QUANTA LEAP OR MUCH ADO ABOUT NOTHING?

AN ANALYSIS ON THE EFFECT OF *QUANTA VS. LG ELECTRONICS*

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I. INTRODUCTION

The first sale doctrine is an important limit on the exclusive rights granted to intellectual property owners. It attempts to balance various policy goals, including providing incentives to create and innovate, limiting "dead hand" control over products embodying inventions, and encouraging voluntary transfers. Codified in the copyright laws, the doctrine has long been judicially recognized in patent and trademark cases. Generally, the doctrine limits the ability of an intellectual property owner to control the use and sale of an article that embodies its intellectual property once the article has been lawfully transferred. The doctrine, however, is deceptively simple. While it may be succinctly summarized, courts have long wrestled with its application. Although the United States Supreme Court has expressly recognized the doctrine for well over a hundred years, fundamental issues concerning the doctrine's scope and application have yet to be resolved.

In *Quanta v. LG Electronics,*[2] the United States Supreme Court unanimously affirmed and strengthened the first sale doctrine as applied to patents ("patent exhaustion" as it is referred to in patent jurisprudence). In its decision, the Court made three important holdings: (i) patent exhaustion is a substantive rule of patent law, and not a mere "default rule"; (ii) patent exhaustion applies to method patents; and (iii) the authorized, unrestricted sale of an article may exhaust related patents that are necessary for the known, intended use of the article.[3] In doing so, the Court rejected attempts by certain litigants, academics, and courts (in particular the Federal Circuit) to weaken the doctrine. Unfortunately, however, the Court's opinion failed to address several core issues regarding application and breadth of the first sale doctrine, leaving these issues unresolved. In particular, the effect and enforceability of contractual restrictions imposed on the transfer of products embodying patent inventions, and whether such restrictions can be enforced in a patent infringement suit against downstream purchasers and end users of such goods remains unclear. Moreover, factual, legal and procedural issues in *Quanta* will allow lower courts and litigants to limit the effect of the decision.

In this paper, I argue that *Quanta* should be read as

[2] Quanta Computer, Inc. v. L.G. Elec., Inc., 128 S. Ct. 2109 (2008).
[3] *Id*. at 2117–19, 2122.

reaffirming the importance of the first sale doctrine and consequently should by applied expansively to limit the ability of patentees to restrict the use and sale of articles embodying patented inventions. In addition, I contend that post-*Quanta*, enforcement of most restrictions on the sale of articles embodying patented inventions should be the domain of contract law, rather than patent law.[4] Part II provides a summary of the first sale doctrine, focusing on patent law. While copyright and trademark are referenced from time to time, because the primary purpose of the article is to discuss *Quanta*—a patent case—and its effect on the first sale doctrine, the focus will be on patent law. Nevertheless, I, like others, use the term "first sale doctrine" rather than "patent exhaustion" because as has been noted, the later nomenclature is somewhat of a misnomer.[5] Part III reviews the case law on the first sale doctrine, up to *Quanta*. Part IV discusses *Quanta* and its effect. In Part V, I argue that *Quanta* should be read expansively to both limit patentees' control over products embodying their inventions and to restrict their ability to use patent laws to enforce contractual restrictions. Finally, Part VI ends with a short conclusion.

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[4] This has been argued prior to *Quanta*, but the Court's decision adds force to the argument. *See, e.g.,* Initial Brief of Appellant-Petitioner at 14–15, Quanta Computer, Inc. v. L.G. Elec., Inc., 128 S. Ct. 2109 (2008) (No. 06-937); Brief for Consumer Union, Electronic Frontier Foundation and Public Knowledge as Amici Curiae Supporting Petitioner, *Quanta*, 128 S. Ct. 2109 (No. 06-937); Shubha Ghosh, *Carte Blanche,* Quanta *& Competition Policy* , 24 J. CORP. L. 1209, 1232–33 (2009); Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 WM. & MARY L. REV. 157, 163, 165–66 (2007).

[5] "Though the terms 'patent exhaustion' and 'first sale' are used interchangeably, some have called the phrase 'patent exhaustion' a 'misnomer.' Patent rights include 'the right to exclude others from making, using, offering for sale, or selling the patented invention.' Those who argue against using the term 'patent exhaustion' note that in selling a patented article, the patentee is not exercising his right to exclude others from doing so--patent law is not involved. Thus, if the patentee is not exercising his patent rights, he cannot be 'exhausting' them. The term 'first sale,' however, focuses attention on the terms of the sale; in this way, it moves us away from patent law and, more appropriately, on to the principles of contract, property, and antitrust law. And it is this framework that the Court finds most helpful when considering the teachings of *Quanta's* ancestors." Static Control Components, Inc. v. Lexmark Int'l, 615 F. Supp. 2d 575, 578–79 (E.D. Ky. 2009) (internal citations omitted).

II. SUMMARY OF THE FIRST SALE DOCTRINE: LAW & POLICY

As patented articles and methods have become an integral part of today's economy, especially in technological and scientific industries, legal and policy issues concerning patent rights are of vital importance. After having largely ignored patent cases for many years, the Unites States Supreme Court in the past several terms has decided a number of patent cases involving both procedural and substantive issues.[6] And the Court's newfound interest in patent law has had a significant effect on patent jurisprudence: In every recent patent case, the Supreme Court has reversed and/or vacated the Federal Circuit's decision, suggesting that the Court is intentionally curtailing Federal Circuit law that has substantially expanded patent rights over the last twenty plus years.[7] Viewed in context then, *Quanta* is more than a patent case involving the first sale doctrine, but rather part of the Court's new shift in patent jurisprudence. The following section provides an overview of the law and policy of the first sale doctrine, focusing on patent law primarily.

A. General Statement of the Law: The First Sale Doctrine

Intellectual property law attempts to strike a balance between various policy goals, including sufficiently incentivizing innovation and creation (along with its public disclosure), encouraging competition, diffusion of information and knowledge, and permitting the use and transfer of products embodying intellectual property free from dead-hand control.[8] The first sale

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[6] Between 2002 and 2008, the Court decided eight patent cases (in chronological order): Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826 (2002); Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki, 535 U.S. 722 (2002), Merck KGAA v. Integra Lifesciences I, Ltd., 545 U.S. 193 (2005); Ebay, Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006); MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007); Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007); KSR Int'l Co. v. Telefex, Inc., 550 U.S. 398 (2007); Quanta Computer, Inc. v. LG Elec., Inc., 128 S. Ct. 2109 (2008). The Court has also accepted certiorari for an important patent case for the 2009–2010 term, *In re* Bilski*,* 545 F.3d 943 (Fed. Cir. 2008), *cert. granted*, 129 S. Ct. 2735 (2009).

[7] *See Holmes Group*, 535 U.S. at 834; *Festo Corp*., 535 U.S. at 742; *Merck KGAA*, 545 U.S. at 208; *Ebay, Inc*., 547 U.S. at 394; *MedImmune, Inc.*,549 U.S. at 137; *Microsoft Corp*., 550 U.S. at 459; *KSR Int'l Co*., 550 U.S. at 428; *Quanta*, 128 S. Ct. at 2122.

