No. 06-937

IN THE

Supreme Court of the United States

QUANTA COMPUTER, INC., QUANTA COMPUTER USA, INC., Q-LITY COMPUTER, INC.,
Petitioners,

v.

LG ELECTRONICS, INC.,
Respondent.

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

BRIEF FOR WI-LAN INC. AS *AMICUS CURIAE* SUPPORTING RESPONDENT

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES Page

Page

Page

Page

FEDERAL STATUTES

BOOKS AND ARTICLES

Page

OTHER AUTHORITY

IDENTITY AND INTEREST OF THE *AMICUS CURIAE*[1]

Wi-LAN, Inc. ("Wi-LAN") is a publicly traded corporation founded to commercialize fundamental breakthroughs in wireless technology. Wi-LAN's technology underlies wireless communication devices such as the wireless routers ubiquitous in homes, offices, airports, and elsewhere. The IEEE, the leading standard setting organization for wireless networking, has incorporated Wi-LAN's technologies into several of its wireless standards that make reliable, high rate data transmission available to the public.

Wi-LAN files this Brief in support of respondent to address important legal issues not addressed by the parties or previous *amici*, including the *per se* patent exhaustion or "single license rule" advocated by petitioners, and because the relief requested by petitioners implicates the freedom to contract of Wi-LAN, its licensees, and others who have relied upon existing law. Reversal of the longstanding authority of this Court on patent exhaustion, and the 15-year-old Federal Circuit authority expressly based upon this Court's

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[1] The parties have consented to the filing of this Brief. Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this Brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this Brief. No person other than *amicus curiae*, its members, or its counsel made a monetary contribution to its preparation or submission.

jurisprudence (and consistent with the regional circuit decisions before the creation of the Federal Circuit), will throw into doubt the enforceability of billions of dollars in patent licensing agreements. This, in turn, will result in extensive litigation to determine the effect of the reversal on existing license agreements.

The rule of law advocated by petitioners will also distort market forces and propel electronic component manufacturers (conspicuously absent among the *amici* supporting petitioners) into conflict with patent owners because, in many instances, electronic component manufacturers are unable or unwilling to pay the full value of a patent license for both their own use and use by others in the distribution chain (such as device manufacturers). Permitting market participants at any point in a vertical chain of distribution the freedom to enter into agreements as they see fit is essential to reaching accord as to the appropriate scope of a particular licensing agreement.

The *per se* patent exhaustion or "single-license rule" advocated by petitioners will eliminate this freedom of contract. Such a restriction on the flexibility of parties at different points in the chain of distribution is an obstacle to the apportionment of royalties among those parties and will likely result in a substantial increase in litigation. Moreover, as the amount in dispute will represent the entire value of the royalty, the ratio of the potential damages to litigation costs will increase. Accordingly, litigation will become the optimal means for a patent owner to

achieve collection of a full royalty for use of the patented invention.

SUMMARY OF THE ARGUMENT

Before the creation of the Federal Circuit, the regional circuits applied this Court's historical precedents on patent exhaustion in a fashion similar to the Federal Circuit's holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) and in this case, and did so even after the Court's decision in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942). Accordingly, there is nothing revolutionary in the Federal Circuit's holding in *Mallinckrodt* or in the case *sub judice*, as petitioners suggest. Pet. Br.[2] 51. Indeed, the approach by the Federal Circuit in *Mallinckrodt* and in this case represents nothing more than the historical norm.

This Court has traditionally recognized a patent owner's freedom to contract and upheld limitations on the scope of patent licenses, permitting patent owners to divide up the prerogatives of patent ownership with licensees as desired and agreed upon by the parties to the licensing agreement, without triggering patent exhaustion. The Court should continue this line of authority, rejecting petitioners' efforts to disregard this gradation of the patent exhaustion doctrine created over a century ago.

Well-established legal principles affecting property rights should also be upheld, including the body of authority from this Court supporting the

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[2] Petitioners' Brief.

freedom of a patent owner, either directly itself or indirectly through its licensees, to condition the sale of a patented article, and, thus, the scope of use rights conveyed to purchasers in the distribution chain. A patentee has historically been permitted to impose such conditions so long as reasonably within the scope of the patent grant. In a conditional transaction it is reasonable to infer that the parties have negotiated a price only for the limited use rights conferred by the patent owner.

The relief sought by petitioners and some of their *amici* allies would create a *per se* rule of law for patent exhaustion or a "single license rule" that would not permit a patent owner to enforce such conditions on the sale of a patented article or the license of patent rights and would render irrelevant whether the patent owner has received full value for use of the patented invention. Any such *per se* rule would be contrary to the Court's precedents and in direct conflict with 35 U.S.C. § 271(d)(5), where Congress pronounced that conditions imposed by a patent owner on "the sale of the patented product" or "license of any rights to the patent" shall not be *per se* negated or exhausted. § 271(d)(5).

