No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,
v.
LEXMARK INTERNATIONAL, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., AND SK HYNIX INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

ROY T. ENGLERT, JR.
ARIEL N. LAVINBUK
Counsel of Record
DANIEL N. LERMAN
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, NW
Suite 411L
Washington, D.C. 20006
(202) 775-4500
alavinbuk@robbinsrussell.com

Counsel for Amici Curiae

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Page(s)

Cases

TABLE OF AUTHORITIES—cont'd

Page(s)

TABLE OF AUTHORITIES—cont'd

Page(s)

Statute

Miscellaneous

TABLE OF AUTHORITIES—cont'd

Page(s)

BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., AND SK HYNIX INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF THE *AMICI CURIAE*[1]

Amici are leading manufacturers, retailers, and industry groups with a substantial interest in the proper resolution of this appeal.

- Costco Wholesale Corporation is the second-largest retailer and the largest membership-warehouse club in the United States.
- LG Electronics Inc. is one of the world's leading manufacturers of a wide variety of consumer electronics, mobile devices, and vehicle components.
- The Retail Litigation Center, Inc., is a public policy organization whose members include many of the country's largest retailers.
- SK hynix Inc. is one of the world's largest manufacturers of semiconductors and memory chips.

[1] Counsel of record for all parties received notice of the *amici*'s intent to file this brief at least ten days before its due date. The parties consented to the filing of this brief, and written documentation of their consent is being submitted concurrently. No counsel for a party wrote this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici curiae*, their members, or their counsel made a monetary contribution intended to fund its preparation or submission.

Amici depend on an efficient and administrable first-sale doctrine. Product manufacturers require certainty regarding their ability to incorporate into products patented components acquired by their supply chain. And retailers likewise depend on the ability to resell products that they purchase from patentees and authorized licensees. *Amici* therefore have a significant interest in preventing unlawful restrictions on the free use and flow of duly purchased patented goods.

SUMMARY OF ARGUMENT

"For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 621 (2008). The Federal Circuit's decision below undermines the first-sale doctrine in two respects. It reaffirmed *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), holding that a patentee can use the *patent law* to restrict the use or sale of patented articles after an initial authorized sale. And it reaffirmed *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), holding that the first-sale doctrine does not apply to foreign sales of patented articles. Those limitations on the first-sale doctrine have profound implications for businesses and consumers, and conflict with this Court's precedents.

I. This is an important case. Goods of all kinds—even seemingly simple ones—often are composed of multiple components that are themselves patented. Under the Federal Circuit's rule, product developers will need to trace the provenance of every component purchased and determine whether any individual component was first sold abroad—or was sold domestically with some "condition" on future use or resale. The post-sale restraints authorized by the decision below cast a pall of uncertainty on the sale and resale of goods, and impose enormous costs on manufacturers and retailers alike.

Consumers will also suffer. The implication of the Federal Circuit's limitation on the first-sale doctrine is that a tourist who purchases a patented product abroad cannot take that product back to the United States—or use it here—without committing patent infringement. That cannot be right.

This Court recognized these same concerns in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). The decision below brushes aside those concerns as copyright-specific. But this Court's decision was not so circumscribed. To the contrary, this Court explained that a robust first-sale doctrine is essential to protect the free flow of goods, and expressly addressed the implications for sales of cars, calculators, and computers—products that are undoubtedly subject to patents as well as copyrights. *Id.* at 1364-66.

II. The decision below is wrong and conflicts with this Court's precedents. "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S. at 625. The doctrine is grounded, in part, on the notion that the purposes of the patent law are fulfilled with respect to a patentee when the patentee has received his "reward" through the sale of that article. The

Mallinckrodt doctrine embraced by the decision below violates that rule by allowing patentees to impose restrictions on the use or sale of an article *after* the patentee has already received his reward. That is not to say that patentees are powerless to impose any restrictions on the use of a patented article. Patentees, like other property owners, are free to place *contract*-based restrictions on the use of their goods. But this Court has consistently made clear that such rights cannot be enforced through the *patent law*.