[8] *See* Goldstein v. California, 412 U.S. 546, 569 (1973), *superseded by statute*, 17 U.S.C. § 301(a) (1976), *as recognized in* Crow v. Wainwright, 720 F.2d 1224, 1225 (11th Cir. 1983); Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176,

doctrine helps achieve that balance by limiting the ability of owners of intellectual property rights ("IPR") to control articles embodying their IPRs once those article have been legally transferred. The doctrine thus highlights an important distinction: that intellectual property rights are granted for inventions and creations rather than *article*s embodying inventions and creations.[9]

In *Bloomer v. McQuewan*,[10] the Supreme Court first articulated the basic foundations of the first sale doctrine, and this distinction:

> [W]hen the machine passes to the hands of the purchaser, 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. And if his right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State and not in the courts of the United States, nor under the law of Congress granting the patent. The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated. Contracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction.[11]

Copyright and trademark law also recognize the importance of the first sale doctrine. The Copyright Act statutorily recognizes rights of those whom lawfully own copies of copyrighted works, providing that that "the owner of a particular copy or phonorecord lawfully made under this title, or any person

221 (1980); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989) ("The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.' . . . From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy."). For a brief summary of the underlying policies of Intellectual Property, *see* ROGER E. SCHECHTER & JOHN R. THOMAS, INTELLECTUAL PROPERTY THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS § 1.3, § 2.4 (copyright policy), § 13.4 (patent policy) (2003). *See also* Lea Shaver, *Intellectual Property, Innovation and Development: The Access to Knowledge Approach* (April 21, 2009), *available at* http://papers.ssrn.com/ sol3/papers.cfm?abstract_id=1437274.

[9] *See* Quality King Distrib., Inc. v. L'anza Research Int'l Inc., 523 U.S. 135, 152 (1998). In practice, the distinction may not always that easy to make. And in certain instances, distinguishing a creation or invention from the tangible medium embodying the creation or invention may be quite difficult.

[10] Bloomer v. McQuewan, 55 U.S. 539 (1852).

[11] *Id*. at 549.

authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."[12] Similarly, once an article bearing a trademark has been lawfully sold, the first sale doctrine limits a trademark owners' ability to control the use or distribution of the product.[13]

B. Intellectual Property Policy and the First Sale Doctrine

Over the years, scholars, litigants and courts have weighed in on the policy arguments for and against a robust first sale doctrine. Summarized below are the most common arguments articulated, both in support and against the doctrine.[14]

1. Effect on Innovation

In *Quanta*, various arguments were made regarding how the first sale doctrine may affect innovation and incentives to innovate.[15] Not surprisingly, opposing sides came to very

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[12] 17 U.S.C. § 109(a) (2000)*; see* Bobbs-Merill Co. v. Straus, 210 U.S. 339 (1908) (discussing and applying the first sale doctrine in copyright); Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*,* 523 U.S. 135, 143 (1998) (reaffirming *Bobbs-Merill*).

[13] *See, e.g*., Allison v. Vintage Sports Plaques, 136 F.3d 1443, 1447 (11th Cir. 1998) (quoting MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[B][1]); Sebastian Int'l, Inc. v. Longs Drug Stores Corp., 53 F.3d 1073, 1074 (9th Cir. 1995).

[14] While the article refers to those "against" the first sale doctrine, a more accurate description would be those who view it as merely a default rule which can be contracted around. *See, e.g.*, F. Scott Kieff, Quanta v. LG Elecs*. Frustrating Patent Deals By Taking Contracting off the Table?*, *in* CATO SUPREME COURT REVIEW 318 (Ilya Shapiro et al. eds., 2007–2008) ("[T]he first sale doctrine operates as a default rule, to recognize certain terms (such as a license under a patent to use a purchased product) that may reasonably be implied into a contract for sale of the patented article from the patentee."); Supplemental Brief for Respondent, *Quanta*, 128 S. Ct. 2109, 5–6 (No. 06-937); Brief of Rembrandt IP Management, LLC as Amicus Curiae in Support of Respondent, *Quanta*, 128 S. Ct. 2109, 4 (No. 06-937).

[15] Brief for Petitioners, *Quanta*, 128 S. Ct. at 46–50 (arguing that the Federal Circuit's holding would result in harmful consequences including high transaction costs and restricting the free flow of goods); Brief of Respondent, *Quanta*, 128 S. Ct. at 31–33 (arguing that Petitioners' proposed rule of law would prevent innovation as inventors would not be able to achieve a reasonable return on their development); Brief for Nokia Corporation and Nokia Inc. as Amici Curiae Supporting Petitioners, *Quanta*, 128 S. Ct. at 16–21 (arguing that a vigorous application of the first sale doctrine would harm commerce in the technology industry and create a chilling effect on contracts); Brief of Computer & Communications Industry Association (CCIA) as Amicus Curiae Supporting Petitioners, *Quanta*, 128 S. Ct. at 11–14 (arguing that a

different conclusions on that effect. Distinctions that resulted in contrary conclusions included how one defined innovation, what markets were considered, and what incentives were deemed necessary to innovate. Those favoring a weaker first sale doctrine contend that limiting patentees' ability to control downstream use of articles embodying their inventions forces inventors to extract the "full value" of their IPRs in a single transaction.[16] And doing so, it is maintained, may be impractical, or even impossible in certain cases, and thereby may impede innovation.[17] For example, amicus in *Quanta* attested that in industries producing products comprised of dozens of parts (each embodying numerous patents), requiring an innovator to assess the value of its IPR may be impractical or impossible. It is claimed that this may be especially difficult when the initial transfer is made to a distributor or middleman, rather than to manufactures of finished end product.[18] As the argument

limitation of the exhaustion doctrine will be detrimental to the information technology sector); Brief of Qualcomm Incorp. as Amicus Curiae Supporting Respondent, *Quanta*, 128 S. Ct. at 21–26 (arguing that expansion of the exhaustion doctrine would be detrimental to the technology sector because it would limit the ability of developers to spread costs evenly over multiple licensees).

[16] *See* Brief for Nokia Corporation and Nokia Inc., *supra* note 15, at 2 (arguing that the patent exhaustion doctrine should be flexible in order to allow companies room to contract); Brief for Petitioners, *supra* note 15, at 46–50.

[17] *See, e.g.,* Brief of MPEG LA LLC as Amicus Curiae Supporting Respondent at 11, *Quanta,* 128 S. Ct. 2109 (No. 06-937); Brief for Papst Licensing GMBH & Co. KG as Amicus Curiae Supporting Respondent at 14–18, *Quanta,* 128 S. Ct. 2109 (No. 06-937); Brief for Qualcomm Incorporated as Amicus Curiae, *supra* note 15, at 21–26; Brief for Interdigital Communications, LLC and Tessera, Inc. as Amici Curiae Supporting Respondent at 3–8, *Quanta,* 128 S. Ct. 2109 (No. 06-937); Brief of Various Law Professors as Amici Curiae Supporting Respondent at 7–10, 16, *Quanta,* 128 S. Ct. 2109 (No. 06-937). This of course, begs the question of the "full value" of the patent. Is it the maximum price that a patentee can obtain from the market for the right to make/use/sell its patented invention? The cost of working around the patent? The value (or cost) of the next best alternative? In answering these questions, it may be helpful to consider the policies behind the intellectual property laws: "[T]he goal of intellectual property is to provide the 'optimal incentive' not the largest incentive possible. Past a certain point, it would be inefficient to withhold works from the public domain in order to provide ever-increasing 'incentives' to their creators." Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 125 (1999).

[18] Brief for MPEG LA LLC as Amicus Curiae, *supra* note 17, at 23–25; Brief for Qualcomm Incorporated as Amicus Curiae, *supra* note 15, at 20–28; Brief for Amberwave Systems Corporation as Amicus Curiae Supporting Respondent, *Quanta,* 128 S. Ct. at 18; *see generally* Brief for Interdigital Communications, LLC and Tessera, Inc. as Amici Curiae, *supra* note 17, at 8–10 (stating that

proceeds, if the value of the IPR is too ambiguous or even speculative at the initial transfer, IPR owners may not obtain the patent's "full value," decreasing incentives to innovate.[19]

While persuasive, the argument has several deficiencies. First, the factual premise is disputed, with significant disagreement over whether an inventor is capable of capturing the full value of its IPRs in the initial transfer. While some argue that it would be impractical, or at least inefficient, to require a patentee to extract the full value of its IPR in the first transfer,[20] others maintain that it would merely result in costs being passed along the chain of distribution to downstream purchasers and end users.[21] Second, the argument posits that the first sale doctrine hinders a patentee from obtaining the "full value" of its patent.[22] Yet, this is legally inaccurate. An inventor is only entitled to what the patent laws grant it, which includes the first sale doctrine—a substantive part of patent law.[23] Third, the

Interdigital Communications and Tessera develop technology that is then outsourced to be used in various electronic devices). *See also* Kieff, *supra* note 14, at 316–318. The argument is premised on the assumption that the seller of the end product has the best knowledge of the actual value of the IPR, not the inventor or even middle man.

