extend to patented components within a machine in a circuit court decision in *Aiken v. Manchester Print Works*,[234] he noted that as this was a sale of goods, the Taney principle applied only by analogy.[235] The decision actually turned on a basis

[234] 1 F. Cas. 245, 246 (C.C.D. New Hampshire 1865) (patented needles could not be replaced without acquiring an authorized set to repair a sewing machine). Hovenkamp misconstrues the decision as if it held that federal patent law did not apply to the "tied" products—the sewing needles—and so plaintiffs only redress was in state courts. Hovenkamp, *supra* note 224, at 30. Once again, however, Clifford's gratuitous inclusion of the Taney principle misleads readers from the actual holding of the case. After stating it, Clifford continues directly in the same paragraph:

Great care must, however, be observed in applying [the Taney principle] to the present case. Undoubtedly both the machines and the needles purchased by the defendants fall within the rule. The defendants may repair them or improve upon them as they please, so that they do not infringe any patent right, because the machines and the needles, having paid the royalty imposed under the patent act, are no longer within the limits of the monopoly. These articles have become private, individual property, not protected by the laws of the United States, but by the laws of the state in which the property is situated. The indubitable right of the defendants is to repair or improve the articles as long as they will last, but they cannot make new ones, nor can they, in the exercise of their right to repair the old ones, infringe another man's patent. Right to repair is limited by the same rules that operate in the repair of other property. The owner may repair, but he cannot appropriate the materials belonging to another man, in effecting the purpose. Purchasers in this case may repair the needles they purchased, but they cannot manufacture new ones, without license. Reference is made to the case of *Wilson v. Simpson*, 9 How. [50 U. S.] 123; but a careful examination of the case will show that it affirms the very rule here maintained. When we speak of the right to restore a part of a deficient combination, we mean, say the court, the part of one entirely original, and not of any other patented thing, which has been introduced into it to aid its intended performance. The cutters and knives, in that case, were not subject to a patent, and of course the respondent had a right to use them as materials to repair his machine; *but unfortunately for the defendants in this case, the needle is subject to a patent, and in making and using it they have infringed the right of the plaintiff*. 1 F. Cas. at 247. Thus, while Clifford is asserting that patentees cannot tie unpatented components needed to repair a lawfully acquired patented machine, the actual holding and outcome of the case is that defendants are liable to plaintiff patentee for infringement under federal patent law. Again, Clifford seemed to be intentionally seeding the case law with dicta statements of the "rule" such that it would appear pervasive and authoritative.

[235] Aiken, 1 F. Cas. at 246 ("Analogous questions, however, have several times been presented to the supreme court, and the views of the court, as expressed in those cases, will aid very much in reaching a right conclusion as to the rights of the parties in this controversy.").

of the bargain argument in which he construed use-license royalties to have been included in the price of the machine.[236] He also implicitly admitted misreading *Wilson* as distinguishing two classes of grantees.[237]

The major patent law overhaul by Congress in the Patent Act of 1870 included no hint of an exhaustion rule.[238] It did eliminate patent extensions, however, which meant that the Assignee-Grantee Proviso was also discontinued. But for Clifford's efforts to untether the Taney principle from the Proviso, exhaustion may not have arisen—at least in the form and time period in which it did. Instead, his constant repetitions of the "rule" across many cases and years evidenced the old salesman and huckster adage "repeat something enough and it becomes true."

Notwithstanding, *Mitchell v. Hawley* underscored the need for a license to use a patented good.[239] Patentee granted a limited-in-time manufacturing assignment which specifically restricted the manufacturer from issuing use licenses to machine purchasers that extended beyond this time limit.[240] Writing for the Supreme Court, Clifford ruled that purchasers had liability for use beyond the time period, regardless of whether notice of time limits had been given as it was purchaser's duty to ascertain good title and rights.[241] This was based on the principle of *nemo dat quod non habet* (one cannot convey more rights than one possesses) as applied to the manufacturer. Curiously, Clifford had rejected exactly this sort of argument from Goodyear in *Beverly Rubber*, which might call into question the continued validity of that circuit court decision. Further, the expressly limited-in-time license that manufacturer assignee included with the machine sale trumped any possible implied license defense as the basis of the parties' bargain.[242] While not really relevant, Clifford once again restated the Taney principle, at the same time further deemphasizing any role of the Assignee-Grantee Proviso. Notably, he stressed yet again that this principle was limited to *unconditional* or *absolute* sales.[243]

Twenty years out from *Bloomer*, the Supreme Court finally extended the Taney

236 *Id.* at 246–47.

237 *Id*. at 246 (". . . it must be admitted that there are some expressions in the opinion of the court not quite satisfactory [on this point].").

238 Act of July 8, 1870, 41st Cong., 2d Sess., 16 Stat. 198.

239 83 U.S. 544, 547 (1872) ("the owner of the machine, whether he built it or purchased it, *if he has also acquired the right to use and operate it during the lifetime of the patent*, may continue to use it until it is worn out") (emphasis added)).

240 *Id.* at 545 (assignee could "'*not in any way or form dispose of, sell, or grant any license to use the said machines beyond the 3d day of May, A.D. 1867*'" (emphasis in original)).

241 *Id*. at 550 ("Notice to the purchaser in such a case is not required, as the law imposes the risk upon the purchaser, as against the real owner, whether the title of the seller is such that he can make a valid conveyance.").

242 *Id*. at 549.

243 "Sales of the kind may be made by the patentee *with or without conditions,* as in other cases, *but where the sale is absolute, and without any conditions*, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair it or improve upon it as he pleases, in same manner as if dealing with property of any other kind." *Id.* at 548 (emphases added). Clifford also now specifically limited the distinction between assignees and licensees as arising in *Bloomer* only. *Id*. at 548–4.

principle to support two decisions finding unlimited use-rights for purchasers of patented goods *in unconditional and absolute sales*. Both involved territorial assignments, revealing that patent farming was still alive and well. But they also showed that some assignees were finding clever ways to undercut assignees in other territories.

In *Adams v. Burke*, a thrifty undertaker took advantage of price arbitrage in the patent farming enterprise of a coffin lid patentee, electing to travel into Boston to buy lids cheaper there than could be had from his local franchisee seventeen miles outside the city.[244] At the circuit court, Judge Shepley found for the undertaker, citing the Taney principle and including a resale right.[245] Shepley justified his decision with a colorful example of a traveler wearing patented garments who must absurdly pay royalties in each new town and city he might pass through.[246] Notwithstanding *Beverly Rubber*, *Adams* was described as a case of first impression in the Supreme Court.[247] Writing for the Supreme Court on appeal, Justice Miller found only a use right, expressly invoking the Taney principle as being adopted from its patent franchise origins.[248] Despite Shepley's ruling below, the undertaker had not actually sought a resale right as he characterized his transactions with clients as burial *services* and not sales of the component goods.[249] Interestingly, this presaged the modern era of distributing goods as services. Ultimately this was once again a basis of the bargain decision; the parties' deal included the undertaker using the lids outside the vendor's territory.[250]

Justice Bradley's dissent, joined by Justices Swayne and Strong, noted that the majority's holding would vitiate territorial assignments that were expressly permitted under the Patent Act. This, in turn, would disrupt the settled expectations on which millions of dollars had been invested. The dissent also questioned how an assignee could convey more rights than he had after *Mitchell*.[251] It also provided a nice retort

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[244] 84 U.S. 453 at 454-55 (1873).