The majority below contends that the limitations it grafted onto the first-sale doctrine are compelled by the Patent Act, which grants patentees an unfettered right to exclude others from making, using, or selling patented items. This Court has already rejected that precise argument, however, holding that the right to exclude does *not* translate into a right to impose post-sale conditions on the use or sale of a patented item.

At bottom, the decision below rests on the proposition that sales should not be treated differently from licenses. But the distinction between licenses and sales is as old as the first-sale doctrine itself—and an authorized sale, whether made directly by the patentee or indirectly via an authorized licensee, has always placed an item beyond the reach of the patent monopoly.

With respect to international exhaustion, the decision below contends that *Kirtsaeng* is beside the point, because patent law is not *always* the same as copyright law. But the question here is only whether there is any reason to treat *exhaustion* differently in the patent and copyright contexts. There is not. The common-law's longstanding disapproval of restraints on alienation—on which this Court relied in *Kirtsaeng*—is equally applicable in the patent context, and compels the conclusion that the first-sale doctrine applies to patented articles lawfully sold abroad.

ARGUMENT

I. THIS CASE IS OF GREAT IMPORTANCE TO BUSINESSES AND CONSUMERS ALIKE

This Court has long acknowledged the centrality of the first-sale doctrine to the orderly operation of markets:

> [O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. . . . The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.

Keeler v. *Standard Folding-Bed Co.*, 157 U.S. 659, 666-67 (1895).

The decision below chips away at the clarity provided by the first-sale doctrine. It eliminates the doctrine entirely for patented articles that happen to be first sold abroad—and gives patentees near unlimited power to do the same for articles first sold domestically, so long as their chosen restrictions on future alienation are simply communicated clearly.

Given the complexity of the modern supply chain, such diminution of the first-sale doctrine creates enormous complication and inefficiency—the ultimate effect of which is higher costs for consumers. As the dissent below observed, the "[p]ost-sale restraints" invited by the majority's decision "would 'cast a cloud of uncertainty over every sale.'" Pet. App. 117a (quoting *Tessera, Inc.* v. *Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011)). Such a practical problem is "too serious, too extensive, and too likely to come about for [this Court] to dismiss [it] . . . as insignificant." *Kirtsaeng*, 133 S. Ct. at 1367.

1. Goods of all kinds—computers, smartphones, automobiles, and even medicines—incorporate innumerable components made throughout the world. One report tracking iPhone production, for example, identified 785 different suppliers in 31 countries. *See* Ian Barker, *The Global Supply Chain Behind the iPhone 6*, http://goo.gl/ehweyR. And the iPhone is not unique: "computer hardware and software contain an incredibly large number of incremental innovations." Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, *Executive Summary*, at 6 (Oct. 2003), http://goo.gl/auSnUJ. Even "a given semiconductor product . . . will often embody hundreds if not thousands of 'potentially patentable' technologies," and that is just one part of a consumer device. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979–1995*, 32 RAND J. Econ. 101, 110 (2001).

If the decision below stands, each product developer and manufacturer would be required to trace to origin the patent rights of every single component it purchases. If it turns out that any individual component was first sold abroad—or even domestically, but subject to a condition on future reuse or resale—the manufacturer would then be required to negotiate an appropriate licensing agreement with the component manufacturer (as well as any sub-component manufacturer). And all of this would be *over and above* the standard purchase contract for each component itself.

Further complicating matters, many products are developed subject to worldwide licensing agreements under which a licensee pays royalties on every product it makes that practices a licensor's patents (U.S. or foreign), regardless of where those products are ultimately sold. Under the Federal Circuit's exhaustion rules, products made by that licensee that end up being sold in the United States would exhaust the licensor's patent rights, but those same products, made by the same licensee, pursuant to the same worldwide licensing agreement that happen to be sold outside the United States would *not* exhaust such rights. That arbitrary distinction would require downstream manufacturers and consumers to keep track of not only *who* produced a patented item but *where* it was first sold, even though the original contract between the licensor and licensee drew no such distinction.

Consider, for example, a manufacturer of touch-screen displays that owns patents covering that technology. It sells its displays, outside the United States, to a manufacturer of GPS console devices. The GPS manufacturer incorporates the touchscreen displays into its GPS devices overseas and them imports them into the United States. Those devices are, in turn, sold to an automobile manufacturer that incorporates them into its navigation console. The automobile manufacturer then sells its cars to U.S.-based dealerships for sale in the United States.