ARGUMENT

I. CONDITIONS ON THE SALE OF PATENTED ARTICLES AND THE LICENSE OF PATENT RIGHTS HAVE CONSISTENTLY BEEN UPHELD BY THE COURT

A. This Court And The Regional Circuits, Prior To The Creation Of The Federal Circuit, Have Consistently Upheld Such Conditions

In support of their argument that conditions placed on the sale of patented articles are contrary to legal precedent, petitioners state that the Federal Circuit misunderstands the Court's holding in *Mitchell v. Hawley*, 83 U.S. 544 (1872). Pet. Br. 18. According to petitioners, the Federal Circuit has erroneously read the *Mitchell* opinion as supporting a patent owner's imposition of "'conditions' on the use of sold goods and enforce[ment of] them with infringement suits." *Id.* Instead, petitioners argue that the Court in "*Mitchell* emphasized that patentees can engage in 'conditional sales' only in the 'same manner as if dealing with property of any other kind.'" Pet. Br. 19 (quoting *Mitchell*, 83 U.S. at 548). This statement is followed by a number of decisions demonstrating the impropriety of conditions placed on "property of any other kind." *Id.* According to petitioners' argument, because post-sale conditions involving "property of any other kind" have been criticized and found improper, conditions placed on

the sale of patented articles should, under the Court's holding in *Mitchell*, likewise be found improper.

Petitioners' entire argument here, however, is itself based upon a mischaracterization of the *Mitchell* holding. In *Mitchell*, the Court did not "emphasize" that patentees can engage in 'conditional sales' only in the 'same manner as if dealing with property of any other kind.'" Pet. Br. 19 (quoting *Mitchell*, 83 U.S. at 548). Instead, it found that sales of patented implements and machines "may be made by the patentee *with or without conditions*[.]" *Mitchell*, 83 U.S. at 548 (emphasis added). The Court then found that when a sale is made "without any conditions . . . [the purchaser] may repair it or improve upon it as he pleases, in same manner as if dealing with property of any other kind." *Mitchell*, 83 U.S. at 548. Contrary to petitioners' argument, the Court explicitly approved of conditions placed on the sales of patented articles to a purchaser and specifically contrasted unconditional sales with sales upon which conditions are placed.

This Court also expressly held that those conditions or restrictions pass on to purchasers of the licensed products. In *Mitchell*, the Court found that a licensee is not empowered to convey a license to purchasers beyond the limits of the license grant:

> No one in general can sell personal property and convey a valid title to it unless he is the owner or lawfully represents the owner. *Nemo dat quod non habet*.

> Persons, therefore, who buy goods from one not the owner, and who does not lawfully represent the owner, however innocent they may be, obtain no property whatever in the goods, as *no one can convey in such a case any better title than he owns*, unless the sale is made in market overt, or under circumstances which show that the seller lawfully represented the owner. . . . Notice to the purchaser in such a case is not required, as the law imposes the risk upon the purchaser[.]

Mitchell, 83 U.S. at 550 (second emphasis added). Similarly, in *Gen. Talking Pictures Corp. v. W. Elec. Co.*, the Court found a purchaser and commercial user of patented radio amplifiers liable for infringement for violation of "home use only" restrictions placed on the seller's license, and, thus, conditions placed on the sale, holding that it 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." 305 U.S. 124, 127 (1938) ("*Gen. Talking Pictures II*").

Petitioners and *amicus curiae* United States seek to improperly restrict the holding in *Mitchell*, notwithstanding that it 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 an effort to delimit *Mitchell*, they narrowly define the term

"conditional sale" as a condition precedent or condition to be performed in advance of the sale, in which title to the patented article has not passed, and thus patent exhaustion does not arise. Pet. Br. 19–20 & n.7; Gov. Br.[3] 20–21. According to petitioners and amicus curiae United States, because the Court in *Mitchell* was focusing on "conditional sales," meaning conditions precedent to a sale, the Court's holding is inapplicable to conditions of the sort here at issue. *Mitchell*, however, did not involve a "conditional sale"—as the term is narrowly construed by petitioners and *amicus curiae* United States. Instead, the licensing agreement at issue was "subject to certain restrictions and limitations," or conditions subsequent that would restrict use of the patented invention, just as in respondent's licensing agreements with Intel. *See Mitchell*, 83 U.S. at 548. Accordingly, despite petitioners' and amicus curiae United States' arguments to the contrary, when the Court found in *Mitchell* that "[s]ales of [patented implements or machines] may be made by the patentee with or without conditions[,]" it was not referencing a "conditional sale" as narrowly defined by petitioners but, instead, conditions that are placed on a sale, *i.e.*, conditions subsequent that impose restrictions on a purchaser's use. *See id.*