[245] Adams v. Burks, 1 F. Cas. 100 (C.C.D. Mass. 1871) ("[Purchaser] may use it, repair it, improve upon it, or sell it. Subsequent purchasers acquire the same rights as the seller had"). Defendant name corrected in Supreme Court reporter to "Burke."

[246] *Id*. at 101.

[247] 84 U.S. at 455.

[248] *Id.* at 456 ("If [the Taney] principle be sound as to a machine or instrument whose use may be continued for a number of years, . . . it must be more applicable to an instrument or product of patented manufacture which perishes in the first use of it . . . .")

[249] Burke would "procure hearses, coffins, and whatever else may be necessary or proper for burials, . . . and that his bills for his *services* in each case, and the coffin, hearse, and other articles procured by him, are paid by the personal representatives of the deceased; [and] that . . . *he has sold no coffins*, unless the *use* of coffins by him in his said business, as above described, shall be deemed a sale . . . ." 84 U.S. at 454 (emphases added). Miller emphasized this by noting that a lid "perishes in the first *use* of it . . . .". *Id*. (emphasis added).

[250] *Id*. at 456 ("It would be to engraft a limitation upon the right of use not contemplated by the statute *nor within the reason of the contract* to say that [a lid] could only be used within the ten-miles circle." (emphasis added)).

[251] *Id*. at 457–59 (Bradley, Swayne, and Strong dissenting and citing Section 11 of the Patent Act of 1836).

to Shepley's traveler: such situations would be *de minimis non curat lex*.

D. "Emancipation" arises at century's end

It would take another twenty years for a resale right—the core of modern exhaustion doctrine—to be adopted by the Supreme Court. And when it arrived, it appeared not as "exhaustion," but rather as "emancipation." While the term appeared in a circuit court decision decided the same year as the Supreme Court issued its *Adams* opinion, the Court made no mention of it. For that matter, Shepley had not used the term in his circuit court opinion for *Adams* either.

In this new circuit court decision, *McKay v. Wooster*, a territorial assignee for patented egg crates east of the Rockies unconditionally sold crates to a local egg producer who filled and shipped them to San Francisco, where recipient sold or gave them away after emptying.[252] Despite *Mitchell,* the court instead invoked Shepley's *circuit court* decision in *Adams* to find that an unconditional and absolute sale "emancipated" the good from the patent monopoly such that it could be used or resold in any manner or territory.[253] However, the patentee could limit this result by expressly restricting manufacturing assignments to make *and vend* only within, and for use within, the territory.[254] The Supreme Court affirmed without issuing an opinion, leaving the circuit court decision as limited precedent.[255] Further to the point, the Supreme Court declined to adopt the term or a resale right for twenty years, despite plenty of opportunities to do so.

In the meantime, fervor against the growing trusts and monopolies led to passage of the Sherman Act in 1890.[256] The movement may have also been related to the turn against patents and especially against patent farming in the form of strict territorial assignments. Never popular, these exclusive market demarcation systems—and the extensive enforcement behind them—likely seemed of a piece with the big trusts and their anticompetitive behavior. However, as Hovenkamp points out, the Sherman Act did not directly address patent issues and restrictive contracts based on issued patents were generally litigated under state competition laws until the 1920s.[257] Notwithstanding, Hovenkamp also notes that the Supreme Court chose to withhold its equitable powers and not enforce a patent-based exclusive dealing arrangement in *Pope Manufacturing Co. v. Gormully*.[258]

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[252] 16 F. Cas. 183 (C.C.D. Cal. 1873).
[253] *Id*.
[254] *Id*. at 185.
[255] 16 F. Cas. 183, 186 (C.C.D. Cal. 1873) (case note by reporter).
[256] Sherman Antitrust Act of 1890, 26 Stat. 209.
[257] *Hovenkamp*, *supra* note 174, at 300–303.
[258] *Id.* at 301 (citing *Pope Manufacturing Co. v. Gormully*, 144 U.S. 224, 232, 237–38 (1892)). Confusingly *Pope v. Gormully* is actually four cases consolidated and reported seriatim: 144 U.S. 224; 144 U.S. 238 (short affirmance); 144 U.S. 238 (multi-page opinion); and 144 U.S. 248. This is important because *Pope v. Gormully* is most often cited today for the holding that an attempted assignment of only one claim in a patent is invalid—as the patent is one entire thing as far as claims are concerned—and so the conveyance will be deemed a mere license instead. 144 U.S. 248, 249–52.

Forty years out from *Bloomer*, and twenty from *McKay*, the Supreme Court finally adopted "emancipation" in *Keeler v. Standard Folding Bed Co.*[259] Perhaps emboldened by *Adams* and the growing anti-monopoly sentiment, some assignees, dealers, and purchasers engaged in extensive price arbitrage across patent territories. Circuit courts sought to curb this practice through a reasonable distinction between sales "for ordinary use" and "in the course of trade," but which *Keeler* would effectively reverse.

Thus, before discussing *Keeler*, a brief review of the case law following *Adams* is in order. The *Paper Bag Cases* held a resale right during an extension term for a patent franchisee who had built his own machine and obtained "unrestricted ownership" of it in the first patent term.[260] The Court invoked the Taney principle as a free-standing "rule" of vaguely cited origin, with no mention of the Assignee-Grantee Proviso. However, the decision relied on the express use license granted as part of the franchise and held only that the assignee who built his own machine thus had chattel title to it and could transfer the patent use license with sale of it as his personal property. The implication was that the machine's *use* was not in fact "outside the monopoly" and any purchaser would need a valid license to operate it. On a side note, the case record showed that patentees were indeed taking steps to impose vending and downstream use restrictions in franchises to adapt their patent farming territorial divisions to *Adams*.

Waterman v. MacKenzie—mainly cited today as helping distinguish assignments from licenses—also reinforced the validity of conditions subsequent.[261] *Waterman* confirmed that conditions subsequent could revert patent title back to the grantor automatically upon occurrence. Waterman, the pen inventor, and his wife had assigned one of his patents to an investor as collateral for funding with title to revert automatically upon the negotiated payoff. The Court found title fully vested with the investor such that Waterman had no standing to enforce the patent. But it equally found that at the payoff, title would vest back into Waterman. While this sounds similar to a condition precedent installment financing, it is notably different. Waterman was the grantor of the assignment, effectively selling the patent to the investor for the loan amount and conveying title at the outset, rather than a buyer of an item on installment payments in which title to the object does not change hands—at least fully—at the outset. Thus, the investor held full rights, title, and interest (save a reversionary interest held by Waterman) to the patent until and unless the condition subsequent of payments occurred; at which time the assignment terminated and all rights, title, and interest reverted automatically to Waterman.