Under the Federal Circuit's exhaustion rule, even though the display manufacturer voluntarily sold its products to the GPS manufacturer at a price of its choosing, the former can nonetheless sue the latter, *and* the automobile manufacturer, *and* the U.S. dealership for direct or indirect patent infringement, unless all of those parties negotiate a specific license for U.S. importation and use. The exact same result would follow even if the display manufacturer first sold its wares in the United States but did so with a condition restricting future resale or use.[2]

These concerns are only exacerbated by the proliferation of non-practicing entities ("NPEs"), who buy patent rights from inventors that may have once authorized the practice of their patents pursuant to worldwide licenses. *See eBay Inc.* v. *MercExchange,*

---

[2] Perversely, the Federal Circuit's view that international sales do not exhaust patent rights creates an incentive for U.S. patentees to manufacture their goods abroad. If a patentee manufactures and sells a good within the United States, the sale normally exhausts all patent rights. Even assuming *Mallinckrodt* was correctly decided, the patentee may be able to constrain future alienation only through a clearly communicated condition at the time of sale. Under *Jazz Photo*, however, the patentee need not even bother to do that if it shifts production and sales overseas. Congress could not possibly have intended the patent laws to create such "an inefficient incentive to shift domestic production abroad." Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 Cardozo L. Rev. 55, 142 n.380 (2001); *see also Kirtsaeng*, 133 S. Ct. at 1322.

L.L.C., 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining license fees."). Because under the decision below foreign sales do not exhaust the patent rights—even when *royalties may have already been paid on them*—NPEs can threaten product manufacturers and their downstream U.S. customers with infringement actions in order to extract *additional* royalties on products used in the United States. These lawful downstream purchasers, in turn, then seek indemnification from the manufacturer—who, of course, already paid a royalty to the original patent holder upon its first sale abroad. The manufacturer is nevertheless obligated to defend the suit or pay yet another royalty to the NPE.[3]

Because supply chains involve dozens, if not hundreds, of suppliers and sub-manufacturers, all located around the world, the impracticality of such a cramped exhaustion regime is manifest. If product manufacturers are unable to rely on the authorized first sale of a component as duly exhausting all patent rights to that component—whether flowing from the component's maker or from incorporated

---

[3] The decision below elides this concern by suggesting it can be addressed by the doctrine of "implied license." Pet. App. 90a. But the Federal Circuit has itself acknowledged that "judicially implied licenses are rare under any doctrine," (*Wang Labs., Inc.* v. *Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1581 (Fed. Cir. 1997)), and in practice they are almost impossible to prove in suits involving NPEs because of the lack of any substantial course of conduct between the parties.

subcomponents—licensing-compliance costs could be staggering.

And the issue is not simply cost; the Federal Circuit's exhaustion rules hinder innovation, as well. New products often result from novel ideas regarding combinations of existing components. Creating these new combinations, however, requires confidence that the patent rights underlying the components have been exhausted by the initial sale. For this reason, a recent study concluded that "deregulation of parallel imports"—that is, goods imported on the secondary market—"generates both an increase in consumer surplus in the innovative country and an *increase* in the world pace of innovation." Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 RAND J. Econ. 378, 380 (2008).

2. The negative impact of the Federal Circuit's exhaustion rules is also felt by retailers—large and small—who sell thousands of products, many with individually patented components. Not only will those retailers remain responsible for ensuring that the products they sell are authentic (*i.e.*, not counterfeit or pirated) but, like the manufacturers before them, they will also be pressured to determine and verify the patent rights associated with each component in those products. That investigation and verification process imposes significant costs on retailers; those costs are ultimately passed on to consumers.

Realistically, moreover, neither the national chain that imports billions of dollars of goods for resale each year, nor the small local shop that purchases its inventory from a middleman distributor, can always know the provenance of every lawfully made good it sells—and particularly those first sold abroad and imported for sale in the United States. Especially where there is no visible patent notice on the goods, retailers have no reasonable way to ascertain whether anything about the goods is protected by patent. This is particularly true in cases in which a patented method or component is at best ancillary to the goods that the retailer is selling.