[19] *See* Brief for Amberwave Systems Corporation as Amicus Curiae, *supra* note 18, at 18*; see also* arguments made by amicus briefs on behalf of biotechnology companies, claiming that planting future generations of patented seeds would prevent companies from recouping their investment costs. Brief for Croplife International as Amicus Curiae Supporting Neither Party, *Quanta,* 128 S. Ct. at 9–12; Brief for Biotechnology Industry Organization as Amicus Curiae Supporting Neither Party, *Quanta,* 128 S. Ct. at 13–16. It was also argued that a strong first sale doctrine may deter derivative innovations. For example, LGE argued that the doctrine may cause inventors to reconsider licensing inventions to others for further development due to a fear of losing rights in it. Brief of Respondent, *supra* note 15, at 33. This, however, ignores that fact that the first sale doctrine does not apply to inventions (but only articles embodying the invention) and that bona fide restrictions on manufacturing licenses are typically not subject to the doctrine.

[20] *See, e.g.*, Brief for Qualcomm Incorporated as Amicus Curiae, *supra* note 15, at 20–26; Brief for Papst Licensing GMBH & Co. KG as Amicus Curiae, *supra* note 17, at 11–16; Brief for Wi-Lan Inc. as Amicus Curiae Supporting Respondent, *Quanta,* 128 S. Ct. 2109, 22–25 (No. 06-937); Brief for Interdigital Communications, LLC and Tessera, Inc. as Amici Curiae, *supra* note 17, at 10–13.

[21] *See, e.g.,* Brief for Dell Inc., et al. as Amici Curiae Supporting Petitioners, *Quanta,* 128 S. Ct. at 18–19; Brief of CCIA as Amicus Curiae, *supra* note 15, at 9–10; Reply Brief for Appellant-Petitioner, *Quanta,* 128 S. Ct. at 8–9.

[22] Brief for Qualcomm Incorporated as Amicus Curiae, *supra* note 17, at 17 (quoting B. Braun Medical, Inc. v. Abbott Laboratories, 124 F.3d 1419, 1426 (Fed. Cir. 1997)).

[23] *See* Brief for the United States as Amicus Curiae Supporting Petitioners,

argument focuses solely on the inventor and fails to consider rights and incentives of others (like downstream manufacturers and users), as well as other policy considerations. Indeed, supporters of a strong first sale doctrine have argued that it *encourages* downstream and secondary markets (including markets for derivative products) by limiting the ability of patentees to control use and transfer of articles embodying their inventions.[24] While this argument is essentially an extension of the general property rule against servitudes on chattels (seeking to limit "dead hand" control),[25] here the concern is not only with the effects the restraints may impose on future and downstream users, but also the effects on innovation in those markets.[26] Finally, if inventors in specific technologies need additional protection to enable them to recoup their investments, a better means of addressing the issue would be a narrow exception—like *sui generis* legislation—rather than cutting back on the doctrine in its entirety.

2. Effect on Efficiencies and Costs

Those opposing a robust, immutable first sale doctrine have

Quanta, 128 S. Ct. at 8–10; Bloomer v. McQuewan, 55 U.S. 539, 549–50 (1852).

[24] Brief for Petitioners, *supra* note 15, at 51–52 (arguing in support of the traditional exhaustion rule).

[25] S*ee, e.g.,* Glen O. Robinson, *Personal Property Servitude*s, 71 U. CHI. L. REV. 1449, 1455–63 (2004) (summarizing the law on personal property servitudes); Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The* Numerus Clausus *Principle*, 110 YALE L.J. 1, 18 n.68 (2000) ("American precedent is largely, if not quite exclusively, in accord" with the rule that "one cannot create servitudes in personal property."); Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 HARV. L. REV. 1250, 1261 (1956).

[26] *See, e.g.,* Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698 (1998), *available at* http://www.sciencemag.org/cgi/content/full/280/5364/698 (discussing a 'Tragedy of the AntiCommons" where people underuse resources because owners can block each other by adding additional costs)*; see also* Katherine J. Strandburg, *Users as Innovators: Implications for Patent Doctrine*, 79 U. COLO. L. REV. 467, 478 (2008) (discussing benefits of "user innovation," which is defined as "innovation motivated by an intention to use, rather than sell, an innovative technology."). Control by upstream IPR owners, it is argued, may hamper innovation in downstream and secondary markets by adding unnecessary costs, resources, or legal issues. This may be particularly so when a downstream or secondary product relies on various IPRs, and may be able to improve how a system of various inventions work together, or even by making simple changes to products that consumers benefit from or merely prefer. *Id.* at 481–82.

also claimed that to the extent that it does not impede innovation it will at the very least result in inefficiencies and increased costs. Specifically, some maintain that offering limited licenses at various levels of the product distribution chain enhances efficiencies by only requiring parties to pay for those rights they need (ostensibly lowering costs). In addition, as the argument proceeds by this means, a patent's value is more closely aligned with purchasers' needs (and intended use) rather than some guesstimated value by those involved in the initial transfer.[27] It has also been argued that a rigid first sale doctrine may deter patent settlements involving numerous potential infringers due to hold-out and coordination issues.[28]

[27] Brief of Respondent, *supra* note 15, at 32–33 (arguing that downstream purchasers are in the best position to know the actual value of a patent right); Brief for Papst Licensing GMBH & Co. KG as Amicus Curiae, *supra* note 17, at 14 (arguing that limited licenses would allow purchasers to pay a proper market price and efficient manufacturing); Brief for Qualcomm Incorporated as Amicus Curiae, *supra* note 15, at 22–24 (arguing that the first sale doctrine would increase costs for manufacturers and decrease returns for patent owners); Brief of Amici Curiae Interdigital Communications, LLC and Tessera, Inc., *supra* note 17, at 11–13 (arguing that the first sale doctrine would limit companies from gaining the full benefit of their inventions and therefore reduce their incentive for investing in future creations); Brief for MPEG LA LLC as Amicus Curiae, *supra* note 17, at 23–24 (arguing that there is increased efficiency when the creator receives royalties from downstream purchasers). A disputed factual issue is that to the extent a patentee is forced to obtain the full value of its patent in the first transfer, whether the transferee is able to pass along such costs to downstream purchasers (and is willing to take the accompanying risks). *Compare* Brief for Wi-Lan Inc. as Amicus Curiae, *supra* note 20, at 22, 25 (in support of patent holders right to contract more freely without exhausting their patents); Brief for Papst Licensing GMBH & Co. KG as Amicus Curiae, *supra* note 17, at 3–4, 14 (arguing that limited licensing increases competitions and allows manufacturers to purchase components for a fair price); Brief for Qualcomm Incorporated as Amicus Curiae, *supra* note 15, at 20–22 (arguing that a patent holder has the flexibility to contract different aspects of his goods without exhausting his rights), *with* Brief for Dell Inc., et al. as Amici Curiae, *supra* note 21, at 8–10 (arguing that the patent exhaustion doctrine allows patent owners to receive the full value of the patent at the first sale); Brief for CCIA as Amicus Curiae, *supra* note 15, at 4–5 (arguing that without the exhaustion doctrine markets and competition could be harmed by those who try to control patents and products after they have been sold).

