No. 15-1189

IN THE
Supreme Court of the United States

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

On Writ of Certiorari to the
United States Court of Appeals
For The Federal Circuit

BRIEF FOR AMICUS CURIAE AMERICAN
INTELLECTUAL PROPERTY LAW ASSOCIATION
SUPPORTING NEITHER PARTY

MARK L. WHITAKER
President
AMERICAN
INTELLECTUAL
PROPERTY LAW
ASSOCIATION
1400 Crystal Drive
Suite 600
Arlington, VA 22202
(703) 415-0780

KRISTIN L. YOHANNAN
Counsel of Record
MILBANK, TWEED, HADLEY
& MCCLOY LLP
1850 K Street, NW
Suite 1100
Washington, DC 20006
(202) 835-7500
kyohannan@milbank.com

Counsel for Amicus Curiae

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

Cases

Constitution, treaties and statutes

Other Authorities

INTEREST OF AMICUS

The American Intellectual Property Law Association (AIPLA) is a national bar association of approximately 14,000 members who are primarily lawyers engaged in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property, and our mission includes providing courts with an objective analysis to promote an intellectual property system that stimulates and rewards invention while balancing the public's interest in healthy competition, reasonable costs, and basic fairness.[1]

---

[1] In accordance with Supreme Court Rule 37.6, amicus curiae states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the amicus curiae or its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

AIPLA has no stake in any of the parties to this litigation or in the result of this case other than its interest in seeking the correct and consistent interpretation of the law as it relates to intellectual property issues.[2]

SUMMARY OF ARGUMENT

This case presents two fundamental but distinct questions on the doctrine of patent exhaustion. First, whether a conditional sale, which specifies certain conditional post-sale restrictions, transfers title to a patented item but avoids patent exhaustion such that violations of such post-sale restrictions are enforceable through a patent infringement remedy. Second, whether a U.S. patent owner may authorize the sale of a patented article in a foreign country, either under a foreign patent or otherwise in accordance with foreign law, while reserving its exclusive rights under U.S. patent law.

As to the first question, the Supreme Court has long recognized that patentees and their contracting parties should be free to sell products or enter into licenses that reflect the bargain they have reached for the particular rights they wish to offer and accept. In addition, this Court in *Quanta* purposefully distinguished cases that involved effective conditional sales, thus, confirming that only

---

[2] In accordance with Supreme Court Rule 37.3(a), both Petitioner and Respondent have consented to the filing of this brief. Petitioner did so by with a consent email to AIPLA, and Respondent did so by filing a blanket consent letter with the Court.

unrestricted sales exhaust patent rights. Finally, conditional sale jurisprudence is also supported by sound policy and economics. Nothing in either the patent statute or in judicial decisions suggests that a patentee parts with all patent rights upon the first sale of a patented article if the transfer is explicitly restricted in a way that does not violate other substantive law. The realities of the market and the nature of patent rights also require flexible sale and licensing arrangements. A patent system that allows for more flexibility will not only facilitate innovation but also will produce efficient commercial results.

As to the second question, this Court specifically addressed the issue of whether foreign sales exhaust U.S. patent rights in *Boesch*. In that case, this Court stated that foreign sales do not extinguish U.S. patent rights because such rights are territorial and cannot be compromised by foreign activity. *Kirtsaeng* is a copyright case and therefore is not controlling precedent in this case. Moreover, there are many differences between the patent and copyright laws, ranging from the requirements to obtain protection to the enforcement mechanisms provided. These differences require each statute to be analyzed separately and suggest the exercise of caution against readily applying copyright precedent to patent issues. In addition, Congress' resources and proficiency in international relations make it best positioned to consider these issues in the broader context of their effect on U.S. foreign policy. Finally, upholding the common law rule against international patent exhaustion is consistent with numerous public policy goals, such as ensuring access to patented pharmaceutical, medical, and agricultural products in developing nations.

To ensure the effective use of intellectual property and the adequate protection of patent rights, AIPLA urges this Court to reaffirm its precedent on U.S. patent exhaustion and on conditional sales and license agreements containing lawful conditions.