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[259] 157 U.S. 659 (1895).

[260] Paper-Bag Machine Company v. Nixon, 105 U.S. 766, 771 (1881).

[261] 138 U.S. 252 (1891). Waterman categorized different kinds of assignments to contrast them with licenses and to clarify which could carry rights to enforce the patent in court. Id. at 255. The Court identified three type of assignments: i) sale of the whole patent for the entire United States; ii) sale of an undivided part or share of the patent; and iii) sale of the exclusive rights under the patent for a specific part of the United States. Everything else was a license.

The remainder of the cases centered on territorial assignments and arbitrage. Interrelated cases in the Southern District of New York and Eastern District of Pennsylvania established the promising distinction introduced above between sale of patented goods "for use in the ordinary affairs of life" versus "in the course of trade." The former resulted in the good's emancipation as individual retail sales while the latter kept it restricted under the territorial assignment as wholesale or dealer sales.[262] The distinction nicely addressed Shepley's clothing hypothetical and the continued express authority for territorial patent grants in the Patent Act.[263] It also mapped onto standard distinctions between retail or end user sales, on the one hand, and wholesale or commercial transactions on the other.

Circuit courts in the District of Massachusetts and Northern District of California also adopted and enforced the distinction, including in the *Keeler* lower court decision.[264] However, both the Northern District of New York and Eastern District of Michigan circuit courts reluctantly allowed covert territorial arbitrage where the manufacturer structured the sale as "delivered" within its territory (e.g. its warehouse) to retail customer even as it facilitated shipment elsewhere in technical compliance with *Adams*.[265] This played on established commercial terms like "free on board" or "free alongside" that determined when transfer of title—and liability—for goods sold occurred. This could be at the manufacturer's warehouse—or its loading dock to be more precise—or when delivered to a shipping agent, etc. The Supreme Court also weighed in to distinguish international territoriality from domestic territorial arbitrage in *Boesch v. Graff*.[266] Contrary to later assertions in *Keeler*, the decision was not a broad statement about (inter)national exhaustion. The Court then narrowly affirmed the Eastern District of Michigan covert arbitrage decision, while making it clear that properly drafted conditional grants could and should be used to protect territorial assignments.[267]

On appeal at the Supreme Court, *Keeler* overrode the promising retail versus dealer distinction. Writing for the Court, Justice Shiras ran roughshod over the facts and case law to adopt Shepley's emancipation term and concept, which included use

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262 *See, e.g.*, Hatch v. Adams, 22 Fed. Rep. 434, 434 (C.C.E.D. Penn. 1884).

263 *Id*. Related cases in New York included Hatch v. Hall, 22 Fed. Rep. 438 (C.C.S.D.N.Y. 1884), and Hatch v. Hall, 30 Fed. Rep. 613, 613 (C.C.S.D.N.Y. 1887).

264 *See* California Electrical Works v. Finck, 47 F. 583 (C.C.N.D. Cal. 1891) (finding against defendants who bought patented gas-lighting apparatus manufactured and sold by the Boston Electric Company for shipping and resale in their San Francisco store); Keeler v. Standard Folding Bed Co., 37 Fed. Rep. 693 (C.C.D. Mass. 1889) (preliminary injunction), 41 Fed. Rep. 51 (C.C.D. Mass. 1890) (permanent injunction) (enjoining Keeler from purchasing patented beds manufactured under license in Michigan for shipping and resale in Boston).

265 *See* Hobbie v. Smith, 27 Fed. Rep. 656 (C.C.N.D.N.Y. 1886); Hobbie v. Jennison, 40 Fed. Rep. 887, 891 (C.C.E.D. Mich. 1889). Covert arbitrage was approved even where manufacturer's contractors within the territory were dubiously and temporarily made out to be agents of the out-of-territory purchaser for the transaction. This meant that neither purchaser nor its true agent had to travel to the territory for the purchase or "delivery."

266 133 U.S. 697 (1890) (holding that German prior user law could not trump U.S. patent law and in absence of any payments to patentees anywhere, sales in U.S. were infringing).

267 Hobbie v. Jennison, 149 U.S. 355, 363-64 (1893).

and resale rights based on a broad version of the Taney principle. Shiras invoked Shepley's harried traveler, yet defendants were sophisticated dealers purchasing an entire *train carload* of patented beds in one territory and shipping them to another for resale.[268] Shiras in fact simply seemed opposed to territorial patent assignments even though they were still expressly authorized by Congress. Ostensibly citing *Wilson* and *Bloomer*, he ignored their grounding in the Assignee-Grantee Proviso and that they did not involve sales of goods.[269] He also blatantly misrepresented *Adams*, turning it into an "obvious" *resale* (and not use) of patented manufactures outside the territory. He doubled down on the assumption that *any* royalty negotiated—even when clearly for a limited territory—instead covered the unrestricted use and resale throughout the United States, assuming that any sale by the patentee itself would always grant such rights.[270]

And yet even Shiras expressly left the door open for conditions on make, use, or sell rights—although ambiguously as to whether these could be enforced under patent law or only contract law.[271] The decision did not expressly overrule any earlier precedents that limited use or resale rights to unconditional or absolute sales. Indeed, the holding could not address the express conditions as they were not before the Court.

A powerful dissent by Justice Brown, joined by Chief Justice Fuller and Justice Field, specifically decried the transformation of Taney's dicta and argued for a basis of the bargain approach instead.[272] Putting *Wilson*, *Bloomer*, and *Mitchell* into their proper contexts, he argued that these were inapposite to the facts at hand and as such the majority should have focused on *Adams*, *Hobbie*, and *Boesch* instead.[273] Brown insightfully noted that these cases involved consumable articles that have no further value after their initial use, justifying the emancipation doctrine for them. He favored the circuit court's budding retail/dealer distinction. Finally, Brown expressed concern that the Court's decision would tempt patentees to sell expensive territorial assignments and then undermine them through patentee's own manufacturing and sales.[274]

Evidence that lower courts believed that *Keeler* indeed limited "emancipation" to unconditional sales—and a basis of the bargain analysis—came from the Sixth Circuit's decision in *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*

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268 Keeler v. Standard Folding Bed Co., 157 U.S. at 662.

269 *Id*.

270 *Id.* at 666–67.

271 *Id*. at 659 ("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."). While the reference to "contracts" suggests contract remedies, this overlooks drafting conditional assignments and licenses that automatically terminate patent rights, vesting them back in the grantor and enabling suit under patent law.

272 *Id*. at 668 (JJ. Brown, Fuller, and Field dissenting) (explaining Taney's dicta had become too "freely quoted in subsequent cases, and is now employed in a way which seems to me destructive of the rights of the licensee").

273 *Id*. at 668–69 (JJ. Brown, Fuller, and Field dissenting).

274 *Id*. at 672–73 (JJ. Brown, Fuller, and Field dissenting).

the following year.[275] Parties to the sale of shoe button-fastener machines understood and accepted that these were conditioned on purchasers using commodity staples procured solely from patentee seller.[276] If this condition were breached, then title to the machines would automatically revert to patentee-seller. This was also a true sale of manufactured machines and not a license to make one's own.

