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 OF QUANTA COMPUTER INC. AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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## INTEREST OF *AMICUS CURIAE*[1]

Quanta Computer Inc. is a computer manufacturer and was the petitioner in the case *Quanta Computer, Inc. v. LG Electronics, Inc*., 553 U.S. 617 (2008). In the course of its business, Quanta both purchases and sells products that embody U.S. patents. It conducts business throughout the world, and with companies located in many different countries. Knowing with certainty when U.S. patent rights are or are not applicable due to the doctrine of patent exhaustion is important in allowing Quanta to structure its business activities to avoid both unnecessary transaction costs and improper claims of patent infringement.

Furthermore, Quanta is a licensee under various worldwide licenses that include rights to U.S. Patents. Quanta has a strong interest in knowing that its customers are protected from patent infringement claims based on those worldwide licenses and the doctrine of patent exhaustion.

## SUMMARY OF THE ARGUMENT

The Federal Circuit has misinterpreted this Court's precedent and unduly restricted the doctrine of patent exhaustion. Patent exhaustion derives from the same common law origin as the first sale doctrine in copyright law. Accordingly, once an authorized sale of a patented

1. Pursuant to Rule 37.6, amicus affirms that no counsel for a party authored this brief in whole or in part and that no person other than amicus and its counsel made a monetary contribution to its preparation or submission. Respondent's letter consenting to the filing of amicus briefs has been filed with the Clerk's office. Petitioner's consent is being submitted herewith.

item is made, the patentee can no longer control the use of that item through patent law. This is true regardless of whether the seller purports to place restrictions on the use of the product, and regardless of where the authorized sale takes place.

## ARGUMENT

### A. Post-sale Restrictions Cannot Be Enforced Through Patent Infringement Suits

"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. Despite this "traditional bar on patent restrictions following the sale of an item," *id*. at 628, the Federal Circuit first held in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) that a patentee could place restrictions on the post-sale use of an item, so long as the restrictions did not constitute patent misuse. The ruling in *Mallinckrodt* (which was reaffirmed by the Federal Circuit in the decision below) was based on a misreading of this Court's precedent. Instead of allowing post-sale restrictions, this Court has consistently held that when title to a patented item is transferred in an authorized sale, "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." *Bloomer v. McQueqan*, 55 U.S. (14 How.) 539, 549 (1853).

### 1. Permissible restrictions on the right to sell do not give rise to permissible post-sale restrictions

In the opinion below, the Federal Circuit has relied, in large part, on *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, *aff'd on reh'g*, 305 U.S. 124 (1938), and other cases that establish a patentee's right to grant restricted licenses. That analysis, however, conflates the ability of a patentee to restrict the rights of another to sell a patented product in the first instance, with the ability of a patentee to restrict the right of a party to use an item once sold. While the former is permissible, the latter is not. Indeed, the case that *General Talking Pictures* relied upon, *United States v. General Electric Co.*, 272 U.S. 476 (1926), highlighted this distinction, stating:

> It is well settled, as already said, that, where a patentee makes the patented article and sells it, he 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. *Adams v. Burke*, 17 Wall. 453; *Bloomer v. McQuewan*, 14 How. 539; *Mitchell v. Hawley*, 16 Wall. 544; *Hobbie v. Jennison*, 149 U. S. 355; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659. 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 489-90.

Although the license restriction in *General Talking Pictures* was framed in terms of a field of use for the patented products, it should be understood as a limitation on the parties to whom the licensee could sell. The relevant portion of the license, quoted by the Court, relates to the right "to manufacture…and to sell…only for radio amateur reception, radio experimental reception and radio broadcast reception . . ." *General Talking Pictures*, 305 U.S. at 126. The license provision is directed to the rights for manufacturing and selling by the licensee, rather than on the behavior of unknown third parties. This indicates a focus on the type of users who are authorized customers, which can be known at the time of manufacture or sale, versus the use to which a product is ultimately put, which may not be knowable. The restriction approved of by the Court in *General Talking Pictures*, like that in *General Electric*, is best understood as a restriction on to whom the product could be sold, rather than some ongoing restriction on the use of the product.