ARGUMENT

A fundamental precept of the United States economy is that full and free competition in the marketplace is the most effective path to economic growth. Paul J. McNulty, Economic Theory and the Meaning of Competition, 82 Q. J. ECON. 639, 639 n.1 (1968). One exception to that basic tenet is the principle that innovation and creativity require special treatment in order to thrive, and this competing ideal is embodied in the patent and copyright laws. Those laws find their authority in the Constitution's provision of limited rights of market exclusivity for inventions and works of authorship. Thus, the Constitution itself recognizes this exception to the basic principle of free competition. *See* U.S. CONST. art. 1, § 8, cl. 8.

The tension between free competition and the exclusive rights of intellectual property is apparent in various areas of law but is particularly evident in the common law exhaustion doctrine. The Copyright Act's "first sale" provision explicitly embodies the exhaustion of ownership doctrine, 17 U.S.C. § 109(a) (2012) ("[T]he owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.") While the Patent Act contains no such explicit provision, the exhaustion doctrine also generally applies to U.S. patent law with respect to unconditional sales. *See Adams v. Burke*, 84 U.S. (17 Wall.) 453, 457 (1873) ("[W]e hold that in the class of [patented] machines or implements … when they are once lawfully made and sold, there is no restriction on their use to be implied for the benefit of the patentee or his assignees or licensees.").

However, because patent exhaustion is not codified in the Patent Act, courts have avoided making blanket decisions that upon a sale of an article, all patent rights are exhausted. As explained below, certain circumstances dictate that patent exhaustion does not apply.

I. A CONDITIONAL SALE THAT SPECIFIES POST-SALE RESTRICTIONS AVOIDS PATENT EXHAUSTION

A. The Federal Circuit's Treatment Of Post-Sale Restrictions Is Consistent With Supreme Court Precedent

There is no conflict between the Federal Circuit's *Lexmark* decision and this Court's patent exhaustion precedent. This Court for many years has instructed that, upon the first *authorized* sale—by the patent owner or by a licensee—of a patented article, the patent owner's statutory right to exclude is exhausted as to that article. *U.S. v. G.E. Co.*, 272

U.S. 476, 489 (1926). As a result of this first sale, any subsequent use or sale of the patented article is not an infringement of the corresponding patent. *Id.* The rationale underlying the exhaustion doctrine is that the patent owner, having received due consideration in the sale, passes full title to the purchaser and surrenders any rights in the future use or distribution of the invention. This Court, however, has never held that rights specifically withheld in a transaction are nonetheless transferred and exhausted.

The Federal Circuit's decision below is in accord with patent law principles declared by this Court's exhaustion decisions. The law grants a patent holder the "right to exclude others from making, using, offering for sale, or selling the invention … ." 35 U.S.C. § 154(a)(1). As this Court indicated in *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942), "[t]he declared purpose of the patent law is to promote the progress of science and the useful arts by granting to the inventor a limited monopoly, the exercise of which will enable him to secure the financial rewards for his invention." *Id.* at 250. As such, this Court has long recognized a patent owner's freedom to contract to receive the full value of its patent rights. *Adams* 84 U.S. at 456 (1873) (stating 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.").

Consistent with these general principles, however, the Court has also stated that a patentee's restrictions upon a licensee's sales are valid "provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." *G.E.*, 272 U.S. at 490 (conditions imposed by the patentee and agreed to by the licensee that are not illegal will be upheld). Moreover, because the decision below favors the enforcement of express restrictions not in restraint of trade, it correctly aligns with Supreme Court decisions that have enforced such restrictions. As this Court explained, patent rights are exhausted only after authorized and *unconditional* sales. *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 548 (1872) (purchaser may use article until worn out or may repair or improve just as with any other kind of property where sale is without any conditions); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) (right exhausted by a "single, unconditional sale").

Exhaustion, however, does not apply where a sale is conditional and thus further resale is unauthorized. Indeed, the Court has historically permitted patent owners to enter into restricted, conditional licenses that grant only limited authority without exhausting all rights in the licensed patents. *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 126-27 (1938) (upholding enforcement of field-of-use restrictions through licenses divided between those who could sell for commercial purposes and those who could sell for home purposes); *Mitchell*, 83 U.S. at 549-50 (recognizing patent owner might grant manufacturer license to make patented invention limited to the original patent term and expressly excluding any extension of the term).

