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 NOKIA TECHNOLOGIES OY AND NOKIA USA INC. AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

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INTEREST OF THE *AMICI CURIAE*[1]

Amici curiae are Nokia Technologies Oy and Nokia USA Inc. (collectively, "Nokia"). Nokia is a global leader and innovator in the telecommunications equipment and services industry, with cumulative investments of over $70 billion in research and development relating to mobile devices and communications alone. As a result of this substantial commitment, Nokia currently owns more than 10,000 patent families, including a large number of standard-essential patents. Nokia continues to invest heavily in research and development and to license and expand its industry-leading patent portfolio. For example, Nokia continues to develop and license innovations that are powering the next revolution in computing and mobility: the "programmable world" where intelligent connections bring millions of everyday objects online. This work includes a team of experts in areas including digital healthcare, digital multimedia, imaging and sensing,

[1] Pursuant to Supreme Court Rule 37.6, counsel for *amici curiae* state that no counsel for a party authored this brief in whole or in part, or made a monetary contribution intended to fund the preparation or submission of this brief, and no other person other than *amici curiae*, its members, or its counsel made such a contribution. Pursuant to Supreme Court Rule 37.3, counsel for *amici curiae* represent that all parties have consented to the filing of this brief. Lexmark International, Inc. filed a notice of its consent to the filing of all *amicus curiae* briefs in support of either party or of neither party, and Impression Products, Inc. gave written consent to counsel for *amici curiae* to file this *amici curiae* brief.

wireless connectivity and power management, advanced materials, and others.

Nokia and its parent company have been involved in numerous patent cases in U.S. district courts and the U.S. International Trade Commission, both as a plaintiff/complainant and a defendant/respondent. These include cases where allegations of patent exhaustion have been made against Nokia and where Nokia has made allegations of patent exhaustion against others. Nokia is a significant patent owner that might seek remedies for patent infringement in district courts or the ITC, including in situations where alleged exhaustion may be an issue. Nokia is also actively involved in patent licensing, and it considers established exhaustion principles in formulating its licensing strategies.

Nokia's interest in this case is to advocate for clarity and stability in U.S. exhaustion doctrine and to protect flexibility for parties engaged in licensing negotiations. Clarity and stability ensure contracting parties that their valuable, carefully negotiated agreements will not be undermined by unexpected changes in the U.S. exhaustion doctrine—*e.g.*, through the erosion of its long-established territorial limits or application to more than only unconditional authorizations. Flexibility in licensing fosters economic efficiency. For example, if parties are forced by a significant change in U.S. exhaustion doctrine to license their patents in a strict "all or nothing" approach—or even something approaching this—it risks pricing certain players out of some technology markets, thus harming incentives and capabilities for innovation.

SUMMARY OF ARGUMENT

Petitioner's attempts to disrupt the long-established U.S. law on patent exhaustion would have a significant negative impact on the innovation community. Consistency and stability are fundamental goals in patent law and are especially important to exhaustion doctrine, where parties rely on the courts' past rulings when making long-term licensing decisions. For example, if U.S. exhaustion doctrine is altered to permit exhaustion of U.S. patent rights based on foreign sales or conditional licenses, a party that was authorized for sales only in a foreign country, or granted only limited rights, could receive a significant, and unintended, windfall. Allowing conditional sales or licenses to exhaust U.S. patent rights may also limit the bargaining options of licensors and licensees, who often negotiate conditional licenses for a fraction of the price of unconditional licenses, thus potentially frustrating parties' ability to resolve their disputes.

Altering the territorial scope of the U.S. exhaustion doctrine would also put the U.S. out of step with the international patent community and further discourage innovation by requiring patent owners to invest heavily in regulating *foreign* sales in order to protect their patent rights in the United States. For all of these reasons, this Court should uphold the long-established patent exhaustion doctrines set forth in the Federal Circuit's *Jazz Photo* and *Mallinckrodt* line of cases.

ARGUMENT

I. Altering the Scope of the U.S. Patent Exhaustion Doctrine Will Upset Existing Patent Licensing Practices

This Court has warned against disrupting the expectations of the innovation community. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 724 (2002) ("[C]ourts must be cautious before adopting changes that disrupt the settled expectations of the inventing community."). This comports with Congress's desire for consistency and stability in courts' application of patent law, as evidenced by the formation of the Federal Circuit:

> The purposes of consistency and stability that underlie *stare decisis* led to the formation of the Federal Circuit, now thirty years past, to provide consistency and stability to the patent law: 'The central purpose is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law,' H.R. Rep. 97-312, at 23 (1981), in view of the importance of technology-based advance to the nation's economy, *id.*; S. Rep. 97-275, at 6 (1981) (same).

Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp., 744 F.3d 1272, 1282 (Fed. Cir. 2014).

"[R]eliance interests are important considerations in property and contract cases, where parties may have acted in conformance with existing legal rules in order to conduct transactions." *Citizens United v. Fed. Election Comm'n*, 558 U.S. 310, 365 (2010). The aspects of U.S. patent exhaustion law under review have been settled for well over a decade, based on cases dating back to the nineteenth century: U.S. patent exhaustion is limited to unconditional, authorized sales within the United States. *See Jazz Photo Corp. v. Int'l Trade Comm'n,* 264 F.3d 1094, 1105 (Fed. Cir. 2001) ("[A] lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States.") (citing *Boesch v. Graff*, 133 U.S. 697, 704 (1890)); *General Talking Pictures Corp. v. W. Elec. Co.,* 305 U.S. 124, 126 (1938) ("the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'") (citing *General Electric*, 272 U.S. at 489); *Mallinckrodt, Inc. v. Medipart, Inc.,* 976 F.2d 700, 708-09 (Fed. Cir. 1992).

Existing licenses have been entered into based upon this long-established doctrine. If this Court were to, in our view wrongly, alter the basic territoriality doctrine of U.S. patent exhaustion, or modify the rule that exhaustion arises only upon an unconditional authorization, it will upset many carefully negotiated bargains. This could amount to a judicially created windfall for some contracting parties, while ambushing U.S. patent holders with the abolishment of previously secure rights. Indeed, the Federal Circuit recently warned that "an expansion of exhaustion doctrine could do harm to existing patterns of licensing." *Helferich Patent Licensing, LLC v. New York Times Co.*, 778 F.3d 1293, 1307 (2015).

For example, under existing precedent, a patent owner could enter into a license agreement under which the patent owner granted license rights under patents in any country where the licensee itself sold products implementing inventions covered by the licensed patents and the licensee paid for only the patent rights in those countries where its sales were made. If the licensee then sold products in a foreign country pursuant to the license, that sale would be licensed under the foreign patents, but would not exhaust any U.S. patent rights under existing exhaustion doctrine.

If existing U.S. exhaustion doctrine were altered to eliminate the territorial restriction, the licensee in this scenario could sell the products outside the U.S., and the purchaser could then import those products into the U.S. and resell them without paying anything for the U.S. license rights needed to authorize U.S. sales. Because the licensing parties did not value the license based on the U.S. patent rights needed for U.S. sales, such a change in exhaustion law would disrupt the parties' agreement and provide an improper windfall to the licensee by granting U.S. patent rights that it did not pay for in the license, to the detriment of the U.S. patent owner.

Further, as discussed above, patentees who grant conditional licenses do not receive the full value of their U.S. patent rights because the licensee only pays for a certain subset of those rights. If foreign or conditional sales or licenses resulted in U.S. patent exhaustion, patentees would be forced to significantly alter current licensing practices. Specifically, in order to recoup the full value of their U.S. patent rights, patentees would have to charge more for limited conveyances of their rights or simply refuse to grant such limited licenses. These increased obstacles to licensing would likely result in more disputes that cannot be resolved through private negotiations, causing both a significant disruption in patent licensing and a corresponding increase in infringement litigation.

It is imperative that, in order to honor the intention of existing licenses and allow for the most economic efficiency in crafting new licenses, U.S. patentees retain the ability to include provisions in their patent licenses that impose territorial restrictions or other conditions on such sales. As discussed above, altering established exhaustion doctrine to eliminate this ability would greatly disrupt the U.S. patent licensing system

II. Abolishing the Territorial Limit on U.S. Patent Exhaustion Will Put the United States Out of Step with the International Community

Many of the major countries with which the U.S. is engaged in international trade do not apply a theory of international exhaustion. For example, the European Union, which is the U.S.'s main trading partner for goods and services[2], does not recognize international exhaustion. Instead, many countries in the European Union apply regional exhaustion, under which only sales of patented goods within member countries exhaust the European patent rights of the patent owner. *See* Agreement on the European Economic Area, Arts. 8-16; Treaty on the Functioning of the European Union, Arts. 26, 28-37. If articles that are patented in these countries are sold in the U.S., the patentee's rights under European patents remain intact, and he can sue for infringement if those goods make their way back into the European Union through the robust trading system between the two countries. These European Union countries are thus able to restrict the flow of goods from the U.S.