If patentees had the right to prevent the resale or importation of lawfully made goods, the retail industry would have less confidence to buy goods from independent exporters or importers. As noted earlier, to mitigate the risk of such uncertainly, retailers often try to shift liability to their sellers through contractual representations and indemnification provisions. They can also obtain insurance to protect against unknown or unintentional breaches of such warranties. But those protections, too, impose additional costs. The Federal Circuit's exhaustion rules therefore create precisely the burdens that have long concerned this Court. *See, e.g.*, *Kirtsaeng*, 133 S. Ct. at 1363 (the first-sale doctrine is meant to "free[ ] courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods").

3. The damage caused by the decision below is not limited to industry, however. It causes substantial harm and confusion for everyday consumers, as well. As noted above, in the modern supply chain, manufacturers sell components to product developers, who sell their products to retailers, and then ultimately to consumers. The component manufacturers' initial sale often takes

place abroad. Under the rule adopted by the decision below, the only way to protect the rights of downstream consumers is to force the initial component sales to take place in the United States—resulting in fewer goods offered at retail, in fewer retail outlets, and at higher prices.

Moreover, the decision below mandates a number of nonsensical outcomes, foremost among them that individual copies of patented goods—be it a Nikon camera purchased by a tourist on vacation in Japan or a Teva sandal purchased by a student studying abroad in Israel—cannot lawfully be brought home, resold, given away, *or even used* in the United States by the purchaser without committing patent infringement.

To be sure, it is often suggested—and was, indeed, argued by Respondent below (Lexmark Panel Br. 54)—that patentees will not actually bring suit to stop such *de minimis* acts of infringement. But as this Court observed in *Kirtsaeng*, "a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself." 133 S. Ct. at 1366. So too here.

Indeed, if anything, the problem is only more pronounced in the patent context. As Justice Ginsburg noted in dissent in *Kirtsaeng*, a number of copyright-specific defenses and exceptions—such as fair use, the so-called "suitcase exception," and specific exemptions for libraries—might have mitigated some of the practical concerns expressed by the Court. 133 S. Ct. at 1388-89. Patent law, however, provides no such relief.

4. The concerns raised here are not new; they were discussed at length by the Court in *Kirtsaeng*. The Federal Circuit tried to dismiss that fact by asserting that this Court's treatment was "copyright-specific" and "to a large extent, though not entirely, tied to the distinct problems of museums, libraries, and booksellers." Pet. App. 75a. But the Court's opinion was not nearly so constrained. To the contrary, the Court *expressly* took account of the very concerns of both technology companies and retailers raised again here. *See Kirtsaeng*, 133 S. Ct. at 1365 (citing, *inter alia*, Brief for Retail Litigation Center, Inc., *et al.* as *Amici Curiae*).

The decision below likewise asserts that there is "no basis for predicting the extreme, lop-sided impacts" raised here. Pet. App. 60a. But that exact same claim was pressed—and rejected—in *Kirtsaeng*, as well. *See* 133 S. Ct. at 1366 ("Neither Wiley nor any of its many *amici* deny that a geographical interpretation could bring about these 'horribles'—at least in principle. Rather, Wiley essentially says that the list is artificially invented.").

In an attempt to distinguish the indistinguishable, the decision below thus asserts that patent law is simply different. Whereas pre-*Kirtsaeng* copyright precedent "was too fractured to give meaningful comfort that . . . practical problems . . . were unlikely to materialize" (Pet. App. 75a), the Federal Circuit claims, "*Mallinckdrodt* has been the governing case law since 1992" (*id*. at 60a), and *Jazz Photo* the "clear rule since 2001" (*id*. at 75a), "[a]nd yet we have been given no reliable demonstration of widespread problems not being solved in the marketplace" (*id.* at 60a).

But the patent law is not nearly as settled, nor was the copyright law nearly as unsettled, as the Federal Circuit claims. To the contrary, district courts have repeatedly raised concerns about the viability of the Federal Circuit's patent exhaustion precedents. *See, e.g.*, *LG Elecs., Inc.* v. *Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009). As the dissent noted, so too have commentators. *See* Pet. App. 114a (citing 12 Phillip A. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 2044, at 300 & 301 n.15 (3d ed. 2012)). And, as the Petition describes, the United States has consistently asserted that both *Mallinckdrodt* and *Jazz Photo* were incorrectly decided. *See* Pet. 18-21, 32 (describing the United States's position).