Contrast *Mitchell* with *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852), which illustrates the relationship between exhaustion and conditional licenses. In *Bloomer*, the unconditioned license gave rise to exhaustion. *Id.* at 549 (1852) (holding Congress' extension of a patent term did not affect the rights of purchasers from a patent licensee who took title without any restriction). In *Mitchell*, the conditioned license prevented exhaustion. 83 U.S. at 549 (holding that Mitchell could enjoin purchaser from using patented machines during extended term because license was limited to original patent term).

Courts have occasionally held certain types express restrictions unenforceable. The reasoning for such decisions was not the mere existence of those restrictions, but the restrictions' flagrant anticompetitive nature. For example, this Court relied on the patent exhaustion doctrine to conclude that patentees could not tie the sale of unpatented articles to the use of patented ones. *Motion Picture*, 243 U.S. at 518. Similarly, the Court held that price fixing conditions in the licensing arrangement imposed by the patent owner for the resale of the patented products were outside the scope of the patent monopoly. *Univis*, 316 U.S. at 252-54.

Finally, while the decision below involves a restricted sale to an "end purchaser" of the patented article rather than a restricted license to an intermediate manufacturer, Supreme Court cases suggest that the manufacturing licensee versus purchaser distinction is not dispositive with regard to application of the exhaustion doctrine. *Mitchell*, 83 U.S. at 550; *Gen. Talking Pictures*, 305 U.S. at

127. If a patentee can temporally divide rights to make and sell its invention by express restrictions in a licensing agreement, it should also be able to sell limited use rights by express provisions in a sales contract. In other words, a patentee should not have fewer options when selling its invention itself than when it goes through an intermediate manufacturer or licensee.

Indeed, this Court expressly held that those conditions or restrictions pass on to purchasers of the licensed products and has allowed infringement suits against purchasers. In *Mitchell*, which involved a suit by the assignee of patent rights against a purchaser, the Court found that a licensee is not empowered to convey a license to purchasers beyond the limits of its own license grant. 83 U.S. at 550. *Mitchell* unquestionably upholds the right of patent owners to place conditions on the sale of patented machines, either directly themselves or indirectly through their licensees. In *General Talking Pictures*, it was the ultimate purchaser as well as the licensee who were found to have infringed the patent. 305 U.S. at 127. The Court upheld "home use only" restrictions placed on the ultimate purchaser, holding that the purchaser was "in no better position than if it had manufactured the amplifiers itself without a license. It is liable because it has used the invention without [a] license to do so." *Id.*

Accordingly, there is nothing in the *Lexmark* decision below that conflicts with Supreme Court precedent. This Court should continue this line of authority supporting the freedom of a patent owner, either directly or indirectly through its licensees, to condition the sale of a patented article.

B. *Quanta* Is Not Inconsistent With The Decision Below

The Petitioner contends that this Court's decision in *Quanta* dictates that Lexmark's conditional sale exhausts its patent rights. *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008). But *Quanta* does not address the conditional sale issue. Rather, this Court held that LGE's patent rights were exhausted due to an unconditional license. *Quanta*, 553 U.S. at 636-37. The Court thus declined the opportunity to speak on general principles of exhaustion in favor of a narrow contract-based ruling.

The framing of the question presented suggests how the Court viewed the facts of *Quanta* and the issues to be decided: "[i]n this case, we decide whether patent exhaustion applies to the sale of components of a patented system that must be combined with additional components in order to practice the patented methods." *Id.* at 621. Following the logic of *Univis*, in which the "sufficient embodiment" test for exhaustion was first developed, the Court held that Intel's authorized sale of components that "sufficiently embodie[d]" LGE's patents terminated LGE's patent rights. *Id.* at 630-35. Hence, LGE could not enforce the limitations against Quanta and the other computer manufacturers as patent infringement claims. *Id.*

Quanta does not stand for a broad rule that all post-sale use restrictions are prohibited once goods are placed into the ordinary stream of commerce.