Thus, in *General Talking Pictures*, patent exhaustion was found not to apply because the seller was not licensed to sell to commercial users, and thus there was no authorized sale. *See Quanta*, 553 U.S. at 636 ("The Court [in *General Talking Pictures*] held that exhaustion did not apply because the manufacturer had ***no authority to sell*** the amplifiers for commercial use.") (emphasis added). It was not the use of the patented item that created the infringement, but rather the fact that the seller was not authorized to sell to the purchaser in the first place.[2]

2. Of course, the use is an infringement because it is as if the consumer purchased the device from an unlicensed seller.

The Federal Circuit majority opinion creates a false dichotomy by presenting the issue as the difference between a sale by the patentee versus a sale by a nonexclusive licensee. Pet. App. 26a. It assumes that *General Talking Pictures* allows a licensee to impose post-sale restrictions on the use of a product, and therefore reasons a patentee must be able to impose any restrictions on its own customers that could be imposed by its licensee on the licensee's customers. When, however, *General Talking Pictures* is understood as presenting a limitation on the parties to whom a licensee can sell rather than a limitation on post-sale use, there is no concern about a licensee being able to do something that the patentee cannot. As *General Talking Pictures* made clear, a licensee can be limited in to whom it may sell, and when it sells to a party outside the scope of its license grant, that sale is unauthorized and patent exhaustion does not apply.

Indeed, understanding the restriction in *General Talking Pictures* to be a restriction on to whom the licensee could sell reconciles the language of *General Talking Pictures* and *General Electric*. *General Electric* does not talk of unconditional or unrestricted sales by the patentee; the ruling below would require reading into *General Electric* (as well as other precedent) an unwritten exception when the licensee attempts to restrict later uses of the product. If, however, the *General Talking Pictures* is understood to be premised upon a sale to a party to whom the licensee was not authorized to sell, there is no need to interpret *General Electric* to mean anything other than what it says on its face.

Likewise, the Court in *General Talking Pictures* expressly noted that it was not considering "the effect of a 'licensee's notice' which purports to restrict the use of articles lawfully sold."[3] *General Talking Pictures*, 305 U.S. at 127. This statement makes no sense if the restriction which the licensee allegedly violated was already based on the use of the device in a forbidden manner by the customer, but is perfectly sensible if the restriction being addressed in *General Talking Pictures* was on the right to sell the product, and not on the right to use the product. Because the product was sold to a party to whom sales were not authorized under the license, there was no need for the Court to consider the validity of any attempt to restrict the use of the product by a customer to whom sales were authorized (i.e. "legally sold"). Similarly, in distinguishing the facts before it from a sale "in the ordinary channels of trade," the Court indicated that it was focused upon the circumstances of the sale, rather than tracing the later use of the products. *Id.*

With the proper understanding of *General Talking Pictures*, there is no difference between an authorized sale by a licensee and a sale by a patentee. A patentee is necessarily entitled to sell to anyone and thus, by definition, any sale is authorized. By contrast, a sale by a licensee, as in *General Talking Pictures*, first requires a determination of whether the sale is authorized under the license When an article is sold in an authorized sale, either because of a licensee or because the sale is by the patentee, the item is "carried outside the monopoly of the patent law and rendered free of every restriction which

3. This Court answered the question in *Quanta*, where it held that Intel's notice to customers that they were not licensed to practice LG's patents was irrelevant to the issue of patent exhaustion. *Quanta*, 553 U.S. at 636-37.

the vendor may attempt to put upon it." *Quanta*, 553 U.S. at 626 (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917)). Any difference in outcomes between sales by patentees and sales by licensees derives from the question of authorization.

### 2. Allowing post-sale restrictions unduly burdens commerce and trade

The Federal Circuit's analysis below and under *Mallinckrodt* would leave numerous sales of patented products in a Schroedinger's cat-like state, where the sale is potentially authorized or unauthorized, depending upon some later action. This is not the outcome suggested by *General Talking Pictures* – the licensee there committed infringement "when it made the amplifiers for, and sold them to" the commercial user, not at some later date. *General Talking Pictures*, 305 U.S. at 126. It was the initial sale that constituted infringement, because the sale was not authorized.

A legal framework where the authorized nature of a sale turns upon some later action would impose an unworkable burden on companies like Quanta, which would have to both track any potential restrictions imposed by upstream suppliers of components, as well as the later actions of downstream consumers to determine whether any of those restrictions had been violated. The avoidance of these sorts of restraints on trade is an important reason for the long standing common law prohibition on restraints on the alienation of chattels, which underpins the doctrine of patent exhaustion. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013).