Likewise, in *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175 (1938) ("*Gen. Talking Pictures I*") and *Gen. Talking Pictures II*, the Court's use of "conditions" was again not in the context of a "conditional sale" meaning a condition precedent as

[3] *Amicus Curiae* United States' Brief.

narrowly defined by petitioners, but rather focused on conditions placed on the sale, or conditions subsequent; in this case, conditions were placed on the purchaser's right to use the patented radio amplifiers, restricting such use to home use only. *See Gen. Talking Pictures I*, 304 U.S. at 181 (holding that "[u]nquestionably, the owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly"); *Gen. Talking Pictures II*, 305 U.S. at 127 ("That a restrictive license is legal seems clear. . . . [T]he 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.'") *See also United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926) (finding that "the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or 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."); *Albright v. Teas*, 106 U.S. 613 (1883) (using the term "unconditional" in the context of conditions placed on the sale, or conditions subsequent limiting a purchaser's use of the patented invention. In *Albright v. Teas*, the Court found that because the patentee had transferred "all his title and interest in the inventions covered by his patents[, in which t]he transfer was absolute and unconditional[, h]e had no right to prosecute anyone for infringements of his patents[.]" 106 U.S. at 617.)

Petitioners assert that "[t]o our knowledge the *only* case in which this Court has ever permitted a patent owner to sell goods while reserving the

statutory right to sue for infringement if certain conditions are not met is A.B. Dick[.]" Pet. Br. 14 (emphasis in original). This assertion is incorrect and misleading. In 2006, in *Ill. Tool Works Inc. v. Independent Ink, Inc.*, the Court expressly approved of a patent owner's right to sue for patent infringement a purchaser of its patented inkheads and patented ink containers who violated the condition placed on the sale—the condition restricted use of the patented article to use only with unpatented ink purchased from the patentee's parent company. 547 U.S. 28, 42 (2006).

In addition, there are numerous cases where, as in the case at bar, the patentee limited the rights conveyed to purchasers indirectly through limitations on the scope of license granted to its licensees. In *Mitchell, Gen. Talking Pictures I* and *II*, and *Gen. Elec. Co.*, this Court permitted both limitations on the scope of the grant of a license to a manufacturer and a subsequent infringement action against purchasers in the distribution chain who exceeded the scope of the license granted to the manufacturer. To say that a patent owner can indirectly restrict the rights conveyed to a purchaser through its licensees yet not do so directly would be anomalous. Indeed, the Court has consistently acknowledged a patentee's right to so limit a purchaser's use to enable full recovery for use of the patented invention.

Petitioners would have the Court accept the proposition that the Federal Circuit's decision in *Mallinckrodt* represents a significant departure from this Court's jurisprudence. Indeed, *amicus curiae* American Antitrust Institute explicitly argues that

the Federal Circuit's *Mallinckrodt* line of authority renders it a rogue circuit that must be reigned in by the Court. AAI Br.[4] 27 ("This case arrives before the Court in the line of recent cases in which the Court has corrected overexpansive readings of patent rights by the Federal Circuit that impair competition and innovation."). The Federal Circuit, however, is not alone in giving meaning to the line of authority from this Court. In the era before the consolidation of patent appeals in the Federal Circuit, those regional circuits addressing the issue ruled in a similar fashion, even after the Court's decision in *Univis* that is relied on by petitioners.

In *Steiner Sales Co. v. Schwartz Sales Co.*, the Tenth Circuit upheld a patentee's licensing restriction that required "the licensee to purchase the patented cabinets and patented improvements only from a manufacturer authorized by the licensor." 98 F.2d 999, 1010 (10th Cir. 1938). The court held that "a patentee may condition the right of his licensee to purchase the patented devices" and that "the license agreement does not impose restrictions beyond the lawful monopoly of the patents or that are not reasonably necessary to protect the rights of Steiner under its lawful patent monopoly." *Id.* at 1010, 1011; *see also id.* at 1008 ("Unquestionably, the owner of a patent may grant licenses to manufacture, use, or sell upon conditions not inconsistent with the scope of the monopoly." (citing *Gen. Talking Pictures I*, 304 U.S. at 181)).

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[4] *Amicus Curiae* American Antitrust Institute's Brief.