This Court spent considerable time examining the details of the LGE–Intel transactions to see if any conditions existed. *Quanta*, 553 U.S. at 636-37. "Exhaustion is triggered only by a sale authorized by the patent holder." *Id.* at 636. Finding that no conditions were placed on the sale, it was easy for the Court to rule that the license authorized Intel's sale and therefore exhausted LGE's patent rights. *Id.* at 637. Because the Court's conclusion depended on the *absence* of a condition limiting Intel's ability to sell its products, the *presence* of such a condition would have allowed LGE to assert its patent rights against Quanta.

In addition, the Court's analysis of the LGE-Intel licensing agreement suggests that future licenses can be drafted in ways that avoid patent exhaustion and preserve a licensor's right to sue. *Quanta* makes clear that conditions drafted to avoid patent exhaustion must be explicitly described in the body of the licensing agreement. *Id.* at 636-37 ("[n]othing in the License Agreement restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts"; "provision requiring notice to Quanta appear[s] only in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement"; "exhaustion turns only on Intel's own license to sell products practicing the LGE Patents").

More importantly, *Quanta*'s exhaustion analysis pointed out that unlike the license at issue in *General Talking Pictures*, LGE's license did not place conditions on Intel's sales. *Id.* at 636. In doing so, the Court embraced the distinction between conditional and unconditional sales that underlies *General Talking Pictures,* confirming that only unconditional sales exhaust patent rights. Because *Quanta* does not overrule or even question *General Talking Pictures* but rather distinguishes it, the conditional sale doctrine is still good law.

C. Enforcing Properly Conditioned Sales Or Licenses Makes Good Policy Sense

Sound public policy supports enforcing conditioned sales or limited licenses of patented goods. First, it is well-settled that a patentee is not required to convey the totality of its patent rights in any single transaction. *Adams*, 84 U.S. at 456. Patentees can sell distinct "sticks" from their "bundle" of property interests without losing the remainder of the "sticks." *G.E.*, 272 U.S. at 489-90. From the purchaser's perspective, if it neither needs nor wants to pay for the patentee's entire patent monopoly, no rule should require it.

In addition, allowing parties significant freedom to contract regarding rights to make, use, or sell patented inventions permits more efficient pricing schemes as well as greater quality control over the use of the patented technology. Today's economy is complex and increasingly disaggregated. Affording an innovator the flexibility to negotiate patent licenses directly with various commercial entities or end purchasers to obtain the full reward to which it is entitled encourages coordination between the patent holder and the ultimate beneficiary of the patented technology. For example, field-of-use restrictions can facilitate the ability of the patentee to exploit its patent rights in different markets, technologies, or applications, with end users benefiting from this wider exploitation. 2 David Epstein, *Eckstrom's Licensing in Foreign and Domestic Operations* § 8E:22 (2015) (describing pro-competitive effects of field-of-use licensing).

Providing the patentee with greater quality control in finished products incorporating the patentee's technology also has advantages. Poor quality or defective end products that are introduced into the consumer market may harm the desirability of the patentee's technology in the marketplace. Allowing the patentee to exercise quality control over the end product through contractual limitations in licensing agreements or sale contracts can guide the use of its technology and how that technology develops. Because of these benefits, the law should allow parties freedom of contract with regard to the right to use patented inventions.

Further, there is a broad practice among owners of intellectual property in different industries that relies on the ability to condition sales of patented goods without exhausting their patent rights. This Court should not lightly disregard industry custom and economically efficient practices. For example, in the electronics industry, a patentee may wish to sell a patented microprocessor at its highest price for its optimal use in high-end research computers and charge a lower price for home use computers. Not allowing the patentee to charge differential prices based on use would either increase the costs of all systems using the technology or decrease the incentive to develop new and better processors because the patentee would have to forego compensation for the full value of the innovation.

