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 *AMICUS CURIAE* HUAWEI TECHNOLOGIES CO., LTD. SUPPORTING PETITIONER IN PART

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QUESTIONS PRESENTED

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

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MISCELLANEOUS

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INTEREST OF *AMICUS CURIAE*[1]

Huawei Technologies Co., Ltd. is the world's second largest manufacturer of cellular network infrastructure equipment. Headquartered in Shenzhen, China, with principal U.S. offices in Texas and California, its products serve over one-third of the world's population. Huawei ranks among the top five mobile handset vendors worldwide. Huawei's telecom network equipment, IT products

[1] Petitioner's counsel of record consented to the filing of this brief. Respondent's counsel of record consented to the filing of this brief by filing a blanket consent with the Clerk. No counsel for any party has authored this brief in whole or in part, and no person or entity, other than the *amicus* or its counsel, has made a monetary contribution to the preparation or submission of this brief.

and solutions, and smart devices can be found in 170 countries and regions. In 2015, Huawei achieved $60.8 billion in annual sales revenue, ranking it 129th in the Fortune 2016 Global 500.

Innovation is at the core of Huawei's business. Huawei consistently invests over 10% of its annual revenue in research and development. In 2015, for example, Huawei invested $8.6 billion (15.1% of its total 2015 revenue) in developing new products for the marketplace. This research and development spans the globe, with significant research activities occurring in many countries, including a substantial presence in the United States.

Huawei believes that the first-authorized-sale exhaustion rule is of utmost importance both to its business and to the telecommunications industry as a whole. Huawei has a strong interest in this case because it implicates the careful balance between a patentee's right to be compensated for its invention and the negative economic effects of restraints on trade.

SUMMARY OF ARGUMENT

This Court's precedents and other U.S. law provide the answers to the two questions presented there. First, this Court has affirmed the first-authorized-sale exhaustion doctrine many times over nearly two centuries. The Federal Circuit's inexplicable rejection of that crucial doctrine defies this Court's precedents and threatens deleterious economic effects. Second, the lower courts and U.S. trade agreements have recognized the necessity for U.S. patentees to be able to preserve their U.S. patent rights when making foreign sales, provided they do so explicitly. That presumptive-exhaustion rule respects the territorial nature of patent rights and honors the first-authorized-sale rule. The Court should confirm both of these established approaches here.

ARGUMENT

I. THE COURT SHOULD CONFIRM THE LONGSTANDING RULE EXTINGUISHING PATENT RIGHTS AND REMEDIES AT THE FIRST AUTHORIZED SALE

A. This Court has repeatedly endorsed the first-authorized-sale rule

1. This Court resolved the first question presented before the Civil War in *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539 (1852): "[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. The Court reaffirmed that bedrock principle ninety years later: "[S]ale of [a patented article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942); see also *id.* at 252 ("The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."). This Court has endorsed the first-authorized-sale rule numerous other times, both before and since *Univis Lens*. See *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008); *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (plurality opinion); *Boston Store* v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 508-518 (1917); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895); *Hobbie* v. *Jennison*, 149 U.S. 355, 361-363 (1893); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

During this 160-year period of time, there was only one instance in which the Court retreated from this rule, and that was quickly corrected five years later. The anomalous case was *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), in which the Court held that "[t]he property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose," such that "[i]f that reserved control of use of the machine be violated, the patent is thereby invaded." *Id.* at 24-25.

The Court soon recognized its error and overruled *Henry* in *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917). The Court diagnosed the "defect" in *Henry* as the "failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract." *Id.* at 514. As far as patent rights are concerned, "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every [patent-related] restriction which the vendor may attempt to put upon it." *Id.* at 516.

This Court's most recent pronouncements have been just as forceful in embracing the first-authorized-sale rule. In *Quanta Computer*, the Court recognized that "[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." 553 U.S. at 625-628. Similarly, the very first sentence of *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761 (2013), presented that rule as black-letter law: "Under the doctrine of patent exhaustion, the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article." *Id.* at 1764. In short, the first-authorized-sale rule is among the most deeply rooted doctrines in all of patent law.

2. To be sure, the sale must be "authorized" for the first-authorized-sale rule to apply. The Patent Act provides that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention * * * infringes the patent." 35 U.S.C. § 271 (emphasis added). As discussed above, this Court has interpreted the "without authority" proviso to apply only to the first sale of a patented article and not to any further downstream sales.