Likewise, in *Extractol Process, Ltd. v. Hiram Walker & Sons, Inc.*, the Seventh Circuit found that the patent owner had a "clear right to control the making and disposition of the patented article." 153 F.2d 264, 268 (7th Cir. 1946). In *Extractol Process*, the patent owner had granted the licensee manufacturer the right to manufacture and sell the patented machines only to those who were licensed by the patent owner to use the machines. *Id.* at 267–68. The court recognized the patent owner's right to grant both broad and narrow licenses. *Id.* at 268 ("It was clearly within its right to grant to one party a license to make an article, and to sell the same, and a license to use the article to another party. The patentee is the sole judge of the licensee he shall select, to make, to sell, or to use his patented article.").

In *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, the First Circuit rejected a patent misuse defense based on a licensing restriction imposed by the patent owner that required the licensee to mark all products manufactured under the patent with the statement "licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for private, non-commercial use." 176 F.2d 799, 801 (1st Cir. 1949) (overruled on other grounds). The court held that, based on the decision in *Gen. Talking Pictures I*, "a license agreement is not necessarily invalid because the licensee is granted a restricted right to make and vend a patented apparatus for use limited to a particular, described field, and is required by the agreement to affix to the licensed apparatus a notice of such restricted use." *Id.* at 803 (discussing *Gen. Talking*

Pictures I, 304 U.S. at 181). The Federal Circuit, thus, is hardly alone in its application of the Court's storied precedents.

In *Coats Loaders & Stackers, Inc. v. Henderson*, the Sixth Circuit held that a restrictive licensing provision required by a patentee did not violate the antitrust laws. 233 F.2d 915, 926 (6th Cir. 1956). The licensing restriction at issue stated that "[l]icensee agrees that it will not sell to any distributor or dealer in which it or any of its stockholders or officers have any financial interest, directly or indirectly, unless otherwise mutually agreed upon." *Id.* The court found that "the owner of a patent may grant licenses to manufacture, use, or sell upon conditions not inconsistent with the scope of the monopoly." *Id.* at 927 (citing *Gen. Talking Pictures I*, 304 U.S. at 181).

In *In re Yarn Processing Patent Validity Litig.*, the Fifth Circuit upheld a licensing restriction that prohibited the sale of patented machines to unlicensed users. 541 F.2d 1127, 1135 (5th Cir. 1976). The court held that the licensor had the right to license the use of the machinery separately from its manufacture and sale, and that the first-sale doctrine did not apply. *Id.*

B. Mallinckrodt And This Case Are Conceptually Distinguishable From *Univis*

The Federal Circuit found in *Mallinckrodt* that unless the license condition violates some other law or policy, notably the patent misuse or antitrust law,

the patent owner retains the freedom to contract concerning the conditions of sale. *Mallinckrodt*, 976 F.2d at 708; *see also id.* at 704 ("That a restrictive license is legal seems clear." (citing *Gen. Elec.*, 272 U.S. at 489)); Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 BERKELEY TECH. L.J. 733, 742 (2007) ("Short of an outright assignment, a patent owner is generally free to license rights under the patent as he wishes (subject to competition policy constraints)."). The Court in *Univis* did not hold otherwise, but rather held that an *unconditional* sale of a patented product exhausted the patent owner's rights in the patent. The holding in *Mallinckrodt* is, thus, consistent with the line of authority ending with *Univis*.

In *Univis*, unlike in *Mallinckrodt* or this case, the Court was faced with price fixing conditions in the licensing arrangement imposed by the patent owner that were not within the protection of the patent laws. *Univis*, 316 U.S. at 250–53. The licensing restriction in *Univis* prescribed fixed prices for the resale of the patented products by the licensees, a condition the Court found outside the scope of the patent monopoly. *Id.* at 245. It is clear that *Univis* did not overrule the holdings in *Mitchell* and *Gen. Talking Pictures I* and *II*, which provide that the patent owner has the freedom to place conditions on the sale so long as they are within the scope of the patent monopoly (*e.g.*, territorial limitations, field of use limitations, single use limitations, etc.). *See In re Yarn Processing Patent Validity Litig.*, 541 F.2d at 1135 (distinguishing *Univis*, finding that the restrictions that were found illegal in *Univis* "were . . . illegal extensions of the

patent monopoly. But in this case, . . . the restrictions on sale were [proper] because they . . . did no more than to prevent contributory infringement by resale to unlicensed users.").

This Court has long recognized a patent owner's freedom to contract in any manner desired, including by licensing either an undivided part or a share of his exclusive right to make, use, and sell his invention:

> The owner of a patent may assign it to another and convey, (1) the exclusive right to make, use and vend the invention throughout the United States, or, (2) an undivided part or share of that exclusive right, or (3) the exclusive right under the patent within and through a specific part of the United States.