In contrast, before *Omega S.A.* v. *Costco Wholesale Corporation,* No. 04-05443, 2007 WL 7029734 (C.D. Cal. Feb. 6, 2007), *rev'd*, 541 F.3d 982 (9th Cir. 2008), *aff'd by a divided Court*, 562 U.S. 40 (2010)—the precursor to *Kirtsaeng*—a geographic interpretation of copyright exhaustion had been the universal rule in the federal courts for nearly thirty years. See *CBS, Inc.* v. *Scorpio Music Distribs., Inc.,* 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984). Commentators uniformly asserted that view was correct. *See, e.g.*, 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[B][6](b), at 8-178.4 (rev. ed. 2009). And the United States thrice defended it in the Supreme Court (in *Quality King*, in *Costco*, and again in *Kirtsaeng*). Indeed, prior to 2010, only a single court had ever even called the prevailing, geographic view of copyright exhaustion into question at all (and in a footnote, no less). *See Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 & n.1 (3d Cir. 1988).

Against that backdrop, there is simply not "considerably more reason to discount predictions" (Pet. App. 75a) of what might materialize if the decision below is left intact than there once was in the copyright context. And as the Court noted in *Kirtsaeng*, "the fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights. They may decide differently if the law is clarified in their favor." 133 S. Ct. at 1366. So too here.

* * *

At bottom, there is simply no rational reason to presume that Congress intends for materially different—indeed, almost diametrically opposed—exhaustion regimes to govern copyrights and patents. And there is significant harm in presuming otherwise. The same products often include both patented and copyrighted elements; indeed, *Kirtsaeng* itself acknowledged the use of copyrights in "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers"—products plainly subject to patent rights. 133 S. Ct. at 1365. In practice, parties routinely assert copyright and patent interests in the same product. See, *e.g.*, *Amini Innovation Corp.* v. *Anthony California, Inc.*, 439 F.3d 1365 (Fed. Cir. 2006); *Gemmy Indus. Corp.* v. *Chrisha Creations Ltd.*, 452 F.3d 1353 (Fed. Cir. 2006); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000). Disparate exhaustion rules yield bizarre and intolerable results, where sales abroad (or at home, subject to restrictions) exhaust some U.S. rights but not others. Such a regime would simply encourage further gamesmanship in the use of intellectual property rights in order to restrict secondary markets. This Court should not abide such a result.

II. THE DECISION BELOW MISINTERPRETS THIS COURT'S PRECEDENTS AND IS ERRONEOUS

This Court's precedents make clear that the first-sale doctrine has two requirements: (1) there must be a sale of a patented article, and (2) that sale must have been authorized by the patentee. If those conditions are met, the patentee "can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." *United States* v. *General Electric Co.*, 272 U.S. 476, 489 (1926).

Although that principle has been "well settled" for more than a century, *General Electric*, 272 U.S. at 489, the Federal Circuit has grafted two far-reaching exceptions onto the first-sale doctrine. According to the decision below, a patentee can circumvent the first-sale doctrine domestically—and thus restrict purchasers' subsequent use or sale of a patented article—simply by imposing "conditions" when it sells the article. And foreign sales of a patented article, even when authorized by the patentee, are immune from the first-sale doctrine altogether. The exceptions created by the Federal Circuit are contrary to this Court's precedents and misinterpret the text and purpose of the Patent Act.

1. The patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). This Court has "uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942). "[O]nce that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Ibid.* The first-sale doctrine therefore reflects the fact that the patent law gives patentees "but one royalty"—and no more. *Keeler*, 157 U.S. at 663; *see Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013).

The *Mallinckrodt* doctrine runs counter to that bedrock principle. As this Court has recently reiterated, the "longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates *all patent rights* to that item," including the right to impose "postsale restrictions on the use of a patented article." *Quanta*, 553 U.S. at 625 (emphasis added). But that is just what the decision below permits: It allows patentees to impose restrictions on the use or sale of a patented article *after* an authorized sale of that article—and thus after the patentee has already "received his consideration." *Adams* v. *Burke*, 84 U.S. 453, 456 (1873).