Even the Federal Circuit has rejected the notion that an authorized sale can become unauthorized later. In *Tessera, Inc. v. International Trade Commission*, 646 F.3d 1357 (Fed. Cir. 2011), the licensee failed to make the royalty payments required under its license agreement. *Id*. at 1369. Nonetheless, this later action did not operate to "convert initial authorized sales into unauthorized sales for purposes of patent exhaustion." *Id.* at 1370. Thus, the purchaser was protected by the doctrine of patent exhaustion, and the dispute was not one of patent infringement but of contract law between the licensor and licensee. *Id*. The Federal Circuit noted that the "absurd result" that a sale would later become unauthorized would cast a cloud of uncertainty over every sale, and every product in the possession of a customer of the licensee, and would be wholly inconsistent with the fundamental purpose of patent exhaustion—to prohibit post-sale restrictions on the use of a patented article. *Id*.

There is no principled reason why a post-sale action by a licensee (such as non-payment of royalties) should not change the authorized nature of a sale, but a post-sale action by the licensee's customer (such as using a product in a particular fashion) should change the authorized nature of that same sale. Indeed, given that authorization arises from the contractual relationship between the patentee and the licensee, it is unclear why a third party – e.g., the licensee's customer – should be allowed to affect that contractual relationship. This becomes even clearer when considering the supply chain of a company like Quanta, where there may be multiple levels of upstream suppliers and downstream distributors between the patentee or licensee and the end user of the product. Yet that would be the result of the ruling below, where a sale later becomes unauthorized by the violation of a restriction on the use of the item.

### 3. Prior cases on "conditional sales" do not give rise to permissible post-sale restrictions

Here, the Federal Circuit rejected the traditional understanding of a conditional sale in its analysis of this Court's precedents, Pet. App. 42a n.9, but such an understanding is necessary to reconcile the law. Traditionally, a conditional sale is "a mere agreement to sell upon a condition to be performed." *Harkness v. Russell*, 118 U.S. 663, 666 (1886). Not applying patent exhaustion to such conditional sales is consistent with the common law first sale doctrine, which allowed for restrictions on use if title had not yet passed or if there were the possibility that title would revert to the seller. *See Kirtsaeng*, 133 S. Ct. at 1363. Since patent exhaustion derives from this same common law summarized in *Kirtsaeng*, it is natural that this Court's precedents would distinguish such sales. But a condition precedent should not be conflated with a post-sale restriction.

With that understanding, it is clear that sales where the transfer of title is complete (such as in this case) are not conditional, and this Court's precedents permitting restrictions in circumstances of conditional sale are not relevant to sales simply because a patentee attempts to impose a post-sale restriction.

## B. Patent Rights are Exhausted by Foreign Sales

### 1. This Court's ruling in *Kirtsaeng* resolves the issue of foreign sales

Although *Kirtsaeng* dealt with statutory interpretation and copyrights, the theoretical basis of *Kirtsaeng* indicates that overseas sales can lead to patent exhaustion. In construing the statutory provision in question in that case, this Court noted that the statute was presumed not to have altered the previously existing common law. *Kirtsaeng*, 133 S.Ct. at 1363. The first sale doctrine in copyright, the Court observed, traces back to the common law prohibition against restraints on the alienation of chattels. *Id*. (citing Lord Coke).

The doctrine of patent exhaustion likewise traces back to attempts to "place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours." *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500-01 (1917). Given the shared origin in common law, since there is no statutory provision in patent law alleged to have altered that common law principle, if the first sale doctrine in copyright law "makes no geographical distinctions," neither can the doctrine of patent exhaustion. *Kirtsaeng*, 133 S.Ct. at 1363.

The principle that sales outside of the United States can never give rise to patent exhaustion was based upon an overly-expansive reading of *Boesch v. Graff*, 133 U.S. 697 (1890). *See Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001) (citing *Boesch*). In *Boesch*, the accused infringer purchased the infringing burners from a dealer in Germany. Although the U.S.

patent holder held a corresponding German patent, the dealer who sold the infringing burners was not licensed under either the German or U.S. patents. However, the dealer was permitted under German law to continue selling the burners because it had made preparations to do so prior to the application for the German patent. *Boesch*, 133 U.S. at 701-02.