Gen. Elec., 272 U.S. at 489. Furthermore, a patent owner may limit the scope of a license to a defined field, or on a claim by claim basis, and thereby a purchaser's right to use the patented invention, and may place any condition upon the license that is not inconsistent with the scope of the patent monopoly. *See Gen. Talking Pictures I*, 304 U.S. at 181 ("Patent owners may grant licenses extending to all uses or limited to use in a defined field. Unquestionably, the owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly."); *Gen. Elec.*, 272 U.S. at 489 ("Conveying less than title to the patent, or part of it,

the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or 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."); *Int'l Gamco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273, 1278 (Fed. Cir. 2007) ("The claim-by-claim exclusive license in *Pope* is indistinguishable from an exclusive field of use license insofar as both types of licenses divide the scope of a patent right by its subject matter.").

Valid license restrictions include those limiting the use and the sale of the patented product. *See Gen. Talking Pictures I*, 304 U.S. at 181 (upholding a license that was restricted "[t]o manufacture . . . and to sell only for radio amateur reception, radio experimental reception and radio broadcast reception"); *Gen. Elec.*, 272 U.S. at 490 ("The patentee may make and grant a license to another to make and use the patented articles, but withhold his right to sell them."); *In re Yarn Processing Patent Validity Litig.*, 541 F.2d at 1135 ("Leesona had the right to license the use of the machinery separately from its manufacture and sale.").

II. THE COURT SHOULD CONTINUE TO GIVE FULL EFFECT TO ITS DECISIONS PERMITTING CONDITIONS ON THE SALE OF PATENTED ARTICLES AND THE LICENSE OF PATENT RIGHTS

A. Well-Settled Legal Principles Permitting Conditions Should Remain Undisturbed

The Court has repeatedly recognized the importance and obligation of following precedent. *See Planned Parenthood v. Casey*, 505 U.S. 833, 854 (1992) ("Indeed, the very concept of the rule of law underlying our own Constitution requires such continuity over time that a respect for precedent is, by definition, indispensable."); *Payne v. Tennessee*, 501 U.S. 808, 827 (1991) ("*Stare decisis* is the preferred course because it promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process.").

Oftentimes, the need for well-settled law outweighs the desire to enforce the correct rule of law. *See Payne*, 501 U.S. at 827 ("Adhering to precedent is usually the wise policy, because in most matters it is more important that the applicable rule of law be settled than it be settled right."). The concern for well-settled law is even more important in cases where reliance is a factor. *See Hilton v. S.C. Pub. Rys. Comm'n*, 502 U.S. 197, 202 (1991) ("*Stare decisis* has added force when the legislature, in the public sphere, and citizens, in the private realm,

have acted in reliance on a previous decision, for in this instance overruling the decision would dislodge settled rights and expectations or require an extensive legislative response."); *Planned Parenthood*, 505 U.S. at 855 ("The inquiry into reliance counts the cost of a rule's repudiation as it would fall on those who have relied reasonably on the rule's continued application.").

These concerns for well-settled law and reliance become highly relevant in cases in the commercial context where property rights are at issue, as in the present case. *See Payne*, 501 U.S. at 828 ("Considerations in favor of *stare decisis* are at their acme in cases involving property and contract rights, where reliance interests are involved."); *Planned Parenthood*, 505 U.S. at 855–56 (citation omitted) ("[T]he classic case for weighing reliance heavily in favor of following the earlier rule occurs in the commercial context, . . . where advance planning of great precision is most obviously a necessity[.]").

Petitioners, *amicus curiae* United States, and *amicus curiae* International Business Machines Corporation concede that this Court has expressly held that conditions or restrictions imposed in patent licensing agreements are permissible. Discussing the Court's holdings in *Bement v. Nat'l Harrow Co.*, 186 U.S. 70, 91 (1902), *Gen. Elec.*, 272 U.S. at 489–90, and *Gen. Talking Pictures I*, 304 U.S. at 180–81, petitioners admit that "this Court has permitted conditions imposed on manufacturing *licensees*, restricting the terms under which they are authorized to make, use and sell the product." Pet. Br. 28–29 (emphasis in original). However, they

incorrectly suggest to the Court that limitations on the scope of a license are not also imposed as conditions on the sale to a purchaser, such that the purchaser can be sued for patent infringement if operating outside the scope of the license restrictions. *Id.* at 21–24.

Indeed, *amicus curiae* United States concedes that "this Court has repeatedly held that a patentee may require licensees to comply with any lawful restriction to which the parties may agree—including field-of-use restrictions and even minimum-price restrictions—on pain of liability for patent infringement for both the licensee *and purchasers*." Gov. Br. 16 (citing *Gen. Talking Pictures II*, 305 U.S. at 127; *Gen. Elec.*, 272 U.S. at 480–90; *Mitchell*, 83 U.S. at 547–51) (emphasis added).