If the Court abolishes the well-established doctrine of territorial exhaustion in the U.S., goods that are protected by a U.S. patent and sold in any country in the European Union or elsewhere in the

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[2] *See* http://ec.europa.eu/eurostat/statistics-explained/index.php/USA-EU_-_international_trade_and_investment_statistics

world could be imported into the U.S. and freely sold. This would put U.S. patent owners at a significant disadvantage compared to patent owners in other countries, such as the European Union. The Court should therefore uphold the territorial limit on patent exhaustion.

III. Altering the Doctrine of Patent Exhaustion Will Increase the Expense, Frequency, and Complexity of Patent Litigation

The territorial limit on U.S. patent exhaustion fosters simplicity and clarity of adjudication. The scope of patent protection and the standards for determining infringement in each country vary greatly. If U.S. patent exhaustion is allowed to turn on the status of patent protection in a foreign country, patent owners would be required to obtain patents in every potential foreign market. This would invite added complexity and litigation over issues including the status of foreign patent rights, if any, the nature of foreign sales, and the extent of any authorization provided by the licensor in a foreign market. Dealing with these issues may also increase litigation costs, for example, by requiring parties to provide trial courts with expert assistance on foreign law. The current, long-established U.S. exhaustion doctrine avoids these issues.

In addition, foreign jurisdictions rely on the territorial nature of the U.S. patent exhaustion doctrine, and foreign courts make decisions about the scope of the exhaustion doctrine based on the expectation that the United States restricts application of the doctrine to its own territorial reach, while respecting the exhaustion rules of other sovereign nations. *See HTC Corp. v. Nokia Corp.*, [2013] EWHC (Pat.) 3247 ¶¶ 168, 179-80, 184-88 (Oct. 30, 2013) (U.K.), available at http://www.bailii.org/ew/cases/EWHC/Patents/2013/3247.pdf. Altering the territorial scope of the exhaustion doctrine would frustrate not only the expectations of U.S. patent owners, but also the expectations of foreign jurisdictions.

IV. Petitioner's and *Amici*'s Arguments in Favor of International Exhaustion are Unavailing

Petitioner argues that, under the current long-established territorial exhaustion doctrine, patent owners are able to extract two rewards for the sale of the same good – one when the good is sold overseas and another when the good is imported into the U.S. (Br. Pet. at 57-58). This argument falls flat. As a result of the variability of the patent protections afforded by different countries, "it can be practically impossible for an owner of United States patent rights in an invention to extract the value of those rights when a patented article is sold elsewhere." 6 R. CARL MOY, MOY'S WALKER ON PATENTS § 19:44. Consider, for example, a patentee who negotiated payment for and granted only limited rights covering foreign sales activities. The patentee has not extracted any reward for its U.S. patent rights, and should be able to continue to enforce its US patent rights if goods sold abroad make their way back into the U.S. This is not receiving two rewards for the same right; rather, it is a separate reward for two separate rights. This allows the patentee to price the license to each right separately, and the licensee to pay only for the rights it needs.

Other a*mici* argue that applying a territorial exhaustion doctrine results in non-practicing entities buying previously licensed patents and seeking second and third patent rewards for those patents (Brief of Intel Corp., Dell Inc., and VIZIO Inc. as *Amici Curiae* at 14-16). But this argument is nonsensical. It is well-established that the licenses that are attached to a U.S. patent travel with that patent when it is sold or assigned. *Datatreasury Corp. v. Wells Fargo & Co.*, 522 F.3d 1368, 1372 (Fed. Cir. 2008) ("[B]ecause the owner of a patent cannot transfer an interest greater than that which it possesses, an assignee takes a patent subject to the legal encumbrances thereon."). The purchaser or assignee of that patent cannot extract additional rewards for patent rights that have already been licensed. But the purchaser of a patent should be able to recoup any additional rewards for rights not previously licensed that would have been available to the original patentee. Modifying established exhaustion doctrine to limit the rights available to a bona fide purchaser would have no basis in law and would contradict the requirement that patents "shall have the attributes of personal property…assignable in law…." 35 U.S.C. § 261.

CONCLUSION

For the foregoing reasons, as well as those stated in Respondent's merits brief and supporting *amici* briefs, the Court should uphold the long-settled rule – upon which many existing transactions have been based – that only unconditional, authorized sales in the United States exhaust U.S. patent rights.

Respectfully submitted,

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