[28] Brief of Various Law Professors as Amici Curiae, *supra* note 17, at 12 ("[B]ecause any patent settlement that is reached under Petitioners' rule will license an entire industry, an immutable rule typically would give rise to an enormous coordination problem among the class of potential licensees by requiring them to agree with each other on a price they collectively would agree to pay the patentee. The decision by any significant infringers to hold out from the deal would frustrate the ability of all other infringers and the patentee to reach an agreement that reflects the actual market price. The bottom line is that Petitioners' approach would make it very difficult to settle patent disputes

While telling, this efficiency-based argument has various shortcomings. First, whether permitting patentees to obtain royalties along the distribution chain (rather than only at the initial transfer) is efficiency enhancing and reduces costs is disputed. In particular, the argument fails to consider all costs, like those borne by downstream purchasers and users. For instance, some have maintained that allowing patentees to charge royalties along the distribution chain *increases* transaction costs for downstream purchasers by requiring them to search for patents (to avoid infringement suits), assess the value of patent rights embodied in articles they buy, and proliferates the total number of negotiations necessary (since buyers may need to negotiate with the seller of the article as well as various patentees).[29] The first sale doctrine, it is asserted, thereby alleviates costs since purchasers can buy products embodying patents worry free, and in one transaction.[30] Consequently, when considering the total cost of all involved in the chain of distribution for articles embodying patented inventions, it is not clear whether a stronger or weaker first sale doctrine would lower costs and be more efficient.[31]

Second, efficiency is only one of many considerations in patent policy. To the extent that the first sale doctrine supports other policy considerations (such as avoiding "dead hand" control and encouraging downstream innovation and competition), an efficiency-based argument is less availing.

3. Effect on the Freedom of Contract

A third argument against the first sale doctrine is a

involving many possible infringers. Any settlement would have to coordinate the interests of all or nearly all of the potentially-infringing population.").

29 *See, e.g.,* Brief for Consumers Union et al. as Amici Curiae, *supra* note 4, at 6–8; Brief for Gen-Probe Inc. as Amicus Curiae Supporting Petitioners at 6–7, 19, *Quanta,* 128 S. Ct. 2109 (No. 06-937); Brief of Dell Inc. et al as Amicus Curiae, *supra* note 21, at 12, 20–22; Brief for CCIA as Amicus Curiae, *supra* note 15, at 8–9; Reply Brief for Appellant-Petitioner, *supra* note 21, at 4–5.

30 *See, e.g.*, Brief of Dell Inc. et al as Amicus Curiae, *supra* note 21, at 3–4; Brief for Gen-Probe Inc. as Amicus Curiae, *supra* note 29, at 7–8. In addition, the first sale doctrine may enable or encourage a vibrant secondary market, thereby providing purchasers additional choice. R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks,* 44 B.C. L. REV. 577, 586–587 (2003).

31 It may be worth noting, that the effect of either rule on *consumers* is even more ambiguous. It likely depends on competition in various markets and whether costs can easily be passed along down the chain of distribution.

Lochneresque position relying on the principle of freedom of contract.[32] Beginning with the uncontested premise that a patentee may transfer less than all of its rights to an invention, the argument proceeds that the law should permit parties to negotiate for limited transfers of rights.[33] Using contracts between sophisticated commercial parties as the template, it is contended that a strong first sale doctrine hampers the ability of parties to transfer only those rights sought. This was argued directly in *Quanta,* as it involved contract negotiations between Intel, LGE and Quanta—all sophisticated commercial parties.[34]

There are various failings with this argument. First, like all rights, contract rights are not unqualified. This is particularly true where other policy goals are at issue; in this case, those advanced by patent and competition policy. As the *Lochner* era cases demonstrated, relying on freedom of contract to trump other substantive rights and policy considerations is controversial at best. Indeed, critics have argued that contract provisions that attempt to circumvent substantive laws should be unenforceable, preempted, or at a minimum subject to increased judicial scrutiny.[35] Second, even contract law has substantive

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[32] Lochner v. New York, 198 U.S. 45, 53–59 (1904). This infamous case was decided during an era when the Supreme Court struck down numerous statutes intended to regulate health and safety, on the basis that that statutes conflicted with the freedom of contract. *See* Day-Brite Lighting, Inc. v. Missouri, 342 U.S. 421, 423 (1952).

[33] Brief of Qualcomm Inc. as Amicus Curiae, *supra* note 15, at 20.

[34] Brief of Respondent, *supra* note 15, at 2, 24–25 (opining that petitioner's mandatory exhaustion rule needlessly interferes with rights of contracting parties to determine and pay for only those rights they wish to acquire or impart); *see also* Brief for MPEG LA LLC as Amicus Curiae, *supra* note 17, at 25; Brief of Qualcomm Inc. as Amicus Curiae, *supra* note 15, at 19–20; Brief of Various Law Professors as Amici Curiae, *supra* note 17*,* at 10–11; Brief of Rembrandt IP Management, LLC as Amicus Curiae, *supra* note 14, at 27; Kieff, *supra* note 14, at 315–18.

[35] *See, e.g*., Julie E. Cohen, *Copyright and The Jurisprudence of Self-Help*, 13 BERKELEY TECH. L.J. 1089, 1090–94 (1998) (criticizing digital contracts and digital rights technologies as means of circumventing copyright protections); Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 98 (1997) (expressing concern over use of contract to expand rights not granted under copyright); Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1239 (1995) ("Software vendors are attempting en masse to 'opt out' of intellectual property law by drafting license provisions that compel their customers to adhere to more restrictive provisions than copyright . . . law would require."); Richard H. Stern, *Shrink-Wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?,* 11 RUTGERS COMPUTER & TECH. L.J. 51, 51–56 (1985) (discussing components of shrink-wrap licenses and their effectiveness);

provisions that limit freedom of contract, such as the prohibition against contract terms that are unconscionable or against public policy.[36] The first sale doctrine may thus be viewed as consistent with other substantive limits on freedom of contract.[37] Third, even assuming *arguendo* that contract negotiations of this type will largely be between sophisticated commercial parties, these contracts may affect downstream purchasers and users who were not involved in negotiations and whose interests were not protected or even considered. And as patentees have enforced contract terms on third parties under the patent laws (rather than just contract law)[38]—which do not require privity or even notice—the protection granted by the first sale doctrine may be even more important.[39] Finally, as a passing comment, a contracts based argument is somewhat odd considering that LGE and others whom have made this freedom of contract argument seek remedies under patent laws—not contract law.

III. REVIEW OF THE CASE LAW & THE CONDITIONAL SALES DOCTRINE

Under patent law, the first sale doctrine is only applicable to

RAYMOND T. NIMMER, THE LAW OF COMPUTER TECHNOLOGY § 7.154 (4th ed. 2009) (discussing licensing agreements and the differences between fully-negotiated contracts and mass, consumer-oriented transactions). *Cf.* Brief for the United States In Response to the Court's Invitation, Arkansas Carpenters Health and Welfare Fund v. Bayer, 544 F.3d 1323 (Fed Cir. 2008) (No. 05-2851), *available at* http://www.usdoj.gov/atr/cases/f247700/247708.htm (criticizing the court's standard in *Tamoxifen* as giving too much deference to settlements of pharmaceutical patent litigation, which "effectively bars considering whether the agreement might violate the antitrust laws.").

36 RESTATEMENT (SECOND) OF CONTRACTS, §§ 178, 208 (1981).

37 *See* Lorelei Ritchie, *Reconciling Contract Doctrine With Intellectual Property Law: An Interdisciplinary Solution*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 105, 106–07 (2008–2009) (arguing that licensing is the essence of convergence of intellectual property law and contract law, and that much of the talked about "divergence" can be harmonized if one considers many of the defenses to infringement as merely an example of contracts held unenforceable against public policy).