Because this was a conditioned sale, the court agreed with patentee-plaintiff that the Taney principle did not apply and thus plaintiff's concomitant patent license still governed and restricted purchaser-defendant's use of the machine. Thus, this was a cousin to what I have defined elsewhere as a "lease-license agreement," in which the material object is leased and IP rights covering it are licensed.[277] The importance of finding a conditional sale-license model was that patentee-plaintiff was actually suing a third-party provider of exact sized substitute fastener staples on a contributory infringement theory. The purchaser-defendant was the direct infringer by purchasing and using the prohibited staples—with the ongoing patent license restriction again enabled by the underlying conditional sale of the physical machine—and so the third-party supplier could be found liable for secondary infringement.

Notably, the court also considered whether this tying arrangement was against public policy but found that tying was primarily only of concern when public or quasi-public goods or services were at issue—such as telephones as common carriers that must be fairly available to the general public in a service area.[278] But it found none of the suspect categories to apply in this case, reversing and remanding the case to the lower court to overrule the demurrers by defendant seeking to avoid infringement on ground of the Taney principle or contracts void as in restraint of trade or against public policy.

IV. 20th Century Antitrust Law Reshapes "Emancipation" into "Exhaustion"

"Emancipation" may have been stoked in equal parts by the untethering of the Taney principle from the Assignee-Grantee Proviso and the anti-monopoly reaction to the excesses of the Gilded Age. Of note, the similar doctrine of first sale in copyright clearly emerged in the United States through 1908's *Bobbs-Merrill Co. v. Straus*.[279] Congress then codified the rule in the 1909 Copyright Act.[280] However, Congress did not codify emancipation. An argument might be made that first sale was codified because Congress was undertaking yet another full overhaul of copyright

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275 77 F. 288 (6th Cir. 1896).

276 The condition was set by a metal label affixed conspicuously to each machine with the legend "Condition of Sale. This machine is sold and purchased to use only with fasteners made by the Peninsular Novelty Company, to whom the title to said machines immediately reverts upon violation of this contract of sale." *Id*. at 290.

277 Sean O'Connor, *The Use of MTAs to Control Commercialization of Stem Cell Diagnostics and Therapeutics*, 21 BERKELEY TECH. L.J. 1017, 1018-27 (2006).

278 The court distinguished in this regard *State of Missouri v. Bell Tel. Co.*, 23 Fed. 539 (1885), and *State v. Delaware & A. Tel. & Tel. Co.*, (C.C.D. De. 1891).

279 210 U.S. 339, 350 (1908).

280 Copyright Act of 1909, § 27, 60 P.L. 349, 35 Stat. 1075, 60 Cong. Ch. 320.

law—with the last done in 1870 together with the patent law. But, when Congress did overhaul the patent law in 1952 it still declined to codify emancipation, which by then had transformed into "exhaustion."

Exhaustion seemed to arise from its emancipation roots through Progressive era antitrust cases. As Duffy and Hynes point out, this may also have been due to judicial interest in policing the line between commercial law and patent law.[281] Or, from Hovenkamp's perspective, dividing the domains of federal patent law and federal or state competition law, especially with regard to the distinction between the intangible patent franchises and tangible embodiments of those patents.[282] But as all these commentators likely agree, a primary driver was antimonopoly sentiment. And with patent farming, exclusive territorial assignments, and licensing structured to control emerging vertical production and value chains, patentees became a lightning rod. This Part briefly reviews the major contours of antitrust law's role in converting emancipation into exhaustion. A consistent theme with the nineteenth century case law, however, is the focus of many courts on discerning and enforcing the basis of the bargain between contracting parties and policing "gotcha" tactics by patentees.

A. Early twentieth century exhaustion cases as improper tying or inadequate license-by-notice situations

As exemplified by the fact pattern in *Heaton-Peninsular Button-Fastener Co.* discussed above, patentees and their licensed manufacturers relied on two interrelated approaches to enhancing profits from their patented machines and goods in this period. The first was to tie purchases of staple goods to patented machines using or producing them. In this way, the patentee could seek to control the machine owner's supply of otherwise commodity goods such as salt and profit off these as much as from sale of the machine.[283] While sometimes denigrated as unfair monopolistic behavior, the practice can benefit purchasers who obtain the machine for less than market value and then pay the outstanding value through purchases of the tied goods. There is much overlap with the so-called "razors and blades" business model, although how much that model was actually deployed by King Gillette and others in the early twentieth century has come into question.[284] The second approach was to attach notices to machines or articles of manufacture purporting to restrict purchasers' rights to use or resell them. In large part this served to limit the secondary market for such items, arguably allowing patentees to maintain higher prices and demand for new units.

At the same time, the selectively edited version of Coke's commentary in the *Institutes* favored by Breyer and Roberts appears to have been introduced into the case law in 1907 by then Judge Lurton (later Justice) in the Sixth Circuit decision *Park v. Hartman*.[285] The facts were an attempted resale price maintenance scheme.

[281] Duffy *supra* Note 6 at 37.
[282] Hovenkamp, *supra* note 174, at 302; Hovenkamp, *supra* note 224, at 33.
[283] *See, e.g.*, Morton Salt Co. v. G.S. Suppiger, 314 U.S. 488 (1942) (*as amended* 315 U.S. 788 (1942)).
[284] Randal C. Picker, *The Razors-and-Blades Myth(s)*, 78 U. Chi. L. Rev. 225, 226 (2011).
[285] 153 Fed. 24, 39 (6th Cir. 1907).

However, the most salient feature was that the proprietary drugs at issue were covered only by a trade secret and not a patent. Accordingly, the court found the arrangement to fall outside the "exception" to a purported general common law rule against restraints on alienation of chattel afforded to patented (or copyrighted) goods. But crucially, the court also found that purchasers had lawfully procured "absolute title" to the goods and thus the restrictions were at best a contractual matter. They were not the transfers of lesser estates such as a conditional sale with express reversion rights. Of note, Lurton was also author of the opinion in *Heaton-Peninsular Button Fastener Co.*

Lurton's language including the selective Coke quote was picked up four years later by Justice Hughes writing for the majority in *Dr. Miles Medical Co. v. Park*.[286] On a similar fact pattern, the Supreme Court struck down a resale price maintenance contractual system even as against fraudsters who had induced participants in the system to sell units outside the system. Hughes also cites Gray's *Restraints on Alienation* to somehow support a proposition that "a general restraint upon alienation is ordinarily invalid."[287] But any sustained perusal of Gray would show that he admits of many valid restraints, as discussed above. In dissent Justice Holmes argues that Hughes (and similarly inclined justices, such as Lurton by implication) were merely imposing their opinions on how prices should be regulated, rather than letting the market work, especially in the case of non-essential goods. He also trenchantly posits that the Court's opinion is somewhat pointless because firms can change their arrangements to evade this "rule" against restraints by retaining title to the good through the intermediate dealers and jobbers until final sale to the consumer.