Likewise, in its Brief, *amicus curiae* International Business Machines Corporation admits that "[w]hile the Court has recognized a strong exhaustion doctrine, it has also recognized, for over a century, an exception to exhaustion where there is an express agreement limiting the licensee's or purchaser's rights under a patent." IBM Br.[5] 14. Discussing the Court's holdings in *Bloomer v. Millinger*, 68 U.S. 340, 346 (1864), *Providence Rubber Co. v. Goodyear*, 76 U.S. 788, 799–800 (1869), *Gen. Talking Pictures II*, 305 U.S. at 127, *Gen. Elec.*, 272 U.S. at 489–90, *Mitchell*, 83 U.S. at 550, *amicus curiae* International Business Machines Corporation concludes that "[t]his Court has repeatedly

[5] *Amicus Curiae* International Business Machines Corporation's Brief.

recognized the patentee's ability to restrict licensees and their downstream purchasers through valid licensing restrictions." *Id.* at 14–16.

B. A *Per Se* Patent Exhaustion Rule Would Be In Direct Conflict With 35 U.S.C. § 271(d)(5)

In 1988, Congress enacted the Patent Misuse Reform Act which placed certain limits on the defense of patent misuse and made clear that a patent owner can condition the sale of a patented article or the license of patent rights so long as reasonably within the scope of the patent grant. 35 U.S.C § 271(d)(5). Section 271(d)(5) is codified, in part, as follows:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (5) *conditioned the license of any rights to the patent or the sale of the patented product* on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or

> patented product on which the license or sale is conditioned.

35 U.S.C. § 271(d)(5) (emphasis added). That is, product tying conditions on the sale of patented articles or the license of patent rights, a persistent subject of judicial review, is specifically made legal by Congress in the absence of market power and anticompetitive effect. *Ill. Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42 (2006) (finding that the patent owner's condition on the sale of patented inkheads and patented ink containers restricting use only with unpatented ink purchased from the patentee "was neither 'misuse' nor an 'illegal extension of the patent right'" (quoting § 271(d)(5))). Section 271(d)(5) is a clear statement by Congress that a patent owner can condition the sale of a patented article or the license of patent rights.

The resulting legislative scheme does not permit every condition that a patentee may conceive, nor does it permit, however, the mechanistic disregard of every condition under the doctrine of patent exhaustion or any other rule of law. The petitioners' proposed rule, that all conditions on the sale of a patented article are *per se* unenforceable, is, thus, in open conflict with the Congressional pronouncement in § 271(d)(5). The statute provides that relief for patent infringement shall not be negated or exhausted due to the patent owner's conditioning "the sale of the patented product" or "license of any rights to the patent[.]" § 271(d)(5) (emphasis added). Accordingly, § 271(d)(5) indicates a Congressional intent against any *per se* rule of exhaustion.

C. Public Policy Considerations Militate Against A *Per Se* Rule

While there are instances in the Court's precedent where the doctrine of patent exhaustion has been a useful tool to prevent overreaching by patentees, there are also many instances where license conditions have been rationally permitted as a valid exercise of the patent grant. This is because the equities and logic weighing in favor of each side are in substantial equipoise. Because there are many circumstances, for example, self-replicating biotechnology, easily copied software, and the so-called "foundry problem,"[6] and future circumstances not yet contemplated, where robust application of the first sale doctrine, *i.e.*, a *per se* patent exhaustion rule will lead to a suboptimal result, a more prudent course is to maintain the Court's long-standing acceptance of license conditions reasonably within the scope of the patent grant. This will continue to enable parties to freely contract for use of the patented invention in a flexible and efficient manner. Any potential harm to purchasers can be (as it always has been) tempered by continued vigorous application of the equitable doctrine of patent misuse in the face of anticompetitive restrictions or limitations.

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[6] *See, e.g.*, Mehdi Ansari, Note, *LG Electronics, Inc. v Bizcom Electronics, Inc.: Solving the Foundry Problem in the Semiconductor Industry*, 22 BERKELEY TECH. L.J. 137, 137 (2007) (describing the "foundry problem" as a situation "in which a third-party competitor can free-ride on the licensing agreements between patentees and foundries to gain access to technologies without negotiating their own license").

In general, *per se* rules are disfavored because they are overly mechanical and eliminate judicial discretion. See Colonel J. Jeremiah Mahoney & Captain Christopher C. VanNatta, *Jurisprudential Myopia: Polygraphs in the Courtroom*, 43 A.F.L. REV. 95, 140–41 (1997) ("*Per se* rules are generally disfavored because of their overly mechanical application." (citing *Rock v. Arkansas*, 483 U.S. 44, 56 n.12 (1987) ("The [*per se*] rule leaves a trial judge no discretion to admit this testimony, even if the judge is persuaded of its reliability by testimony at a pretrial hearing."))).