38 For examples of cases where patentees have enforced contract restrictions against third parties under the patent laws, *see, e.g.,* Quanta v. LG Elec. Inc., 128 S. Ct. 2109 (2008); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917); Monsanto v. McFarling, 363 F.3d 1336 (Fed.Cir.2004); Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992).

39 *See, e.g.*, Brief of Various Law Professors as Amici Curiae, *supra* note 17, at 16 ("even an innocent infringer, without knowledge of a patent" and without any privity of contract may be liable for patent infringement).

(and triggered by) an "authorized sale."[40] An issue of continuing ambiguity is whether (and to what extent) the first sale doctrine applies to a transfer of IPR, or an article embodying IPR, short of a full, unrestricted (or unconditional) sale. Complicating the inquiry is that in many transactions, the IPR and articles embodying the IPR are so intertwined that issues concerning respective rights in the invention *vis-a-vis* the article are not so easily separable. Hence, while the law is fairly settled that a patentee may transfer less than all of its rights in an invention (the proverbial "stick" in the "bundle" of property rights),[41] there remains substantial ambiguity concerning application of the first sale doctrine on less than full transfers of IPRs and on articles embodying IPRs that are subject to a restricted or limited transfer. Indeed, after more than one hundred years of jurisprudence on the first sale doctrine, significant issues concerning application of the doctrine remain unclear. For example, the law is ambiguous on whether a limited transfer of IPR may qualify as an "authorized sale,"[42] whether a patentee's restrictions on articles embodying its invention(s) survive the first sale doctrine, and whether a patentee may enforce any such restriction against downstream purchasers via a patent infringement action.

The United States Supreme Court has never directly addressed these issues. And although the vast majority of cases support a vibrant first sale doctrine and the policies underlying it, there is enough language in a few cases that have permitted continued ambiguity and debate. Taking advantage of the ambiguity, the Federal Circuit has decided several cases having the effect of both strengthening patentees' rights and weakening the first sale doctrine. First, Federal Circuit cases have essentially condoned licensing schemes by IPR owners controlling downstream use and sale of articles embodying their inventions. By

[40] *Quanta*, 128 S. Ct. at 2115, 2121.

[41] *Motion Picture Patents Co.*, 243 U.S. at 513–514; Bauer & CIE v. O'Donnell, 229 U.S. 1, 10, 15 (1913); Bloomer v. McQuewan, 55 U.S. 541 (1852); Adams v. Burke, 84 U.S. 453, 456 (1873).

[42] And, unfortunately, *Quanta* did not resolve this issue. In its decision, the Federal Circuit held that *both* the license from LGE to Intel *and* the sale from Intel to Quanta triggered the first sale doctrine. *See* LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 1370 (Fed. Cir. 2006). The Supreme Court only addressed the latter—holding that the sale from Intel to Quanta triggered the doctrine, but was silent on the license from LGE to Intel. *Quanta*, 128 S. Ct. at 2117–18.

distinguishing Supreme Court cases applying the first sale doctrine, the Federal Circuit has held that restricted licenses are not "authorized sales" and thus not subject to the doctrine.[43] Second, the Federal Circuit has been very permissive of license restrictions in general, enforcing nearly any restriction or condition in a license "which are not in their very nature illegal."[44] Third, these decisions have authorized restrictions to be enforced under the patent laws rather than as mere contract claims.[45] Finally, Federal Circuit cases have enabled patentees to enforce restrictions against downstream purchasers, not just manufacturers who negotiated the licenses.[46] The body of Federal Circuit decisions allowing IPR owners to control downstream uses and resale of products embodying their patented inventions has been referred to as "the conditional sales doctrine," and has generated significant controversy.[47]

In this section, I will summarize the most significant Supreme Court and Federal Circuit cases on the first sale doctrine, including the background and foundations of the Conditional Sales Doctrine.

A. Supreme Court Cases

The Supreme Court has recognized the first sale doctrine since at least the mid 19[th] century. Early cases involved manufacturers which obtained licenses to make, use and/or sell patented invention or products embodying patented inventions ("manufacturer licenses"). In analyzing whether the first sale doctrine applied to these transactions, early cases established two distinctions which continue to be relied upon by courts: (a) the type of restriction involved (*i.e.*, restrictions on making, selling, or using the article embodying the invention); and (b) whether the restriction is imposed on manufactures or downstream purchasers (including end users). Generally, the

[43] Braun Med., Inc. v. Abbott Labs, 124 F.3d 1419, 1426 (Fed. Cir. 1997); *see also* Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in* Quanta Computer, Inc. v. LG Elecs, Inc., 49 IDEA 517, 527–28 (2008).

[44] Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 703 (Fed Cir. 1992) (quoting E. Bement & Sons v. Nat'l Harrow Co., 186 U.S. 70, 91 (1902).

[45] *See, e.g., Quanta*, 128 S. Ct. 2109, 2121–22 (2008); *Motion Picture Patents Co.*, 243 U.S. at 518; Monsanto v. McFarling, 363 F.3d 1336, 1338–40 (Fed. Cir. 2004); *Mallinckrodt*, 976 F.2d at 701.

[46] *See, e.g.*, *Braun,* 124 F.3d at 1426–27.

[47] *See, e.g.*, Ghosh, *supra* note 4, at 1223–26 (discussing the Conditional Sales Doctrine).

Court over the years has been more deferential of patentees' restrictions on manufacturer licenses, while more critical of restrictions imposed on end users, especially use restrictions.

1. The Early Cases

In its first published opinion applying the first sale doctrine in the patent context, *Bloomer v. McQuewan*,[48] the Court addressed the effect of a statutory patent extension on a license to make, use, and sell "planing machines."[49] In holding that the patent extension cut off a licensee's rights to make or sell the patented article, but not to use it "in the ordinary pursuits of life," the Court made distinctions between users and types of restrictions. According to the Court, while persons who purchased the machine "for the purpose of using it in the ordinary pursuits of life"[50] were not affected by the patent extension, a purchaser who sought to make or sell the machine:

> [O]btains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States. And the interest he acquires, necessarily terminates at the time limited for its continuance by the law which created it. The patentee cannot sell it for a longer time. And the purchaser buys with reference to that period; the time for which exclusive privilege is to endure being one of the chief elements of its value. He therefore has no just claim to share in a further monopoly subsequently acquired by the patentee. He does not purchase or pay for it.[51]

The Court's next major case on the first sale doctrine, *Adams v. Burke*,[52] involved territorial restrictions on manufacturer licenses, and the effect such restrictions had on purchasers. In *Adams*, the patentee granted an exclusive territorial license to its patented coffin-lids to Lockhart & Seelye.[53] When the Defendant, an undertaker, purchased coffin lids from Lockhart & Seelye and carried them outside the geographic territory for which the license was granted, he was sued for patent infringement.[54] In applying the first sale doctrine to the undertaker's purchase of

48 Bloomer v. McQuewan, 55 U.S. 539 (1852).
49 *Id.* at 546–47.
50 *Id.* at 549.
51 *Id.* at 548–49; *Bloomer v. Milligan*, 68 U.S. 340 (1864), had nearly the same facts and holding as *McQuewan,* and thus is not discussed here.
52 84 U.S. 453 (1873).
53 *Id*. at 454.
54 *Id.*

the coffin lids, the Court again highlighted the distinctions between end users and manufactures, as well as the types of restrictions imposed:

> It seems to us that, although the right of Lockhart & Seelye to manufacture, to sell, and to use these coffin-lids was limited to the circle of ten miles around Boston, that a purchaser from them of a single coffin acquired the right to use that coffin for the purpose for which all coffins are used. That so far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent. It would be to engraft a limitation upon the right of use not contemplated by the statute nor within the reason of the contract to say that it could only be used within the ten-miles circle. Whatever, therefore, may be the rule when patentees subdivide territorially their patents, as to the exclusive right *to make* or *to sell* within a limited territory [sic], we hold that in the class of machines or implements we have described, when they are once lawfully made and sold, there is no restriction on their *use* to be implied for benefit of the patentee or his assignees or licensees.[55]

2. The Controversial Cases

Three early cases are cited as both being inconsistent with cases following *Adams* and *McQuewan,* and as support for the Conditional Sales Doctrine. *Mitchell v. Hawley*,[56] like *McQuewan,* also concerned the effect of a patent extension on a manufacturer license; this time for improved machinery in felting hats. Plaintiff, who obtained an exclusive license after the patent extension, sought to enjoin Defendant from using products that Defendant had purchased from a licensee prior to the patent extension.[57] Unlike in *McQuewan,* however, the license in

[55] *Id*. at 456–57. *Adams* was reaffirmed in *Keeler v. Standard Folding Bed Company*, a similar case involving a patentee who granted exclusive rights to make, vend, and use its invention (improvements in wardrobe bedsteads) within a fixed territory, and a Defendant who purchased the product and then took it out of the assigned territory for resale. Keeler v. Standard Folding Bed Co., 157 U.S. 659, 660, 663–65 (1895). In *Keeler*, the Court applied the first sale doctrine even though that Defendant purchased the products within the territory *for the express purpose* of taking them outside the territory and reselling them. *Id.* at 666, 67 (Brown, J., dissenting). *Keeler* cites *McQuewan* for the "authority for the proposition that the purchaser of a patented machine has not only the right to continue the use of the machine as long as it exists, but to sell such machine, and that his vendee takes the right to use." *Id.* at 662 (majority opinion).

[56] 83 U.S. 544 (1872).

[57] *Id.* at 546.

Mitchell expressly provided that "the licensee '*shall* not, *in any way*, or *form*, *dispose of*, *sell*, *or grant* any license to use the said machines *beyond the expiration*' *of the original term.*"[58] In granting Plaintiff's injunction, the Court held that the express provision in the license prevented application of the first sale doctrine.[59] Although Defendant was a purchaser and not a licensee, the Court did not appear sympathetic, suggesting that with due diligence, Defendant could have discovered that the licensee from which it had purchased the machines was not authorized to sell the product beyond the patent term.[60]

Bement & Sons v. National Harrow Co.,[61] involved manufacturer licenses to make, sell and market products embodying patentee's improvements on float spring tooth harrows. The licenses expressly provided that the manufacturer would not sell below the list price and that any violation of the license may be enjoined under the patent laws.[62] Defendant manufacturer challenged the license as violating the antitrust laws.[63] The Court upheld the restriction as lawful, holding that generally, any condition is permissible so long as it is within the scope of the patent rights and not otherwise illegal:

> [T]he general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.[64]

Finally, *Henry v. A.B. Dick Co.*[65] involved restrictions that the patented product (a mimeograph machine) only be used in connection with unpatented "stencil paper, ink and other

[58] *Id*. at 549 (second emphasis added).
[59] *Id*. at 550.
[60] *Id*. at 551.
[61] 186 U.S. 70 (1902).
[62] *Id.* at 71–72, 74–75.
[63] *Id*. at 83–84.
[64] *Id*. at 91, 94–95.
[65] 224 U.S. 1 (1912), *overruled by* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917), *superseded by statute*, Clayton Act, 15 U.S.C § 14 (1914), *as recognized in* Ill. Tool Works, Inc. v. Indep. Ink, Inc., 547 U.S. 28 (2006).

supplies" sold by the patentee.[66] In upholding the patentee's action for contributory infringement against a seller of replacement ink for the patented machine, the Court rejected application of the first sale doctrine.[67] According to the Court, a patentee may impose nearly any restriction or condition it wants so long as not otherwise illegal:

> The Patentee has the sole right of using and selling the articles, and he may prevent anybody from dealing with them at all. Inasmuch as he has the right to prevent people from using them, or dealing in them at all, he has the right to do the lesser thing, that is to say, to impose his own conditions. It does not matter how unreasonable or how absurd the conditions are. It does not matter what they are if he says at the time when the purchaser proposes to buy, or the person to take a license, 'Mind, I only give you this license on this condition,' and the purchaser is free to take it or leave it as he likes. If he takes it, he must be bound by the condition. It seems to be common sense, and not to depend upon any patent law, or any other particular law.[68]

3. The Court's Return to *McQuewan* and *Adams.*

The Court's next major cases on the first sale doctrine were *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,[69] and *Straus v. Victor Talking Machine Co*.,[70] which were similar and decided on the same day. In these cases, the Court reversed *A.B. Dick* and returned to the jurisprudence set forth in *McQuewan* and *Adams*.[71] *Motion Picture Patents Company* involved patents used in motion picture exhibiting machines. The license agreement between the patentee and manufacturers of motion picture machines included a restriction that projectors sold by manufacturers display only those films covered by patentee's separate film patents.[72] The restriction was also

[66] *Id.* at 11.
[67] *Id.* at 48–49.
[68] *Id*. at 40–41.
[69] 243 U.S. 502 (1917).
[70] 243 U.S. 490 (1917).
[71] *See Motion Picture Patents,* 243 U.S. at 518; *Straus,* 243 U.S. at 501. A few years earlier in *Bauer & CIE v. O'Donnell*, the Court nearly overruled *A.B. Dick*. *Bauer*, 229 U.S. at 16–17. In *Bauer*, after rejecting *A.B. Dick's* analysis that distinguished the first sale doctrine under copyright law from that under patent law, the Court applied the first sale doctrine to void the price restriction on retailers. *Id.* at 14, 16-18. The Court distinguished *A.B. Dick* as a case dealing with the right to "use" and not to "vend" and thus was able to avoid expressly overruling *A.B. Dick*. *Id.* at 16.
[72] *Motion Picture Patents*, 243 U.S. at 506.

inscribed on a plate attached to each machine.[73] Patentee attempted to enforce the restriction on purchasers (who used the projectors to exhibit films in movie theaters) even *after* its film patents expired.[74] In voiding the restriction under the first sale doctrine the Court expressly overruled *A.B. Dick*.[75] In support of overruling precedent the Court cited the Constitution, noting 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 useful arts.'"[76] The Court's similar ruling in *Straus,* issued the same day, helped fortify its holding.[77]

General Talking Pictures Corp. v. Western Electric Co.[78] was

[73] *Id*. at 506–07.

[74] *Id*. at 507–08.

[75] *Id*. at 518.

[76] *Id*. at 511 (quoting U.S. CONST. art. I, § 8, cl.8).

[77] *Straus* similarly involved a restriction that accompanied a patentee's sound-reproducing machine. *Straus,* 243 U.S. at 494–95, 501. Patentee's machine was accompanied by a "License Notice" which contained various restrictions including that the product may only be used with "sound records, sound boxes, and needles manufactured by" the patentee. *Id.* at 494–95. The Court voided the restriction under the same rule as *Motion Picture Patents Company*. *See id.* at 500–01. Of particular importance was that the Court applied the first sale doctrine notwithstanding the patentee's attempts to characterize the transaction as a "license" and not an "authorized sale." *Id*. at 499–501.