In fact, the Supreme Court then upheld a license-by-notice in the following year in *Sidney Henry v. A.B. Dick Company* because the patented machines were sold at cost or less in reliance on profits from the tied products.[288] Further, the court was satisfied that this represented the parties' negotiated agreement. But, the next year, the Court struck down a different purported license-by-notice aimed at restricting resale of boxes of a patented dietary supplement to no less than $1 in *Bauer & Cie v. O'Donnell*.[289] The notice also provided that breach of the condition reverted rights back to patentee.[290] In this case, however, the Court found that patentee sold boxes at full price for unconditional title and that the notice was insufficient to form a contract.

In 1914, Congress amended the antitrust laws through the Clayton Antitrust Act.[291] Section 3 limited tying and exclusive dealing arrangements for both sales and

[286] 220 U.S. 373 (1911).

[287] *Id.* at 404.

[288] 224 U.S. 1, 10–12 (1912) (detailing that A.B. Dick sold mimeograph machines with a purported license affixed: "This machine is sold by the A.B. Dick Company with the license restriction that it may be used only with the stencil paper, ink, and other supplies made by A.B. Dick Company, Chicago, U.S.A.").

[289] 229 U.S. 1, 2 (1913).

[290] *Id*. at 8–9.

[291] Pub. L. 63–212, 38 Stat. 730 (Oct. 15, 1914) *codified at* 15 U.S.C. §§ 12–27 and 29 U.S.C. §§ 52–53.

leases of patented and unpatented goods, particularly where the effect of such an arrangement could substantially lessen competition or tend to creation of monopolies.[292] Hovenkamp traces the Supreme Court's hostility to tying arrangement to 1894's *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co*.[293] But he concedes this was decided on "first sale" grounds, which should be taken to mean the unrestricted use and repair rights for goods purchased in unconditioned sales after *Adams* (resale rights would not be established in the Supreme Court until *Keeler* in 1895). However, even this is complicated in that: a) *Morgan* involved an acknowledged restrictive license (which was held invalid by the Court); while b) *Henry* had a very similar fact pattern yet the Court upheld the restriction. Hovenkamp posits Section 3 of the Clayton Act as the culmination of Congress' "swift and strong" reaction to *Henry*.[294]

The 1917 decision *Jesse Isidor Straus v. Victor Talking Machine Company* introduced the term "exhaustion" and marked the high-water mark for cabining these kinds of patent monetization systems. The Court struck down a distribution system that withheld full title transfer to purchasers until all patents on the record players expired.[295] It is unclear why the Court adopted "exhaustion" over "emancipation." But Justice Clarke, writing for the Court as a Progressive politician appointed by Woodrow Wilson, opined that Victor's transactions were really unconditional sales. As such, this was yet again a basis of the bargain approach that did not affect conditional sales made with the parties' assent. Clarke also hinted that Victor's system was a misuse of the patent rights.

A companion case decided the same day, *Motion Picture Patents Company v. Universal Film Manufacturing Company*, affirmed dismissal of a similar license-by-notice and tying case.[296] At issue was what I have elsewhere defined as a "value chain license" in which a patentee licenses a patent at multiple points along the vertical production chain.[297] In this case, Motion Picture Patents restricted dealers' sales of movie projectors only to exhibitors who had an exclusive contract with the company to screen movies made on its patented film.[298] The Court also asserted that *A.B. Dick* "must be regarded as overruled"[299] In dissent, Justices Holmes, McKenna, and Van Devanter supported conditional sales broadly, based on patentees right to withhold their inventions entirely from public use, so long as the conditions did not directly conflict with other laws.[300]

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292 Id. at § 3, 15 U.S.C. § 14; Hovenkamp, supra note 174 at 305.

293 *Hovenkamp*, supra note 174 at 301–302 (citing *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425 (1894).

294 Id. at 304–305.

295 243 U.S. 490 (1917).

296 243 U.S. 502 (1917).

297 *See* Sean M. O'Connor *IP Transactions as Facilitators of the Globalized Innovation Economy* 212–27 in WORKING WITHIN THE BOUNDARIES OF INTELLECTUAL PROPERTY: INNOVATION POLICY FOR THE KNOWLEDGE SOCIETY (Rochelle Dreyfuss et al., eds.) (Oxford Univ. Press 2010).

298 243 U.S. at 506.

299 *Id*.

300 *Id*. at 519–21 (JJ. Holmes, McKenna, and Van Devanter dissenting).

Summarizing the law of restraints on alienation of chattel, among other equitable servitudes, in 1928's *Equitable Servitudes on Chattels*, Zechariah Chafee, Jr., argued there was no such general rule against them.[301] In reviewing Lurton's and Hughes' respective opinions in *Park* and *Dr. Miles*, Chafee first points out that whatever Coke thought about the law in his time, two centuries had passed from the *Institutes* until 1848's English decision in *Tulk v. Moxhay* which upheld restraints on use or alienation by adequate notice on the land sold.[302] "Why then should [Coke's] opinion be any more effective in our own time to nullify servitudes on chattels?"[303] Second, Chafee notes that Gray's *Restraints* nowhere suggests that *Tulk* was a wrong turn. And third, he explains that Coke was only considering total restraints on alienation. Notwithstanding, Chafee was of mixed opinion of the desirability of equitable servitudes on chattels.[304]

B. Supreme Court clarifies patent-antitrust line while allowing value chain restrictions in General Talking Pictures

By the 1930s, amidst the economic challenges of the Great Depression, the Supreme Court seemed to back off its antitrust fervor. It upheld a manufacturer's limited make and vend right restricting downstream uses of a patented good in *General Talking Pictures Corporation v. Western Electric Co., Inc.*[305] In particular, when a licensed manufacturer sold patented amplifiers to the commercial market—as opposed to the private or home market—the amplifiers sold were effectively counterfeit goods because the license only authorized sales to the latter.[306] Accordingly, the commercial purchasers had no right to use the amplifiers. The Court expressly vacated its earlier ruling in the case based on answering two certified questions about the general validity of license-by-notice downstream restrictions, instead resolving the case on rehearing on the unauthorized manufacture and sale grounds.

But in the early 1940s the Supreme Court struck down a value chain licensing

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

302 *Id*. at 982–83 (citing *Tulk v. Moxhay*, 2 Ph. 774 (1848)). Further driving home his point, Chafee sarcastically notes that "It does seem possible that the nineteenth and twentieth centuries have contributed legal conceptions growing out of new types of business which make it inappropriate for Justices Lurton and Hughes to base their sweeping overthrow of contemporary commercial policies on judicial views of the reign of Queen Elizabeth." *Id*. at 983.

303 *Id.* at 983.

304 Indeed, in a later article from 1956, Chafee would be more reluctant to support servitudes, although this seemed largely based on an older person's crankiness towards loud music provided by the jukeboxes in restaurants of the day. See Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 HARV. L. REV. 1250 (1956).

305 305 U.S. 124 (1938) ("General Talking Pictures II").