The decision below presumes that, as owners of a property right, patentees must be free to impose conditions on the subsequent use or sale of that property. The decision below also suggests that patentees need a mechanism to segment markets for their products, domestically or internationally, in order to account for real-world differences among markets and to prevent arbitrage. *See* Pet. App. 78a-79a. That may be true, but if so, those rights are not a function of the *patent law*, enforceable through infringement actions. Rather, this Court has made clear that such restrictions on post-sale use are the function of—and are only enforceable through—*contract law*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666; see *Quanta*, 553 U.S. at 637 n.7.

What was "obvious" to this Court in 1895 is no longer obvious to the Federal Circuit in 2016. By allowing patentees to use the patent laws to enforce contractual limitations on post-sale uses, the decision below impermissibly extends the scope of the patent monopoly and undermines the bargain that lies at the very core of federal patent law.

2. The decision below nevertheless contends that the *Mallinckrodt* conditional-sale doctrine is compelled by the Patent Act, which confers the "'right to exclude,' which 'may be waived in whole or part.'" Pet. App. 27a (quoting *Mallinckrodt*, 976 F.2d

at 703). So, the reasoning goes, because a patentee can exclude *all* uses or sales of a patented article, it can impose *some* restrictions on the use or sale of that article, even after an authorized sale.

But this Court has already rejected that greater-includes-the-lesser argument—*i.e.*, the notion that, "since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it." *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 514 (1917). And it did so on the ground that the argument conflates "the rights which are given to the inventor by the patent law," and those "which he may create for himself by private contract." *Ibid.* That is precisely the mistake made by the decision below.

The decision below also places great weight on the fact that the Patent Act confers "separate rights to exclude others from making, using, selling, etc." Pet. App. 58a. According to the court of appeals, that unique aspect of patent law means that the first-sale doctrine (at least in the context of patent law) should not be subject to the longstanding common-law rule that authorized purchasers of goods are free to dispose of those goods however they wish. Pet. App. 56a-59a.

But this Court has recognized that very point in *Adams*—that the "right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee." *Adams*, 84 U.S. at 456. It nevertheless held that that fact does *not* give the patentee the right to impose constrictions on post-sale uses or sales: Once a patentee sells a patented article, this Court explained, he "parts with the right to restrict that use." *Ibid.* The fact that the patent law grants those rights "separately," Pet. App. 57a, does nothing to alter that rule.

3. The majority decision below relies on a line of cases from this Court holding that patentees can place conditions on the conduct of *licensees*. According to the decision, "there is no sound reason, and no Supreme Court precedent," requiring a distinction between conditions imposed on purchasers and conditions imposed on licensees. Pet. App. 26a.

Not so. The "distinction is a plain one" that has long been recognized by this Court. *Bloomer* v. *McQuewan*, 55 U.S. 539, 549 (1852). Thus, in *General Electric*, the Court reaffirmed that, where a patentee makes an article "and *sells* it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." 272 U.S. at 489 (emphasis added). "But the question is a different one which arises when we consider what a patentee who grants a *license* to one to make and vend the patented article may do in limiting the *licensee* in the exercise of the right to sell." *Id.* at 489-490 (emphasis added).

This Court's longstanding distinction between sales and licenses is an eminently reasonable one. After all, the first sale doctrine is just that: it applies only after the *sale* of a "particular article." *Bowman*, 133 S. Ct. at 1766 (internal quotation marks omitted). When a patentee himself manufactures and sells an article, there is of course a sale, and that sale is, by definition, authorized. It therefore "puts the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252; *see Bloomer*, 55 U.S. at 549 (after an authorized sale, a patented article "is no longer within the limits of the monopoly").

When a patentee licenses another entity to make and then sell an article, however, there is no sale (yet). The patented article therefore remains within the scope of the patent monopoly—and the patentee is therefore free to impose conditions on the licensee's use or sale of the item covered by the patent. In that situation, the first-sale doctrine is triggered only when the licensee—who stands in the shoes of the patentee—first sells the patented item with the authorization of the patentee. *Cf. Kirtsaeng*, 133 S. Ct. at 1361 (noting that the lessee of a copy will not enjoy the benefit of the copyright first-sale doctrine, but that the purchaser of a copy will). This Court's precedents regarding licenses therefore provide no basis to jettison its long line of decisions holding that a patentee who sells a patented article exhausts his right to control the subsequent use or sale of that article.