[78] 305 U.S. 124 (1938). A few years before *General Talking Pictures*, the Court decided *United States v. General Electric Co*. yet another antitrust case involving the first sale doctrine. United States v. Gen. Elec. Co., 272 U.S. 476, 478–79 (1926). GE held patents on electric lamps with tungsten filaments and manufactured most of such lamps that were sold in the U.S. *Id.* at 480–81. Previously, the government filed an antitrust suit against GE alleging an illegal combination to restrain trade in electric lamps. *Id.* at 479–80. The combination was dissolved following the entering of a consent decree. *Id.* at 480. Thereafter, GE developed a new distribution system for the lamps, wherein it contracted with thousands of wholesalers and retailers of electrical supplies and appointed them "agents" of the company to sell, on commission, the lamps, which were to be consigned to them by GE. *Id.* at 480–83. Prices of the lamps to consumers were to be fixed at a price set by GE. *Id.* at 482. The government challenged both the distributional system and the price restraint as an unlawful restraint of trade, and as a means of trying to circumvent the rule against minimum resale price maintenance s (which was proscribed by the antitrust laws at the time). *Id.* at 478–80, 488. The Court, citing *Bement*, upheld the restriction, asserting that conditions on resale of patented products are typically valid if "normally and reasonably adapted to secure a pecuniary reward for the patentee's monopoly." *Id*. at 490–91. The Court also upheld the distribution strategy, finding that the approximately 21,000 wholesalers and retailers were legitimate agents of GE. *Id.* at 484–86. While courts and commentators have cited *General Electric* as support for allowing patentees to restrict downstream prices, given the Court's finding that purchasers were "agents" of GE, the case stands for no more than the unsurprising rule that consignment to agents are

the Court's next major first sale doctrine case. In that case, the patentee licensed numerous patents for inventions used in wire and radio telephony, talking motion pictures, and other related fields.[79] Patentee granted companies exclusive licenses to sell products embodying its invention in the "commercial field" (primarily theaters) as well as non-exclusive licenses to sell products embodying the inventions to the "private field" (primarily radio broadcasters and other radio related uses).[80] Companies granted non-exclusive licenses were required to affix notices to products, informing purchasers that their use was limited to the private field.[81] Nevertheless, one company with a non-exclusive license knowingly sold products embodying the relevant patents to another company for use in the commercial field—with the purchaser aware that the manufacturer's license was limited to the private field.[82] Upon being sued for patent infringement, the purchasers asserted the first sale doctrine as a defense.[83] Because the evidence showed that both the seller and purchasers knew that the seller had a limited license to sell only to the private field, the Court held that there was no "authorized sale" and thus the first sale doctrine did not apply.[84] Significantly, the Court opined favorably on field of use restrictions in manufacturer licenses generally:

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not subject to the first sale doctrine. *See Gen. Elec. Co.,* 272 U.S. at 488, 491, 493; *see, e.g.,* Simpson v. Union Oil Co. of Cal., 377 U.S. 13, 22–23 (1964) (drawing parallel between the consignment arrangement upheld in *General Electric Co.* and the instant case); Franklin A, Gevurtz, *Vertical Restraints On Competition*, 54 AM. J. COMP. L. 357, 365 (2006) (citing *General Electric Co.* in support of the proposition that instructing agents on the price at which to sell goods is not a per se violation of antitrust law). Nevertheless, *General Electric* is a troubling case due to its broad language favoring patent holders' rights to restrict licenses generally under the patent laws. *See* Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 ALA. L. REV. 103, 106 (2008) (stating that the exception, created in *General Electric Co.,* to the "rule against price fixing in patent licenses" remains controversial); *Gen. Elec. Co.,* 272 U.S. at 489–90.

[79] *Gen. Talking Pictures Corp.,* 305 U.S. at 125–26.

[80] *Id.*

[81] *Id.* at 125–27.

[82] *Id.* at 125–26.

[83] *Id*. at 132.

[84] *Id*. at 125–26. "Transformer Company, knowing that it had not been licensed to manufacture or to sell amplifiers for use in theaters . . . made for that commercial use the amplifiers in controversy and sold them to Pictures Corporation for that commercial use . . . . [T]ransformer Company was guilty of an infringement . . . [a]nd as Pictures Corporation ordered, purchased and leased [the amplifiers] knowing the facts, it was also an infringer." *Id.* at 126.

> 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. *Bement* v. *National Harrow Co*., 186 U.S. 70, 93. *United States* v. *General Electric Co*., 272 U.S. 476, 489. There is here no attempt on the part of the patent owner to extend the scope of the monopoly beyond that contemplated by the patent statute.[85]

The last major Supreme Court case regarding the first sale doctrine was *United States v. Univis Lens Co.*.[86] *Univis Lens Co.* was an antitrust case involving a company's attempt to control retail prices of patented lenses via an intricate licensing strategy to wholesalers and retailers.[87] Defendant owned patents on finished optical eyeglass lenses, which were created by polishing and grinding lens blanks.[88] Via a wholly-owned subsidiary, Defendant sold unfinished lens blanks to designated, licensed wholesalers and retailers for a fixed fee per blank.[89] Licensees were required to sell the finished lenses at a fixed price.[90] The government challenged various aspects of Defendant's licensing strategy as unlawful under the antitrust laws, including the price restriction.[91] In response to Defendant's claims that that the price restraints were permitted by the patent, the government asserted the first sale doctrine.[92] The District Court determined that the first sale doctrine was inapplicable because the lenses could not be finished and made into eyeglasses without practicing Defendant's patent.[93] The Supreme Court reversed

[85] Gen. Talking Pictures Corp. v. W. Elec. Co., 304 U.S. 175, 181 (citing *Bement & Sons*, 186 U.S. at 93; *Gen. Elec. Co.*, 272 U.S. at 489) (citation omitted). It is worth noting that in dissent, Justice Black argued that precedent and policy go against allowing enforcement of such restrictions against purchasers who were not licensees, that the sale should have been subject to the first sale doctrine, and that any remedy should have been under contract law. *Id*. at 128 (Black, J., dissenting).

[86] 316 U.S. 241 (1942).

[87] *Id*. at 244, 252.

[88] *Id*. at 243–44.

[89] *Id*.

[90] *Id*. at 245.

[91] *Id*. at 242–43, 252.

[92] *See* 316 U.S. 241, 248-49 (1942).

[93] *Id* at 247. This was not challenged on appeal, so the Supreme Court assumed, "without deciding, that the patent is not fully practiced until the finishing licensee has ground and polished the blank so that it will serve its purpose as a lens." *Id*. at 248–49. The Court also assumed "that sale of the blanks by an unlicensed manufacturer to an unlicensed finisher for their completion would constitute contributory infringement by the seller." *Id*. at

and applied the first sale doctrine after finding that the lens blanks had no reasonable, non-infringing use and embodied the "essential features" of the patented lenses:

> [W]here one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article. The reward he has demanded and received is for the article and the invention which it embodies and which his vendee is to practice upon it. He has thus parted with his right to assert the patent monopoly with respect to it and is no longer free to control the price at which it may be sold either in its unfinished or finished form.[94]

B. The Federal Circuit's Conditional Sales Doctrine

The Federal Circuit Court of Appeals was established in 1982 "by the merger of the United States Court of Customs and Patent Appeals and the appellate division of the United States Court of Claims."[95] It was hoped by some that the creation of a new specialty Court of Appeals for patent issues would create more consistency and certainty in patent law.[96] Since its inception, the Federal Circuit has decided cases with the effect of strengthening rights of patentees and weakening the first sale doctrine.

Bandag, Inc. v. Al Bolser's Tire Stores, Inc.,[97] decided just two years into its inception, was the Federal Circuit's preliminary foray against the first sale doctrine. *Bandag* was a patent and trademark case involving retreading of rubber tires. The patent at issue involved Plaintiff's method patents for retreading rubber tires, which it claimed was being infringed by Defendant.[98] In a

249. The District court also held that the price restrictions on retailers whom purchased finished lenses violated the antitrust laws (which at the time prohibited retail price maintenance). *Id.* at 247.