306 *General Talking Pictures Corporation v. Western Electric Co., Inc*., 304 U.S. 175 (1938) ("General Talking Pictures I") (Rights for sales to the commercial or professional market had been granted exclusively to a patent pool. In its prior opinion, the Court affirmed the lower court's opinion that there could be downstream restrictions if not all of the upstream assignment restrictions were met."). This suggested the Court believe the question of post-sale restrictions had not yet been fully resolved. On rehearing, the Court seemed to dodge the question entirely.)

system to which the contracting parties had given assent. Importantly, the basis of *United States v. Univis Lens Company* was a Sherman Act violation claim by the federal government, which puts the decision on a different footing from the developing exhaustion cases.[307] Univis' system licensed a vertical chain from manufacturers of patented lens blanks, to "finishing retailers" who finished the blanks, to prescription retailers who fit and sold eyeglasses with the lenses to the end consumer. While each level involved sales of goods, the sales were restricted to downstream purchasers who also had restrictive contracts with Univis. Thus, Univis was licensing into multiple points of the value chain. Despite the company's quality control arguments, the Supreme Court viewed the whole enterprise as a massive price-fixing scheme. The Court focused on its view that the *only* use for the blanks was to be finished under the patent, which meant that any sale of the blanks must allow such finishing else be fraudulent. In addition, the Court seemed poised between basing its decision on an implied license theory and on an exhaustion approach.[308] Unfortunately, the Court failed to appreciate the benefit of value chain licensing in that upstream licensees paid less for restricted rights so that the full royalty was essentially distributed along the vertical production chain. Instead, the Court seemed to adopt the view that such a coordinated chain would instead harm the consuming public through higher prices.

Issued on the same day, *U.S. v. Masonite Corporation* was primarily an antitrust case, but it has been cited by recent exhaustion cases.[309] On facts that established an elaborate horizontal price-fixing and collusion scheme—based nominally on patent settlement cross-licenses and options—the Court had little problem cabining patent rights to secure only a "reward" for products manufactured and sold directly under authority of the patentee.[310] Other more complex systems could quickly reach outside the protection of the patent monopoly into the zone regulated by the antitrust laws and "this Court has consistently refused to allow the form into which the parties chose to cast the transaction to govern."[311]

V. Calling the Question: Conditional Sales

By the mid twentieth century, major cases on exhaustion dropped off. The doctrine was now established amongst courts and commentators, at least as to unconditional sales. Further, the Patent Act of 1952 which replaced the amended 1870 Act in its entirety did not carry forward authority for territorial assignments.[312] Courts were balancing patent law's exclusive rights with antitrust law's curbs on monopolies through doctrines such as patent misuse and by striking down exclusive division of territorial markets by patentees and others. A peak of antitrust enforcement came in the 1984 breakup of AT&T for its dominant position in the U.S. telecommunications

[307] 316 U.S. 241 (1942)
[308] *Id*. at 252.
[309] 316 U.S. 265 (1942).
[310] *Id*.
[311] *Id*. at 278.
[312] Act of July 19, 1952, P.L. 82–593, 66 Stat. 792.

market.

However, the economic booms of the late 1980s and then in the 1990s accompanied a general deregulatory trend together with renewed emphasis on the value of strong patents to spur innovation. In this environment, innovative business models mixed with new technologies to drive growth, especially in tech hubs. Property and contract law mechanisms facilitated transactions making the new technology-based goods and services widely available at a healthy range of price points.[313] Many of these traced at least back to the patent farming enterprises of the nineteenth century: assignments, leases, licenses, goods deployed as part of a service, and conditional sales of chattels. All but the last were generally accepted to avoid triggering exhaustion.

In *Mallinkrodt, Inc. v. MediPart, Inc*. the Federal Circuit expressly adopted a conditional sales limit to exhaustion.[314] Mallinkrodt manufactured and distributed patented nebulizers with "single use only" notices on the units and in package inserts. Under contract with hospitals who had purchased the nebulizers, MediPart obtain used units, sterilized and refurbished them, and then returned them for subsequent use. The parties did not dispute sufficiency of notice and the central question was whether it resulted in: i) a conditional sale, under which exhaustion had not occurred and patent infringement could be pursued; or ii) an unconditional sale with an accompanying contract restriction that could be remedied only as breach of contract. The Federal Circuit found the former, citing *General Talking Pictures* to distinguish Mallinckrodt's restriction for health and safety reasons from impermissible price control restrictions. Importantly, the court confirmed that conditional sales that did not violate antitrust or patent misuse principles had been left as an exception to exhaustion by the Supreme Court.

While there was criticism of *Mallinckrodt,* the decision was not seriously challenged for more than a decade.[315] In the meantime, it supported a range of creative transactions that undergirded the new global technology economy taking shape at the turn of the century. Given its status as the sole appellate circuit court for patent law disputes, among other subject matter, the Federal Circuit is authoritative on doctrine nationwide, subject only to Supreme Court review. The Department of Justice and the Federal Trade Commission largely accepted the pro-competitive nature of many of these transaction structures while issuing guidance in 1995's *Antitrust Guidelines for the Licensing of Intellectual Property*.[316] Further, the proprietary software industry was built on a "lease-license" distribution model in which consumers obtained a lease on the physical media conveying the code—e.g., floppy disks and

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[313] *See, e.g.*, O'Connor, *supra* note 296; *Brief of 44 Law, Economics and Business Professors as Amici Curiae in Support of Respondent*, Impression Products, Inc. v. Lexmark International, Inc.

[314] 976 F.2d 700 (Fed. Cir. 1992).

[315] For a detailed review of the Federal Circuit cases following *Mallinckrodt,* see Robert Gomulkiewicz, *The Federal Circuit's Licensing Law Jurisprudence: Its Nature and Influence,* 84 WASH. L. REV. 199, 225–37 (2009).

[316] U.S. Dept. of Justice & Fed. Trade Comm., *Antitrust Guidelines for the Licensing of Intellectual Property* (1995).

then CD-ROMs—with an accompanying license to use the code.[317] This model was also deployed in the biotechnology industry.

The 2000s brought exhaustion and conditional sales back to the Supreme Court. In a surprise to some commentators, the Court found that even *method* patent claims could be exhausted in *Quanta Computer, Inc. v. LG Electronics*.[318] As a method is a process and not a good or chattel, it does not fall under the conventional reading of Taney's visual metaphor dicta of an object "passing outside of the monopoly" when it changes hands. Instead, the *Quanta* Court's decision makes more sense as an implied license or as based on antitrust principles. Indeed, the Court relied heavily on *Univis*. Notwithstanding, the Court made clear that its decision was based purely on exhaustion as a free-standing doctrine—even as it exhibited uncertainty as to whether the transactions in *Bloomer* were licenses or sales of goods.[319] It notably did not decide the case on antitrust or implied license grounds.[320]

At the heart of the dispute was a massive portfolio cross-license settlement between computer chip heavyweights LG and Intel. Both engaged in value chain licensing, i.e., licensing the claims of a single patent to chip manufacturers, component producers, and final product assemblers along the vertical production path to a finished consumer electronics device. While sometimes critiqued for "double dipping" on royalties in such a licensing system, such patentees are generally restricted by market forces to collect only *proportional* royalties at each point in the value chain so that they only receive one hundred percent of the overall market value of the patent from chain licensees *in the aggregate*.