This Court's ruling did not turn upon the fact that the sales took place in Germany, but on the fact that they were made "without the license or consent of the owners of the United States patent." *Id.* at 702. In short, there was never a sale authorized by the owner of the patent, either inside or outside of the United States. This Court has consistently held that patent exhaustion does not apply when a sale is not authorized by the patentee. *See, e.g., Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1873) (allowing a patent infringement case to proceed where the seller had the right to make and use, but not sell, the patented machines). *Boesch* did not create a geographic limitation on patent exhaustion, but simply followed the long-standing rule that an authorized sale is a necessary precursor to patent exhaustion. *See Quanta*, 553 U.S. at 636 ("Exhaustion is triggered only by a sale authorized by the patent holder.").

**2. The holding below unduly burdens commerce and trade**

The Federal Circuit's current jurisprudence on the effect of foreign sales on exhaustion is unworkable for at least two reasons. First, it conflicts with this Court's prior holdings. This Court "has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern." *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942). Yet having the application of patent exhaustion turn upon the "location" of a sale is exactly the exaltation of form over substance that this Court has refused to allow.

Further, current jurisprudence makes it difficult, if not impossible, to determine the "location" of a sale. The Federal Circuit has made clear that there is no mechanical test for determining the location of a sale. *See Litecubes, LLC v. N. Light Prods.*, 523 F.3d 1353, 1369-71 (Fed. Cir. 2008). Indeed, it has suggested that there may not even be a single location for a sale. *Carnegie Mellon Univ. v. Marvell Tech. Grp.*, 807 F.3d 1283, 1308 (Fed. Cir. 2015). ("[I]t is not even settled whether a sale can have more than one location.") Similar to the confusion seen above regarding authorized sales, companies like Quanta are again thrust into a legal regime where a sale may be both within and outside the United States, and patent exhaustion both may or may not apply. It is exactly this sort of "cloud of uncertainty over every sale" that the doctrine of patent exhaustion is intended to prevent. *See Tessera*, 646 F.3d at 1370. Such uncertainty causes significant harm in the globally-interconnected world of modern commerce.

### 3. Patentees will be adequately compensated if foreign sales exhaust U.S. patents

While the Federal Circuit majority below expresses concern about whether a U.S. patentee will be fairly rewarded for its invention if foreign sales trigger patent exhaustion, exploration of possible scenarios demonstrates that a patentee should be presumed to be adequately compensated (or at least should not be able to resort to patent law if it feels it has not been). For a foreign sale to potentially be considered authorized, it must either be pursuant to license or made by the patentee itself.

In the first possibility, where a sale is made by a licensee pursuant to a worldwide license (or at least a license covering the location where the sale occurs), applying patent exhaustion to such sales is consistent with this Court's framing of the issue in *Masonite* as "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article." *Masonite*, 316 U.S. at 278. Where a patentee grants a worldwide license, such that the licensee has the choice whether to sell the patented product within or outside of the United States, the patentee has received its reward, regardless of which choice the licensee makes. If the patentee were concerned about not receiving adequate compensation for sales outside the U.S., it could restrict the license geographically, and there would be no question that any foreign sales were not authorized.

Likewise, in the situation where the patented item is sold directly by the patent owner rather than a licensee, it is clear that the patentee has received its reward for the use of the item. The law has rejected the notion that a patentee could avoid patent exhaustion "by showing the absence or inadequacy of the patentee's reward in a transfer." *Lifescan*, 734 F.3d at 1375. Indeed, in *Lifescan*, patent exhaustion was held to apply even when the patentee had given away the patented item, and thus had received no direct "compensation" or "reward." *Id.*; *see also Kirtsaeng*, 133 S. Ct. at 1363 (quoting Lord Coke's description of the first sale doctrine applying when a party "***give[s]*** or sell[s] his whole interest") (emphasis added). It can hardly be argued that a patentee may be adequately compensated when it gives away a patented product in the United States, but not when it sells it in another country.

This is further consistent with this Court's ruling in *Kirtsaeng*, which rejected the notion that the Constitutional provision authorizing both copyrights and patents conveyed upon recipients a right to charge different prices in different markets. "But the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices…" *Kirtsaeng*, 133 S.Ct at 1371; *see also Masonite*, 316 U.S. at 278 ("[T]he promotion of the progress of science and the useful arts is the 'main object' [of the patent system]; reward of inventors is secondary and merely a means to that end.") Arguments that a U.S. patentee would be required to sell its products at a higher price in other jurisdictions to account for exhaustion of its U.S. patent rights are thus unavailing.

## CONCLUSION

For the aforementioned reasons, this Court should reverse the holding below.

Respectfully submitted,

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