Developments in biotechnology present another example of why good public policy should permit patentees to sell restricted rights to use a patented invention. Patent protection of biotech inventions is often desirable because it has the potential to bring important developments to fields such as agriculture and medicine. *NIH: Moving Research from the Bench to the Bedside - Hearings Before the Subcomm. on Health of the H.R. Comm. on Energy and Commerce*, 108th Cong. 46-53 (2003), http://www.gpo.gov/fdsys/pkg/CHRG-108hhrg88429/pdf/CHRG-108hhrg88429.pdf (statement of Phyllis Gardner, Senior Associate Dean, Stanford University). The self-replicating abilities of living organisms raise concerns about how a patentee can recapture the cost of bringing a new biotech invention to the market. *Bowman v. Monsanto,* 133 S. Ct. 1761, 1768-69 (2013). Allowing the sale of restricted rights to use patented biotech inventions, such as genetically modified crop seeds or biological medicines, is one way to encourage investment in these areas while providing access to, for example, small scale farmers or individual patients who could not afford to pay large fees for unlimited use rights.

Finally, under this Court's interpretation of the exhaustion doctrine, there is no risk of surprise and no unfairness to downstream companies or end purchasers. A sale of a patented article to a downstream entity or end purchaser can be conditional only if there has been an express notice to the purchaser. *General Talking Pictures*, 305

U.S. at 127 (sale contained express conditions therefore no patent exhaustion). Courts have long recognized a host of legal and equitable doctrines to protect purchasers of patented goods from unfair surprise and charges of infringement when patentees have led the purchasers to reasonably believe that no patent infringement will lie.

This Court should not disregard industry custom and economically efficient practices, as well as over one hundred years of patent exhaustion precedent. It should leave the scope of the conditional sale doctrine intact because it is the most efficient legal framework and will serve the core purposes of patent law, while helping to "promote the progress of science and the useful arts."

II. THE SUPREME COURT HAS ALREADY DETERMINED THAT THE SALE OF A U.S.-PATENTED ARTICLE ABROAD DOES NOT EXHAUST U.S. PATENT RIGHTS

A century old Supreme Court precedent directly addresses international patent exhaustion. The question before the Court in *Boesch v. Graff*, 133 U.S. 697, 702 (1890), was "whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent." The Court concluded that such an importation subjected the dealer to an infringement action. *Id.* at 702-03. The Court stated:

> United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.

Id. at 701-03; *see also Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 664-65 (1894). This ruling announced a doctrine of national patent exhaustion.

The Federal Circuit succinctly summed up the logic behind national patent exhaustion:

> The [patent] statute gives patentees the reward available from American markets. A patentee cannot reasonably be treated as receiving that reward from sales in foreign markets, and exhaustion has long been keyed to the idea that the patentee has received its U.S. reward.

Lexmark at slip op. 71. Moreover, the Patent Act repeatedly speaks about acts taking place "in the United States." *See, e.g.* 35 U.S.C. §§ 154(a)(1), 271 (a). Therefore, the sale of products abroad, not under a U.S. patent, cannot exhaust the U.S. patent right in those products because the act did not take place "in the United States."

A. *Kirtsaeng* Did Not Address Patent Exhaustion And Did Not Change The Rule of National Patent Exhaustion Set Forth in *Boesch*

Petitioner contends that this Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) is controlling and requires a finding of international patent exhaustion. This is incorrect. This Court's interpretation of Section 109(a) of the Copyright Act in *Kirtsaeng* announced a rule of international exhaustion for copyrights only. Section 109(a), which reflects the first sale doctrine, grants the owner of a particular copy "lawfully made under this title" the right to dispose of that copy without the copyright owner's permission. 17 U.S.C. § 109(a).

The *Kirtsaeng* decision found no geographical limitation in the statutory phrase "lawfully made under this title" or in the statute's history and in its common law development. The Court compared Section 109(a)'s language with that of its pre-amendment predecessor and found that the amendment reflected in Section 109(a) provided no indication that Congress sought to introduce a geographic restriction into Section 109(a). *Kirtsaeng*, 133 S. Ct. at 1360-61.

The Court examined the common law development of the first sale doctrine, noting the presumption that Congress intended to preserve the common law's substance when it is codified by statute. *Id.* at 1363. The Court traced the first sale doctrine's "impeccable historic pedigree" back to Lord Coke's 17th-century refusal to allow restraints on the alienation of chattel. *Id.* Finding no geographic restriction in either the Court's last decision before the Copyright Act's 1909 codification or Section 109(a)'s predecessor, the Court determined that Lord Coke's principles were still followed at the time of codification.