The cross-license, however, did not adequately limit both the make and sell/vend rights in the way needed to protect the parties' intent a la *Mitchell* and *General Talking Pictures*. Whether a mistake, or more likely that the parties could not come to agreement about the exact language to limit the sell right, the net effect was that each cross-licensee could make and sell chips to businesses downstream in the value chain with an accompanying nonbinding notice that the chips required a license from the other party.[321] Intel complied with this, dutifully notifying Quanta that it needed a license from LG for certain uses of the chips. Quanta acknowledged the notice to Intel, but then used the chips in violation of the notice arguing that the patent rights

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[317] O'Connor, *supra* note 277; Robert W. Gomulkiewicz, *The License is the Product: Comments on the Promise of Article 2B for Software and Information Licensing*, 13 BERKELEY TECH. L.J. 891 (1998).

[318] 128 S.Ct. 2109 (2008) (Notwithstanding the surprise in some quarters, exhaustion of method claims had already received some support at the Federal Circuit in *Jazz Photo Corporation v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001)).

[319] *Id*. at 2115 (The Court seemed aware that the users had purchased licenses, and that continued use was a core issue, but also described the licenses as "to sell and use the machine" and the transaction as involving "purchasers who bought the item for use 'in the ordinary pursuits of life.'").

[320] *Id*. at 2122 ("the question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion.")

[321] *Id*. ("The License Agreement authorized Intel to sell products that practiced the LGE patents. No conditions limited Intel's authority to sell products substantially embodying the patents."). The notice delivery requirement was instead contained in the Master Agreement and, at any rate, LG agreed that Intel had complied with it, so there was no breach of either agreement.

were exhausted in the sale and that the notice did not rise to the level of a contract with Intel, much less with LG.

While some commentators asserted that *Quanta* implicitly overruled *Mallinckrodt*, this was not necessarily so. Crucially, the *Quanta* Court did not find a binding condition on either Intel's sale of the chips nor Quanta's purchase of them. Accordingly, this was not a conditional sale decision. The novel finding of exhaustion on method claims made some sense in the longstanding basis of the bargain approach of the Court as there was no other substantial noninfringing use for the chips. Thus, prohibiting Quanta's use of them absent a separate license from LG that was not legally required would turn Intel's sale to Quanta into a "gotcha" trap. In fact, the Court left the door open for properly structured agreements that would create conditional sale or value chain licenses that would be outside exhaustion, in part by distinguishing—and not overruling or even significantly limiting—*General Talking Pictures*.

More recently, the Supreme Court continued its focus on patent law generally, and technology transactions in particular. In *Bowman v. Monsanto* it sidestepped the important issues of Monsanto's "bag tag" lease-license distribution model for patented soybeans on grounds of an impermissible reconstruction or making when Bowman grew new plants from soybeans he procured from commercial grain silos.[322] While patents on those beans may have been exhausted for their commercial sale purpose of human or farm animal consumption, planting them resulted in both the destruction of the "free" chattel and the unauthorized making of new ones. Thus, the holding was narrowly on this violation of the make right by Bowman and not on the nature of the transaction, whether as lease or conditional sale. Nonetheless, some commentators took the decision as further evidence that *Mallinckrodt* was implicitly overruled.

Accordingly, the question of conditional sales was only finally called at the Supreme Court in *Lexmark*. Lexmark distributed its printer cartridges around the world under two models: "Regular," in which use, refill, and resale are unrestricted upon payment of full retail price; and "Return," in which the cartridge may not be refilled, reused, or resold by the end user, but rather disposed of or returned to Lexmark, in exchange for a 20% discount off retail price. Neither party disputed that the two models were structured as legally binding agreements, so there was no license-by-notice issue. Impression circumvented technological protection in Lexmark's cartridges so that it could refill and resell them. It conceded that its only defense was an interpretation of exhaustion that overruled *Mallinkrodt* such that Lexmark could enforce limits on cartridge reuse only through contract breach with its customers. This interpretation, however, would mean that Impression would have no liability since it was not in privity with Lexmark. In one of the better recent readings of exhaustion's origins, the en banc majority at the Federal Circuit reversed

[322] 133 S.Ct. 1761 (2013). Other decisions, however, have upheld Monsanto's bag tag. *See, e.g.*, Monsanto Company v. McFarling, 363 F.3d 1336 (Fed. Cir. 2004).

the trial court's decision that "'*Quanta* overruled *Mallinkrodt* sub silentio . . . .'"[323] But Roberts and the *Impression Products* Court reversed the Federal Circuit by adopting a strong, bright line version of the dominant account of exhaustion that trumped even expressly conditional sales.

Duffy and Hynes showed how this is untenable at least with regard to conditions precedent under commercial law. But that concern can still be accommodated by a friendly amendment to the Court's holding. As mentioned, a prime example of conditions precedent in a chattel sale is an installment payment contract. Title does not vest in the purchaser until all payments are made. Thus, purchaser does not in fact have free alienability right to the chattel until the condition is met. Use rights might also be limited during the pending period as well. This is also true for other conditions precedent. Nonetheless, such conditions precedent will be met at some point and full title conveyed—assuming the transactions are not shams. The *Impression Products* Court might have no problem allowing that exhaustion does not take effect until full title has passed.

The bigger problem is conditions subsequent which create reversionary rights to chattel title. Leading property law commentators from Coke to Gray to modern treatises have established the validity of some reversionary interests. While often thought of for real property title, such interests exist in personal property transactions as well. Essentially, a lesser estate in the property is conveyed. This can still be a "sale" of the property—in the same way that a leasehold can be sold. Recall that *Heaton-Peninsular Button-Fastener* had just such a conditional sale. As we saw in the Woodworth patent cases, licenses and franchises can be sold as well. A classic property reversionary right known to all first-year law students is the life estate. This can be purchased with the buyer holding all rights, title, and interest to the property—subject to the reversionary interest and doctrine of waste so as not to unnecessarily diminish the property's value during the life estate.

Despite Roberts' amusing metaphor of restrictions impermissibly sticking "remora-like" to chattels as they pass through the stream of commerce, in fact limits on full and permanent fee simple rights, title, and interest do accompany some personal property. Servitudes, reversionary rights, and other restrictions are placed on chattel conveyances. Glen O. Robinson and Molly Shaffer Van Houweling separately provided nice surveys of the current status of equitable servitudes on chattel in the 2000s, with both finding a continued legal opening for such arrangements.[324] Further, in 2007's *Leegin Creative Leather Products v. PSKS, Inc.*, the Supreme Court overruled *Dr. Miles* to the extent that vertical price resale maintenance was held to not be per se illegal under antitrust law, but rather should be assessed by a rule of reason case by case analysis.[325] The mechanisms for such conveyances include contract, title recordation, and security interests under the

[323] *Lexmark*, *supra* note 5.
[324] Glen O. Robinson, *Personal Property Servitudes*, 71 U. CHI. L. REV. 1449 (2004); Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEO. L.J. 908 (2008).
[325] 551 U.S. 877 (2007).