This Court recently discussed the limited applicability of *per se* rules for antitrust cases in *Leegin Creative Leather Prods. v. PSKS, Inc.*, 127 S. Ct. 2705 (2007). The Court held that *per se* rules are confined to restraints "'that would always or almost always tend to restrict competition and decrease output.'" *Id.* at 2713 (quoting *Bus. Elecs. Corp. v. Sharp Elecs. Corp.*, 485 U.S. 717, 723 (1988)). The Court further found that to justify a *per se* rule, "a restraint must have 'manifestly anticompetitive' effects, and 'lack . . . any redeeming virtue.'" *Id.* (citations omitted). The Court concluded that "the *per se* rule is appropriate only after courts have had considerable experience with the type of restraint at issue, and only if courts can predict with confidence that it would be invalidated in all or almost all instances under the rule of reason." *Id.* (citations omitted). This case further illustrates that *per se* rules are only appropriate under limited circumstances and should not be freely adopted by courts.

1. The Single Recovery Rule Prevents Abuse Of Patent Rights

Petitioners warn of patent owners' abuse of the patent grant if the *Mallinckrodt* rule is maintained. Any potential for abuse is, however, further mitigated by the single recovery rule. The single recovery rule (or full compensation rule) limits a patent owner's potential damages to a single full recovery:

> "Payments made by one tortfeasor on account of a harm for which he and another are each liable, diminish the amount of the claim against the other whether or not it was so agreed at the time of payment and whether the payment was made before or after judgment[.]"

Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 503 (1964) ("*Aro II*") (quoting RESTATEMENT OF TORTS (1939), § 885 (3)). The Federal Circuit has consistently followed this rule. *See, e.g., Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1364 (Fed. Cir. 2001) (finding that "[e]ach joint tort-feasor is liable for the full amount of damages (up to a full single recovery)"); *Transclean Corp. v. Jiffy Lube Int'l, Inc.*, 474 F.3d 1298, 1303 (Fed. Cir. 2007) (holding that "a patentee may not sue users of an infringing product for damages if he has collected actual damages from a manufacturer or seller, and those damages fully compensate the patentee for infringement by users"). Thus, under the Federal Circuit rule, a patent owner

who has collected a partial recovery in the form of a royalty is limited in the future judgment that it may seek from others. Accordingly, petitioners' concern that a patent owner may collect a royalty from a component supplier and then "demand outrageous royalties from the next level down" is overstated. Pet. Br. 53.

2. Treating Licenses Differently From Releases Of Liability Creates An Anomaly And An Obstacle To Settlement

This Court's precedent provides that the effect of a release "shall be determined in accordance with the intentions of the parties." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 347 (1971) (finding that "[t]he straightforward rule is that a party releases only those other parties whom he intends to release"); *see also Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus.*, 1 Fed. Appx. 879, 885 (Fed. Cir 2001) (nonprecedential) ("It is well settled that 'a party releases only those other parties whom he intends to release.'" (quoting *Zenith Radio*, 401 U.S. at 347)). This rule is appropriate to give parties the flexibility to resolve disputes in an ad hoc fashion, but it is not a cure-all as it resolves only past infringement, forcing patent owners (in the new *per se* world proposed by petitioners) to periodically bring suit as there are additional damages.

Petitioners' proposed rule, which may be described as a "single license rule," lacks the flexibility of the release rule and thus would create unnecessary difficulties in the resolution of patent

disputes. A certain reluctance to pay for the entire chain of distribution is to be expected in some circumstances but not in all circumstances; thus, there is a need to let the realities of the marketplace in each situation and the parties' intentions control the most efficient licensing arrangement to permit full recovery for use of a patent invention.

3. Petitioners' Policy Justifications For *Per Se* Exhaustion Lack Merit

Petitioners set forth five policy arguments intended to show the efficacy of their proposed *per se* exhaustion rule. The first argument is that the Federal Circuit rule "has enabled patent owners to create a form of property rights—personal property servitudes—not generally recognized in property law." Pet. Br. 47. A condition on one's right to practice an invention, however, is a property right created by the patent grant from the United States. The Federal Circuit has not created a new property right in patents; rather, it has declined (as has Congress) to create a *per se* rule extinguishing in all cases limitations or conditions imposed by patent owners that are reasonably within the scope of the patent grant.[7]

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[7] Petitioners' argument regarding increased information costs is also ill-founded. It is unreasonable to expect a component seller to serve as an omniscient information clearinghouse. A complex technical component may literally embody several thousand patents held by various entities. Neither the buyer nor the seller would be aware of all relevant patents, despite both being regularly deluged with notice letters from patentees. Rather, costs are allocated among the parties through indemnification