Absent from the Court's *Kirtsaeng* opinion on Section 109(a)'s scope is an analysis of patent exhaustion, and rightfully so as the case dealt with a copyright-specific question. The Court did not refer to the Patent Act or to any of its provisions, either directly or by analogy. Nor did it suggest in any way that its holding should be applied outside the context of the Copyright Act.

Not only does *Kirtsaeng* interpret copyright law's first sale doctrine instead of patent law's exhaustion doctrine, but also it is clear that copyright cases are not controlling for patent issues, and vice versa. Support for the distinction between copyright and patent law dates back to at least 1907, when the Sixth Circuit recognized:

> There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes that the cases

> which relate to the one subject are not altogether controlling as to the other.

John D. Park & Sons Co. v. Hartman, 153 F. 24, 28 (6th Cir. 1907). The Supreme Court endorsed this distinction between patents and copyrights the following year, stating:

> If we were to follow the course taken in the argument, and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this court.

Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 345 (1908); *see also Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 13-14 (1913) (patent statute gives right to exclude others from use, copyright statute does not); *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984); *Eldred v. Ashcroft*, 537 U.S. 186, 216 (2003). Therefore, even if *Kirtsaeng* discussed patent exhaustion—which it did not—it still would not be controlling precedent for patent issues.

B. The Significant Differences Between The Patent And Copyright Acts Require Different Judicial Treatment For Exhaustion

Patent law contains no analogous provision to Section 109(a) of the Copyright Act, the statutory interpretation of which formed the foundation for the Court's opinion in *Kirtsaeng*. Instead of a statutory provision, patent exhaustion is a creature of judge-made common law. *Boesch*, 133 U.S. at 701-03. The common law on this issue has continued to evolve over the last century, something that the first sale doctrine could not do because the Copyright Act codified Lord Coke's principles in 1909. Transporting an analysis of copyright's first sale doctrine, which is frozen in 1909, to the still-evolving law of patent exhaustion is incongruous. This is especially so because revising the patent laws did not provide Congress the opportunity to address the common law doctrine of patent exhaustion in the same way amending the Copyright Act afforded it the chance to change copyright's first sale provision.

There are also significant differences in the legal protections offered by the patent and copyright laws that countenance against uniform treatment on the issue of exhaustion. A copyright exists in any country once fixed in a tangible medium. Because of this framework, the rights arise from the work itself. Patent protection, however, is not even available in every country. The scope of protection for a patent's claims vary widely depending on the jurisdiction. Copyrights are also spared from the jurisdictionspecific examination process that patent applications must undergo in most countries.

Moreover, the doctrines of first sale and patent exhaustion are not directly aligned. Section 109(a) conveys certain rights to *buyers/owners* of a copy of a copyrighted work. 17 U.S.C. § 109(a) ("owner of a particular copy … lawfully made … is entitled, without the authority of copyright owner, to sell or otherwise dispose of the possession of that copy"). In contrast, patent exhaustion evaluates whether the *patentee* (not the purchaser) has been adequately compensated by the sale of her invention. *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001) (exhaustion of patent right depends on whether patentee has received reward for use of article upon sale). The rationale for a statutory provision protecting the rights of downstream users of intellectual property is unlikely to be analogous to a common law doctrine ensuring proper compensation for the producer of intellectual property. This Court should avoid adopting carte blanche the analysis of a statutory provision that is not parallel to that of patent exhaustion.

In addition to the substantives difference between the two doctrines, territoriality in patent statutes has "an impeccable historic pedigree" of its own that does not favor a scheme of international exhaustion. The history of territoriality distinguishes patent law from the Copyright Act, whose provision granting exclusive rights is silent on geographic restrictions. 17 U.S.C. § 106. Contrary to the Copyright Act, as early as 1790, Congress specifically included a geographic restriction on infringement in the patent laws. Patent Act of April 10, 1790, ch. 7, § 4, 1 Stat. 109, 111 ("That if any person or persons shall devise … or vend *within these United States*, any art, manufacture, engine, machine or device … the sole and exclusive right of which shall be so as aforesaid granted by patent to any person or persons … without the consent of the patentee … every person so offendin[g] shall forfeit and pay to the said patentee … such damages as shall be assessed by a jury.") (emphasis added). Congress removed this provision in 1836, but the law continued to restrict assignments of exclusive rights to the territorial boundaries of the United States. Patent Act of July 4, 1836, ch. 357, § 11, 5 Stat. 117, 121. In the 1870 amendments, Congress reinserted the geographic limitation on infringement. Patent Act of July 8, 1870, ch. 230, § 22, 16 Stat. 198, 201 ("[E]very patent shall … grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the said invention or discovery *throughout the United States and the Territories thereof*.") (emphasis added). Removing the territoriality requirement and then unequivocally adding it back in demonstrates Congress' intent that the patent laws be geographically confined within the borders of the United States.