Nevertheless, the requirement that the first sale be "authorized" remains a robust one. In addition to obvious non-authorized sales involving stolen goods and the like, this rule also comes into play when a patentee licenses others to manufacture and sell patented articles. An example is *General Talking Pictures Corp.* v. *Western Electric Co.*, 305 U.S. 124 (1938). The patentee in that case authorized a licensee to sell amplifiers for private and home use, but the licensee instead sold them to theaters for commercial use. *Id.* at 126. The Court held that "[a]s the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to [the licensee]." *Id.* at 127. In other words, because the licensee exceeded the scope of the license there was never a first authorized sale, meaning that the first-authorized-sale rule did not apply to extinguish patent protections. Accordingly, because the theater "purchased and leased [the amplifiers] knowing the facts, it also was an infringer." *Id.* at 126.

When, however, the licensee complies with the license's restrictions, patent rights are extinguished with the first sale, and the patentee may not extend its patent rights to downstream purchasers through the license's restrictions. In *Quanta Computer*, for example, the patentee required the licensee "to give notice to its customers * * * that [the patentee] had not licensed those customers to practice its patents." 553 U.S. at 636. Because the licensee complied with that notice requirement, its sale of the patented article was an authorized one. *Ibid.* For that reason, "the doctrine of patent exhaustion prevents [the patentee] from further asserting its patent rights with respect to the patents substantially embodied by those products." *Id.* at 637. Thus, the patentee could not sue downstream purchasers for patent infringement. *Ibid.*; see also *Motion Picture Patents*, 243 U.S. at 506-507, 515-518 (no patent-infringement claim against downstream purchaser when licensee communicated restrictions on the patented article's use to the purchaser in compliance with the terms of the license).

The key, therefore, is whether a first authorized sale occurred. If so, then a patentee's patent rights end there. If not, then the patentee retains its patent rights and remedies.

B. The first-authorized-sale rule fosters innovation without imposing onerous restraints on trade

1. "[T]his court has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is 'to promote the progress of science and the useful arts.'" *Motion Picture Patents*, 243 U.S. at 511 (quoting U.S. Const. art. I, § 8, cl. 8.); see also *Univis Lens*, 316 U.S. at 250 ("The 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.").

The first-authorized-sale rule furthers that foundational purpose of patent law. It strikes the appropriate balance between a patentee's right to be compensated for its invention and the negative economic effects of restraints on trade. Under the first-authorized-sale rule, a patentee is "entitled to but one royalty for a patented machine." *Bloomer*, 68 U.S. at 350. That allows the patentee to reap a significant reward for its invention without strangling the market with onerous downstream restrictions.

The Federal Circuit's approach upsets the balance struck by this Court's opinions by overcompensating the patentee and introducing serious inefficiencies into the economy. "[T]he cost, inconvenience, and annoyance to the public * * * forbid[s]" that overly aggressive patent-law regime. *Motion Picture Patents*, 243 U.S. at 516. This "cost, inconvenience, and annoyance" stems from the patentee's near-total control over the use of its patented articles after the first authorized sale. Under the Federal Circuit's rule, the patentee would be able to extract an initial royalty from the first purchaser and then multiply its royalty with each subsequent purchaser. Alternatively, the patentee could act as Lexmark did here and simply impose a single-use restriction. Either way, the result would be the same—the crippling of the secondary market for patented goods.

These devastating effects would also be felt in markets for manufactured goods that use multiple patented components. The problem is particularly acute in the technology sector. There are over 250,000 patents relevant to smartphones. RPX Corp., Registration Statement (Form S-1), 59 (Sept. 2, 2011), http://www.sec.gov/Archives/edgar/data/1509432/000119312511240287/0001193125-11-240287-index.htm. Similarly, "a given semiconductor product * * * will often embody hundreds if not thousands of 'potentially patentable' technologies." Hall & Ziedonis, *The patent paradox revisited: an empirical study of patenting in the U.S. semiconductor industry, 1979-1995*, 32 RAND J. of Econ., No. 1, 101, 110 (2001). Under the Federal Circuit's rule, the patentees for each of those patented components would be able to restrain the primary and resale markets for both the underlying components and the finished products using the full force of patent law. The result would be a stultified downstream market and higher prices for consumers, all so that the patentee can enjoy exponentially higher royalties than are necessary to reward it for the invention.

In short, the Federal Circuit's holding opens the door for all manner of mischief that would vitiate the first-authorized-sale exhaustion rule. If this Court validates Lexmark's efforts at circumventing patent exhaustion, it will create a blueprint for avoiding patent exhaustion altogether. There will be no shortage of companies following Lexmark's lead and adopting complex commercial structures to defeat the first-authorized-sale rule. All of this will hinder the free flow of goods, raise prices for consumers, and harm society as a whole.