Uniform Commercial Code (U.C.C.).

Coke, Gray, and their modern counterparts produced entire treatises on proper and improper lesser estate conveyances. While some are tied to conditions certain to occur, such as the death of a life estate holder, others are truly contingent on conditions that may never attain. For conditions precedent, this could be a purchaser who never completes installment payments and so full title never vests in her. For conditions subsequent, this could be heirs who stay solvent after the death of the grantor and thus title remains vested in them.

Impressions Products cannot have swept away this entire area of property law. Indeed, the Court gives no suggestion of making such an epochal change. Rather, Roberts couches the opinion in what he perceives to be the well-accepted state of patent law. While narrowly this is exhaustion doctrine, his opinion broadly implicates alienability of property generally. Whether alienability is a necessary incident to "property,"[326] the principle seems reasonable enough: to say one "owns" property means one should be able to do what is reasonably expected with it.

But what the *Impression Products* Court and others who favor arguments for free alienability in commerce do not really articulate is that they are actually concerned about *liquidity*. How easy is it to find willing buyers and sellers of the property? As a matter of general sense, the more idiosyncratic the property, the narrower the potential pool of buyers—which can limit liquidity. For some property the peculiarities are in the property itself: an unusual house or piece of land; a quirky work of art. For others, the unexpected attribute is in the legal title itself: a standard tract house in a suburban subdivision but with an odd easement; a widely available used car but with a workman's lien on it. The unexpressed intuition behind exhaustion is likely the latter kind of idiosyncrasy: an objection to unusual legal restrictions on the use and resale of an otherwise common, mass-produced good that could affect its liquidity.[327]

Liquidity is a market issue, however, and not something to be legally mandated absent a highly compelling reason. Public stock markets provide a useful analogy. Holding aside the perceived value of and demand for a particular company's stock, the more "plain vanilla" the shares are, the greater the possible liquidity as a general matter. Retail investors are often more comfortable trading in common stock that carries the default one vote per share, residual rights, and possible dividends, than in preferred stock that requires investigation into what special rights are included. Preferred shares might carry 10 votes per share or none. They might be senior to all other classes of stock in any liquidation for insolvency, junior to some but senior to others, or on par with common. They might have defined mandatory dividends. All of this hinders rapid secondary market transactions. It would not be enough to want to buy or sell, say, Microsoft shares, but rather would require knowledge of what class

[326] *See* Nichols, *supra* note 42, at 725.

[327] Van Houweling also notes a related version of this concern. *See* Van Houweling, *supra* note 324 at 914–21.

or series of Microsoft shares were available, and what rights and preferences they carry. The public markets thus favor one class of common shares for any particular issuer as there can then be one ticker price at any given time and participants need not worry about different kinds of rights.

Wisely, however, neither Congress nor the Securities and Exchange Commission have restricted stock offerings or trade on public exchanges to common shares. Rather, the focus is on *disclosure* and *anti-fraud* rules. So long as investors have adequate knowledge about the shares and the issuer, and they are not subject to fraud tactics common to securities markets, then the degree of liquidity of any particular security is left to issuers and the market.

Liquidity of goods in commercial transactions follows the same logic. Absent fraud or consumer protection issues for unexpected or unreasonable harms, producers are generally free to place into the market goods with peculiar physical or legal attributes. These attributes may limit the liquidity and demand for the goods, but that is simply a market issue. Further, some legal limitations, such as the single use restriction in *Mallinckrodt*, can have reasonable health or safety purposes—all cynicism aside.

Thus, Roberts was demonstrably wrong when he glibly assumed that all purchased goods should be as liquid as possible *as a matter of law*. Certainly, neither personal property law nor commercial law require sold goods—as opposed to leased—to be freely alienable or otherwise unrestricted in use. So long as buyers understand and assent to the terms, a lesser estate can be conveyed. Coke and Gray understood this. So long as the chattel was not conveyed in such a way that the recipient could not rid herself of it as a de jure or de facto matter—a cul de sac restraint—then the condition precedent or subsequent could be good. Conditioned title may be less liquid than unconditioned title but again that is a market issue for buyers and sellers.

Holding patent law and exhaustion aside, manufactures could distribute products like printer cartridges as conditional sales of personal property. Meeting a condition subsequent, such as transferring the cartridge to certain named persons, or to anyone *other* than a specific named person, would revert title back to the manufacturer (or its designated party). An unauthorized third party refurbisher would then be trafficking in essentially stolen goods if it took possession of the cartridges. Assuming this distribution model did not violate antitrust law and that purchasers understood and assented to the terms, the conditions should be good and enforceable.

Assuming this to be an accurate reading of property law, then patent law cannot trump it. We might still say that purely as a matter of patent law any sale exhausts patent rights on that particular chattel. But, this would be of little matter to impose free alienability on sold chattels as the property condition would still hold. If that is true, then what is the justification for exhaustion? By itself it cannot ensure free alienability. If that is its core rationale then it seems to be a fairly weak and pointless legal device. Further, the doctrine stands on shaky historical foundations, especially with regard to conditional sales that were nearly always implied to be a carve out from the Taney principle, emancipation, and then exhaustion. If *Impression Products* in fact means that no conditions can be imposed on sale of goods, then a dangerous and wholesale change to property and contract law has now been effected that jeopardizes all manner of commercial transactions and innovative business models. Therefore, either patentees in fact maintain a powerful property-based work-around to the purported bright line exhaustion rule in *Impression Products*—through condition subsequent sales—or that decision has unwittingly inflicted serious collateral damage on contractual conveyances of property in service of a historical myth.

Conclusion

This Article revealed the complex web of transactions and cases behind the conventional—but mistaken—account of the origins of exhaustion. It shows that the doctrine arose not from longstanding common law rules favoring alienability of chattels, but as dicta in an equitable argument interpreting a technical statutory proviso for assignments and licenses during nineteenth century patent term extensions. Taney's compelling spatial metaphor was picked up by later jurists to advance a range of interests. Thus, there was no single coherent principle behind the bootstrapping and evolution of this metaphor from dicta to holdings—other than a focus on ascertaining and enforcing the parties' bargain. Further, the emancipation/exhaustion rule that emerged was only an implied default license that could be contracted around by express conditions. While a number of facially attempted conditional sales were struck down, the actual grounds were lack of assent, inadequate notice, tying or other antitrust violations, etc. But when the question was finally called squarely into question in *Impression Products*, the Court relied on a simplistic bright line version of the doctrine and a flawed historical account. Again, either patentees in fact maintain a powerful property-based work-around to the purported bright line exhaustion rule in *Impression Products* or that decision has unwittingly inflicted serious collateral damage on contractual conveyances of property in service of a historical myth.