Congress' commitment to territoriality has not waivered since. Both the Patent Act of 1952 and the America Invents Act place geographic restrictions on the patentee's right to exclude. Patent Act of July 19, 1952, ch. 950, § 271(a), 66 Stat. 792, 811; 35 U.S.C. § 271(a). Other sections of the Patent Act also reinforce patent law's territorial limitation. Section 271(f), for example, creates liability for entities who supply *from the United States* certain uncombined components of a patented invention in a way that induces their combination in a manner that would be infringing if it occurred within the United States. 35 U.S.C. § 271(f). Section 271(g) contemplates liability for importing *into the United States* a product made abroad by a process patented in the United States. 35 U.S.C. § 271(g).

Courts have also recognized patent law's territorial limits for over a century. Beginning in 1856, this Court noted the geographic boundaries of patent law's reach: "The power thus granted [by the Constitution to establish the patent laws] is domestic in its character, and necessarily confined within the limits of the United States." *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856). With this understanding, the Court noted that the patentee could not recover from the defendant because the accused sailing rig was installed on a French vessel in France and was not in use while the ship was docked in Boston:

> [T]hese acts of Congress do not, and were not intended to, operate beyond the limits of the United States; and as the patentee's right of property and exclusive use is derived from them, they cannot extend beyond the limits to which the law itself is confined. And the

> use of it outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it.

Id. at 195-96.

If a claim of infringement of a U.S. patent does not apply to extraterritorial uses, and the patentee is not entitled to receive a royalty under the U.S. patent for a non-U.S. sale, then an extraterritorial sale by the patentee cannot eviscerate its U.S. patent rights by triggering exhaustion. The Court in *Boesch* recognized this injustice when it held that sales of foreign provenance did not affect U.S. patent rights. *Boesch*, 133 U.S. at 701-03. Given Congress' longstanding support of patent territoriality, now is not the time to change course.

C. Creating International Patent Exhaustion Would Require A Change In Foreign Policy That Only Congress Should Effect

For years, the United States has staunchly advocated against international exhaustion in international agreements, often overcoming stiff resistance. Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things*, 21 MICH. J. INT'L L. 333, 350-51 (2000). But international exhaustion would be viable if this Court were to overrule *Jazz Photo*.

In the late 19th century, the United States acceded to the Paris Convention for the Protection of Industrial Property, which is one of the most widely adopted treaties in intellectual property. The Paris Convention contains a provision explicitly retaining national patent rights:

> When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights, with regard to the imported product, that are accorded to him by the legislation of the country of importation.

Paris Convention for the Protection of Industrial Property, art. 5^{quater}, Mar. 20, 1883, 21 U.S.T. 1583, revised, July 14, 1967, 6 I.L.M. 806. Indeed, the issue of exhaustion became so contentious during certain international negotiations that the countries included a provision memorializing their inability to reach a consensus. Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 6, Apr. 15, 1994, 33 I.L.M. 1197 ("For the purposes of dispute settlement … nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."); Carl Baudenbacher, *Trademark Law and Parallel Imports in a Globalized World—Recent Developments in Europe with Special Regard to the Legal Situation in the United States*, 22 FORDHAM INT'L L.J. 645, 677 n.135 (1999) (noting strong negative reaction to Australia and New Zealand's legislation favoring parallel imports).