Petitioners' second argument is that a rule of *per se* exhaustion or "single license rule" "reduces transaction costs without reducing the patentee's reward." Pet. Br. 49. If this were the case, however, rational patentees and licensees would have adopted such a rule by consensus. They have not. For example, component suppliers, particularly those in the highly competitive microchip business, are often unwilling or unable to pay a royalty that would compensate a patentee for the full value of their use and use by others in the distribution chain. Indeed, in practice, most components are sold subject to indemnification agreements with certain standard limitations. The suppliers' indemnification liability is typically limited to the sale price of the component and does not extend to liability arising from the combination of the indemnitor's component with other goods.[8]

Petitioners' third argument is that the Federal Circuit rule opens the door to antitrust abuse. Petitioner warns of a "new era" of ubiquitous anticompetitive notices and unilaterally imposed conditions. Pet. Br. 50. Here, petitioners mismatch the poison and the antidote. The remedy or antidote

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agreements. Private agreements permit the parties to allocate risk in a flexible and efficient manner apart from any externally imposed rule.

[8] *See*, *e.g.*, NEC Electronics America Standard Terms and Conditions, available at http://www.am.necel.com/legal/LegalTC.html; Fairchild Semiconductor Corporation Standard Terms and Conditions of Sale, available at http://www.fairchildsemi.com/legal/sale_terms_cond.html.

for antitrust abuse is the equitable doctrine of patent misuse, not an inflexible *per se* rule of patent exhaustion. *See, e.g., Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 668 (1944) (finding patent misuse to bar a remedy for contributory infringement to a patentee who engaged in tying activity); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 462 (1938) (holding that "[c]ontrol over the supply of such unpatented material is beyond the scope of the patentee's monopoly").

Petitioners' fourth argument is that continuation of the Federal Circuit's longstanding rule regarding the inexhaustibility of method claims and patent exhaustion will result in "an explosion of infringement suits seeking a second round of royalties from persons who . . . purchased goods and paid full price for them expecting that the patentee's claims were satisfied." Pet. Br. 51. *Amicus curiae* Wi-LAN gives little credence to petitioners' warning, as this rule has been in place since at least 1984. *See Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984)). No explosion has yet emerged, and none seems likely.

Petitioners' fifth argument is that "patentees have quite effective strategies at their disposal, and do not need this radical change in existing law." Pet. Br. 51. Wi-LAN first takes issue with the notion that application of the rule of law unambiguously established no later than 1992 with the Federal Circuit's *Mallinckrodt* decision is a "radical change." Nor is it correct that patentees would have effective non-litigation strategies in the face of a *per se* exhaustion rule or a single license rule. As discussed

above, one company in the distribution chain is often unwilling or unable to compensate the patent owner for use of the patent invention by others in the distribution chain. Petitioners further argue that *per se* exhaustion rule is consistent with commercial norms because:

> No rational company would pay LGE any significant royalty for a "license" to make and sell products that did not include the ability to sell those products free and clear of LGE's patent claims—since no rational customer would pay any significant price for a product that cannot be used without infringing.

Pet. Br. 52. In doing so, petitioners overlook the facts of the instant case. Intel, a large and sophisticated intellectual property licensor and licensee, did what petitioners say no rational company would do—pay for a license to make and sell that did not inure to the benefit of its customers. Further, petitioners' statement that "no rational customer would pay" for a component subject to such an agreement flies in the face of its own behavior. *Id.* After receiving explicit notice of the arrangement between respondent and Intel, petitioners continued to purchase Intel components. *Id.* at 9.

CONCLUSION

In the decision below, the Federal Circuit specifically invoked this Court's seminal decision in *Mitchell* and noted the effect of the Federal Circuit's decision in *Mallinckrodt*. *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1369–70 (Fed. Cir. 2006). In formulating its holding in *Mallinckrodt*, the Federal Circuit faithfully applied the full history of this Court's jurisprudence of patent exhaustion in a scholarly exposition. *Mallinckrodt*, 967 F.2d at 706–09. There is nothing aberrant in the reasoning in either *Mallinckrodt* or the decision *sub judice*. Petitioners and their *amici* allies take issue with the Federal Circuit's application of this Court's decisions to a set of facts clearly distinguishable from the facts in *Univis*. While clarification of the interplay between *Univis* and *Mallinckrodt* may serve the salutary function of providing guidance to the bench and the bar, such clarification need not eviscerate the *Mitchell/Gen. Elec./Gen. Talking Pictures I* and *II* line of authority. The decision below, thus, should be affirmed.

Respectfully submitted,

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