4. In *Kirtsaeng*, this Court held that the first-sale doctrine "applies to copies of a copyrighted work lawfully made abroad." 133 S. Ct. at 1355-56. In reaching that conclusion, this Court observed that the doctrine, as a general matter, had an "impeccable historic pedigree"—namely, the common law's longstanding disapproval of restraints on the alienation of goods. *Id.* at 1363 (citing Lord Coke). According to the decision below, however, *Kirtsaeng* is simply irrelevant here because "a conclusion about copyright law does not automatically carry over to

patent law." Pet. App. 69a (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345-46 (1908)). But that truism adds nothing to the analysis. The question isn't whether conclusions about copyright law *always* compel similar conclusions about patent law. Rather, the question is whether there is any reason to treat copyright law and patent law differently *in a specific context.* And the opinion below provides no valid reason why patent law should diverge from copyright law with respect to international exhaustion.

The court of appeals makes much of the fact that the Copyright Act contains a statutory first-sale doctrine, while the Patent Law does not. But as Petitioner explains (at 24-26), that distinction cuts exactly the other way. In *Kirtsaeng*, this Court determined whether the Copyright Act's first-sale provision modified the doctrine that *already* existed at common law. Here however, there is no statute that expressly delineates the scope of the first-sale doctrine in the patent-law context. Thus, the common-law doctrines relied on by this Court in *Kirtsaeng* apply with even greater force here.

The opinion below also attempts to distinguish patent law from copyright law on the ground that the Patent Act—unlike the Copyright Act—confers "broad rights to control sale and use," and grants those various rights "separately as to making, selling, using, etc." Pet. App. 57a; *id.* at 58a. But that is not a distinction at all (much less one with a difference). After all, the Copyright Act *also* grants separate "exclusive rights," including the right to "reproduce" a copyrighted work; "prepare derivative works"; "distribute copies" of a copyrighted work by sale, rental, or lease; and "perform" or "display" copyrighted works publicly. 17 U.S.C. § 106. Under the majority opinion's own framework, then, the same exhaustion rule should apply to authorized sales in the copyright and patent contexts.

In any event, this Court has already made clear that copyright law and patent law should be treated similarly *with respect to the very issue presented here*—exhaustion based on the sale of a product. In *Bauer & Cie.* v. *O'Donnell*, 229 U.S. 1 (1913), the Court addressed whether a patentee may limit the price at which future sales of a patented article may be made (after an authorized sale of that article)—a question addressed in the copyright context in *Bobbs-Merrill*. This Court acknowledged that the copyright statute differs from the patent statute, but explained that there nevertheless "is a strong similarity between and identity of purpose in the two statutes"—specifically, that both statutes provide the exclusive right to "vend" articles (or "sell" under the current statutes). Thus, the Court explained, "[t]he sale of a patented article is not essentially different from the sale of a book." *Id.* at 13.

So too here: The decision below provides no valid reason why the effect of a foreign sale of a patented article (say, a Nikon camera) should be treated differently, for purposes of exhaustion, from the foreign sale of a novel by Herzog. As long as the foreign sale was authorized, it exhausts the patentee's right to restrict the purchaser's use or sale of the article. In other words, the same two-step inquiry that applies in the domestic exhaustion context also applies in the international exhaustion context: Was there a sale of a patented article, and was it authorized? If so, the patented article "passes to the hands of the purchaser" and is "no longer within the limits of the monopoly." *Bloomer*, 55 U.S. at 549.

CONCLUSION

The petition for a Writ of Certiorari should be granted, and the decision of the Federal Circuit reversed.

Respectfully submitted.

ROY T. ENGLERT, JR.
ARIEL N. LAVINBUK
Counsel of Record
DANIEL N. LERMAN
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, NW
Suite 411L
Washington, D.C. 20006
(202) 775-4500
alavinbuk@robbinsrussell.com

April 2016