The United States takes the same stance on exhaustion in regional and bilateral agreements. In negotiations on the North American Free Trade Agreement, the United States defeated Mexico's proposal seeking regional exhaustion for NAFTA members. Instead, the agreement leaves exhaustion as a question for national law—which in the United States is based on national exhaustion. Chiappetta, *supra*, at 354-55; *Discussion After the Speeches of Joseph Papovich and Allen Hertz*, 23 CAN.-U.S. L.J. 327, 329-30 (1997). The United States also frequently insists on provisions guaranteeing national exhaustion of intellectual property rights in its bilateral agreements. *See, e.g.*, Morocco Free Trade Agreement, U.S.-Morocco, art. 15.9(4), June 15, 2004, 44 I.L.M. 544 ("Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from [a] patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory.").

A decision by this Court creating international patent exhaustion has the potential to undo more than a century's worth of precedent in the position that the United States consistently takes in international treaties. Such a seismic shift in diplomacy and trade should be left to Congress, if such a shift is warranted. International diplomacy is not the role of this Court, nor is it in a position to appropriately evaluate the potential impact on the United States.

D. Public Policy Dictates That There Should Be No International Patent Exhaustion

A decision of this Court reversing the Federal Circuit would radically alter the behavior of multinational corporations and would cast into doubt the ability of people in developing nations to access patented pharmaceutical, agricultural, and medical products. Companies are willing to supply patented products at steep discounts in these countries partly because the products cannot be reimported into higher-priced markets where the product is patented without the patentee's consent. Ben Hirschler, *J&J Says it Won't Enforce AIDS Drug Patent in Africa*, REUTERS (Nov. 29, 2012), http://www.reuters.com/article/2012/11/29/us-aids-jj-africa-idUSBRE8AS0PN20121129 (reporting Johnson & Johnson's decision not to enforce patent on its HIV drug in Africa and instead to partner with company to offer drug at discount). Without this protection, companies would likely be forced to either charge the same price to all consumers worldwide or not offer the product in developing nations at all, neither of which is desirable. Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on* *the Subject of Parallel Importation*, 1 J. INT'L ECON. L. 607, 619 (1998).

International exhaustion could also undermine a patentee's ability to ensure product quality, as well as pre- and post-sale services. *Id.* at 629. For example, imagine a customer seeking to profit from the differential prices between Thailand and the United States for a patented pharmaceutical. The customer purchases large quantities of the drug at cheaper prices in Thailand and imports them into the United States for resale. If the customer failed to store and ship the drug at the proper temperature, this could harm people and the public would blame the patentee. This represents a significant threat to public welfare not present in the copyright context, and therefore not considered by the Court in *Kirtsaeng*. Maintaining a scheme of national exhaustion for patents would continue to prevent the resale gamesmanship and accompanying health risks that can arise when patented products are offered at differential prices in various markets.

In sum, given patent law's "impeccable historic pedigree" of territoriality, it is logical for a U.S. patent to be exhausted only by a sale that would otherwise give rise to infringement of the U.S. patent—*i.e.*, a sale within the United States. The patentee in this situation exercises her right *under the U.S. patent* and receives just reward for her invention. This is well-settled law. A patentee's decision to avail herself of the very different German patent laws by selling her patented product in Germany under a German patent should not strip the patentee of her U.S. patent rights. She has exercised no rights under the U.S. patent through the German sale and received no compensation from the U.S. patent. This Court in *Boesch* recognized the fundamental unfairness that international patent exhaustion would impose on patentees. It should continue to stand by this well-reasoned precedent.

CONCLUSION

The Court should affirm the judgment below, ruling that a conditional sale, which specifies post-sale restrictions, transfers title to a patented item but avoids patent exhaustion such that violations of the post-sale restrictions are enforceable through a patent infringement remedy and that a U.S. patent owner may authorize the sale of a patented article in a foreign country, either under a foreign patent or otherwise in accordance with foreign law, while reserving its exclusive rights under U.S. patent law.

Respectfully submitted,

MARK L. WHITAKER
President
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
1400 Crystal Drive
Suite 600
Arlington, VA 22202
(703) 415-0780

KRISTIN L. YOHANNAN
Counsel of Record
MILBANK, TWEED, HADLEY & MCCLOY LLP
1850 K Street, NW
Suite 1100
Washington, DC 20006
(202) 835-7500
kyohannan@milbank.com