This Court's observation from a century ago is apt here: "The perfect instrument of favoritism and oppression which such a system of doing business, if valid, would put into the control of the owner of such a patent, should make courts astute, if need be, to defeat its operation." *Motion Picture Patents*, 243 U.S. at 515. The Court should be mindful of the inevitable efforts to circumvent the first-authorized-sale rule and act with a view to "defeat[ing] [the] operation" of such schemes. Any commercial arrangement whereby a patentee seeks to collect multiple royalties on a product—or seeks to extend its patent rights into the downstream market—threatens the same negative economic outcomes that this Court has decried. The Court should speak clearly and broadly to ensure that the patent-exhaustion rule forecloses all future attempts to circumvent it.

2. Extinguishing patent rights after the first authorized sale does not leave the patentee with no means of controlling its patented articles. Time and again, this Court has explicitly recognized that a patentee may be able to enforce downstream restrictions via contract law,

even if its patent rights are exhausted. See *Quanta Computer*, 553 U.S. at 637 n.7 ("We note that the authorized nature of the sale to [the customer] does not necessarily limit [the patentee's] other contract rights. * * * [W]e express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages."); *Motion Picture Patents*, 243 U.S. at 509 ("The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law, and with it we are not here concerned."); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) ("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.").

Contract remedies adequately protect sellers outside of the patent context, and patentees warrant no greater protections after the first authorized sale. To be sure, patent law provides more robust remedies by dispensing with the privity requirement and allowing injunctive relief. But those remedies are extraordinary for a reason. They are powerful measures that protect interests of the highest importance—such as a patentee's right to control the first sale of a patented article. A patentee's interest in a downstream purchaser's use of its patented article is more akin to that of any seller wishing to impose downstream restrictions, and contract law suffices to protect those lesser interests.

II. THIS COURT'S PRECEDENTS AND OTHER U.S. LAW SUPPORT THE PRESUMPTIVE-EXHAUSTION RULE FOR FOREIGN SALES OF PATENTED ARTICLES

A. Patent rights are territorial. U.S. patent law imposes penalties only on "whoever without authority makes, uses, offers to sell, or sells any patented invention, *within the United States* or imports *into the United States* any patented invention." 35 U.S.C. § 271 (emphases added). Such conduct outside the United States is beyond the reach of U.S. patent law, as this Court has recognized: "[O]ur patent system makes no claim to extraterritorial effect; these acts of Congress do not, and were not intended to, operate beyond the limits of the United States." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 444 (2007) (quoting *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972)). And just as U.S. patent law does not apply abroad, foreign patent law does not apply in the United States. See *ibid.* ("[W]e correspondingly reject the claims of others to such control over our markets.") (quoting *Deepsouth Packing*, 406 U.S. at 531).

The territorial nature of patent rights affects the application of the first-authorized-sale rule. While a domestic first sale *necessarily* implicates U.S. patent rights, a foreign sale does not always do so. U.S. patent law applies within the United States, and thus a sale of a patented article domestically is an act inherently tied to the U.S. patent rights. Because U.S. patent law does not apply in foreign markets, interaction with U.S. patent rights is not an essential feature of a foreign sale. To be sure, a foreign sale could implicate U.S. patent rights, such as if it included an express waiver of those rights, but that type of interaction is not a necessary element of the foreign sale. Given this different context, a modified version of the first-authorized-sale rule should apply to foreign sales. While it is reasonable to treat an unconditional foreign sale as implicitly exhausting U.S. patent rights, patentees should be able to preserve those rights with an express reservation.

This presumptive-exhaustion approach makes economic sense as well. It allows the patentee/authorized licensee and the customer flexibility to construct transactions that best meet the needs of both parties. If a foreign customer plans to resell the item in the United States, either on its own or as a component part of a finished product, then that customer will negotiate a higher price in exchange for an unconditional sale that includes the U.S. patent rights. In contrast, if a foreign customer plans only to resell the patented article in the foreign country of purchase, then that customer will negotiate a lower price in exchange for the patentee being able to retain its U.S. patent rights to the item. This added flexibility facilitates more efficient economic transactions between the patentee/authorized licensee and its customers.

For all of these reasons, courts have long followed the presumptive-exhaustion rule in this area. Foreign sales without any express reservation exhaust the patentee's U.S. patent rights. See *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 938 (D.N.J. 1983); *Holiday* v. *Matheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885). But foreign sales made with a reservation of U.S. patent rights effectively preserve those rights. See *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897); *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893); *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1284-1285 (E.D. Pa. 1978).

B. This Court's opinion in *Boesch* v. *Graff*, 133 U.S. 697 (1890), is consistent with that approach. That case involved an unauthorized but lawful sale in Germany of a product protected by a U.S. patent. *Id.* at 702-703. The sale was deemed lawful by German law, which did not in this instance require the U.S. patentee to authorize the sale. *Ibid.* That left the Court to decide whether a lawful, but unauthorized, foreign sale exhausts U.S. patent rights. The Court answered in the negative, reasoning from the territoriality of patent law: "The sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Id.* at 703.

Boesch informs the issue here because it recognizes that lawful foreign sales will not always exhaust U.S. patent rights. Some authorization by, or at least involvement of, the U.S. patentee is required. The presumptive-exhaustion rule favored by U.S. courts is entirely consistent with that reasoning. It ensures that the patentee can prevent foreign sales from exhausting U.S. patent rights, while still honoring the spirit and economic benefits of the first-authorized-sale rule.

C. This Court's decision upholding foreign first-sale exhaustion in the copyright context in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), provides further support for adopting a presumptive-exhaustion rule in the patent context. Interpreting 17 U.S.C. § 109(a), the Court held that the first-sale provision's reference to copies "lawfully made under this title" contains no geographic limitations and therefore applies to copies lawfully made abroad. *Id.* at 1355-1356. Thus, the Court concluded that a lawful, foreign first sale of a copyrighted item exhausts U.S. copyright liability as to that item.

Kirtsaeng's holding does not dictate the outcome here because patent and copyright "are not identical twins" that are automatically amenable to precisely the same regulatory regime. *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). That is especially true here, because there is no analogue to 17 U.S.C. § 109(a) in patent law and thus no textual basis for treating foreign sales identically to domestic ones.

Patent exhaustion is instead purely a common-law doctrine. As *Kirtsaeng* explained, the ancient common-law rule strictly "refus[ed] to permit restraints on the alienation of chattels." 133 S. Ct. at 1363. The *Kirtsaeng* Court reasoned that the copyright statute's geographically unlimited text supports applying the common-law exhaustion rule to foreign sales of copyrighted items, and it found no other reason to "rebut a 'straightforward application' of that doctrine." *Id.* at 1364.

By contrast, the last 130 years of *patent* case law reflect that the traditional common-law first-sale rule has been modified with respect to foreign sales of U.S.-patented items. See *supra* at 11. Under these cases, a patentee may expressly reserve U.S. patent rights in a foreign sale, but if it fails to do so, the foreign sale exhausts U.S. patent rights. This approach honors the territorial nature of patent rights.

Moreover, multiple U.S. trade agreements are premised on the presumptive-exhaustion rule captured by the case law. These agreements explicitly recognize the right of a U.S. patentee to prevent importation of a patented product notwithstanding a foreign sale, if the patentee had placed limitations on such importation. See United States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, 118 Stat. 919 (art. 17.9.4 of implemented agreement); United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, 118 Stat. 1103 (art. 15.9.4 of implemented agreement); see also Pet. App. 87a-88a & nn.22-23 (quoting relevant provisions). Neither extreme alternative presented by the parties can be reconciled with these agreements. If foreign sales never cause exhaustion—as the Federal Circuit held—the provisions would be superfluous. And if foreign sales always cause exhaustion—as petitioner urges—the provisions would be contrary to U.S. law.

Another reason to avoid uncritically applying *Kirtsaeng*'s rule here is that a central aspect of *Kirtsaeng*'s reasoning does not hold true in the patent context. 17 U.S.C. § 109(a) applies only to copies "lawfully made under this title," and thus the question before the Court in *Kirtsaeng* was whether copies lawfully made abroad qualified for that statutory first-sale rule. 133 S. Ct. at 1355. If the Court had held that the first-sale exhaustion statute did not apply to foreign-made copies, those copies would have been permanently exempted from the first-sale rule, even if they were later imported into or sold in the United States. That would yield the "absurd result that the copyright owner can exercise downstream control even when it authorized the import or first sale" in the United States. *Id.* at 1366. No such absurd result would follow from adopting the presumptive-exhaustion rule in the patent context, however, because the domestic first-authorized-sale rule would exhaust any patent rights upon the first authorized domestic sale, regardless of the item's country of origin.

Absent a statutory patent analogue to the first-sale provision at issue in *Kirtsaeng*, this Court remains free to fashion a common-law rule that respects the unique nature of patent rights, as reflected in both longstanding precedent and recent trade agreements. The presumptive-exhaustion rule advocated by the Acting Solicitor General is the legal regime most in keeping with U.S. law.

CONCLUSION

Huawei Technologies Co., Ltd. respectfully requests that the judgment of the Court of Appeals be vacated for the reasons set forth above.

Respectfully submitted.

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