[94] *Id*. at 249–51, 254. As for the retail price restriction, the Court affirmed the lower courts ruling of antitrust liability, because since the patent was exhausted, it "derives no support from the patent and must stand on the same footing under the Sherman Act as like stipulations with respect to unpatented commodities." *Id*. at 251–52.

[95] United States Court of Appeals for the Federal Circuit, About the Court, http://www.cafc.uscourts.gov/about.html (last visited Dec. 17, 2009).

[96] *See, e.g*., S. REP. No. 97-275, at 2 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 12.

[97] 750 F. 2d 903 (Fed. Cir. 1984).

[98] *Id.* at 906, 924.

short, unassuming manner, the Court summarily dismissed Defendant's first sale doctrine defense, holding that the doctrine was not applicable to method patents:

> The doctrine that the first sale by a patentee of an article embodying his invention exhausts his patent rights in that article is inapplicable here, because the claims of the Carver patent are directed to a "method of retreading" and cannot read on the equipment Bolser used in its cold process recapping.[99]

In *Mallinckrodt, Inc. v. Medipart, Inc.*,[100] the Federal Circuit directly assailed the first sale doctrine, interpreting established Supreme Court cases in a manner as to lessen its effectiveness and thereby permit patentees to control downstream use of articles embodying their inventions. *Mallinckrodt* involved an apparatus for the delivery of radioactive or therapeutic materials in aerosol mist form to the lungs of a patient, which was used for the diagnosis and treatment of pulmonary disease. [101] Plaintiff Mallinckrodt was the patentee and manufacturer of the apparatus, and sold it to hospitals directly. Plaintiff had inscribed "Single Use Only" on both the product and the package insert for the apparatus.[102] In addition, the package insert instructed users to dispose of the entire used product "in accordance with procedures for the disposal of biohazardous waste."[103] However, instead of disposing of the apparatus after use, hospitals sent the used product to Defendant Medipart, which had it sterilized, repackaged, and sent back to hospitals for reuse.[104] Mallinckrodt sued Medipart for patent infringement and for inducing infringement on the part of hospitals.[105] As part of its defense, Medipart asserted the first sale doctrine.[106] The District Court agreed, and citing Supreme Court cases including

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99 *Id.* at 924.

100 976 F.2d 700 (Fed Cir. 1992).

101 The apparatus consisted of "a unitary kit that consists of a 'nebulizer' which generates a mist of the radioactive material or the prescribed drug, a 'manifold' that directs the flow of oxygen or air and the active material, a filter, tubing, a mouthpiece, and a nose clip. In use, the radioactive material or drug is placed in the nebulizer, is atomized, and the patient inhales and exhales through the closed system. The device traps and retains any radioactive or other toxic material in the exhalate. The device fits into a lead-shielded container that is provided by Mallinckrodt to minimize exposure to radiation and for safe disposal after use." *Id*. at 702.

102 *Id*.

103 *Id*.

104 *Id*.

105 *Id.*

106 *Id.* at 703.

Straus and *Motion Picture Patents*, it held that the "Single Use Only" restriction could not be enforced by patent laws and that Defendant's conduct was permissible repair.[107] And while the District Court opined that there was some tension between the cited Supreme Court cases and language in *General Talking Pictures*, it found that the cases could be reconciled since the restriction in *General Talking Pictures* was limited to manufacturer licenses.[108] The Federal Circuit reversed, and established the Conditional Sales Doctrine, broadly permitting conditions on articles embodying patented inventions:

> [T]he rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the [patented] article, will be upheld by the courts."[109]

The Federal Circuit in *Mallinckrodt* presented four arguments in support of its new rule. First, it correctly noted that cases relied upon by the District Court did not expressly address whether the first sale doctrine applied to restricted or conditional transfers, but rather, dealt with transfers held to be unrestricted

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[107] Mallinckrodt, Inc., v. Medipart, Inc., 15 U.S.P.Q.2d 1113, 1116-1119 (N.D. Ill. 1990) (citing Straus v. Victor Talking Mach. Co., 243 U.S. 490 (1917); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917)), *rev'd*, 976 F.2d 700 (Fed. Cir. 1992).

[108] *Id.* at 1118 (citing United States v. Gen. Elec. Co. 272 U.S. 476, 489–490 (1992); Munters Corp. v. Burgess Indus. Inc., 450 F. Supp 1195, 1200–1203 (1977); Adams v. Burke, 84 U.S. 453 (1873)) ("In sum, *General Talking Pictures* stands only for the rather limited proposition that where a patent owner licenses a manufacturer to make his patented invention the patent owner can validly restrict that *manufacturing licensee's* use of the invention and enforce the restriction under the patent laws. (citations omitted). But *General Talking Pictures* does *not* stand for the broader proposition that express restrictions are per se valid, bind *purchasers*, and can be enforced by suits for infringement. The case is distinguishable from this case and from any situation where the purchaser buys directly from the patent owner, rather than through a manufacturing licensee, *see* Munters Corp. v. Burgess Indus. Inc., 450 F. Supp. 1195, 1200–1203 [194 USPQ 146] (1977) (distinguishing *General Talking Pictures* on precisely this basis); U.S. v. G.E., 272 U.S. at 489–90, and also from the situation where licensees manufacture and sell, thinking the devices they are selling are destined for an authorized use, but the purchaser nevertheless uses the device in an unauthorized manner. Thus, the holding in *General Talking Pictures* does not disturb the holdings in earlier cases, from *Adams v. Burke* forward, that restrictions on future use, even express ones, are not enforceable against purchasers because patent owners exhaust their rights when they sell.").

[109] *Mallinckrodt*, 976 F.2d at 703, 709 (quoting *E. Bement & Sons*, 186 U.S. at 91).

and "authorized."[110] Second, it maintained that Supreme Court precedent did not expressly proscribe conditional or restricted transfers as being inconsistent with the first sale doctrine.[111] Third, it cited cases like *Mitchell* and *Bement* (and *American Cotton-Tie Co. v. Simmons*[112] that did not even consider the first sale doctrine), as providing support for its new rule on conditional sales.[113] And fourth, it held that the District Court erred in limiting *General Talking Pictures* to manufacturer licenses, rather than as broader support for use restrictions generally.[114] The Federal Circuit's analysis in *Mallinckrodt* is unsatisfactory at best, relying more on the lack of clarity in the law than any legal or policy analysis. Particularly troubling was that the opinion allowed the patentee to abrogate downstream purchasers' right of repair—a right protected by patent law[115]—via a simple "single use" notice on the product and package insert.[116]

The final decision in the Federal Circuit's Conditional Sales

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[110] *Id.* at 705–06 ("In support of its ruling, the district court also cited a group of cases in which the Court considered and affirmed the basic principles that unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device; and that the sale of patented goods, like other goods, can be conditioned. The principle of exhaustion of the patent right did not turn a conditional sale into an unconditional one.").

[111] *Id.* at 708 ("*Adams v. Burke* and its kindred cases do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article. It was error for the district court to derive that proposition from the precedent.").

[112] 106 U.S. 89, 89–90, 94–95 (1882) (involving patents for improvements in metallic cotton-bale ties. The sole issue was whether the patent was infringed. The first sale doctrine was never raised as a defense.).

[113] *Mallinckrodt*, 976 F.2d at 703, 707–08 (citing *Mitchell*, 83 U.S. at 548 (1873); *E. Bement & Sons*, 186 U.S. at 91).

[114] *Mallinckrodt*, 976 F.2d at 705 ("However, in *General Talking Pictures* the Court did not hold that there must be an intervening manufacturing licensee before the patent can be enforced against a purchaser with notice of the restriction. The Court did not decide the situation where the patentee was the manufacturer and the device reached a purchaser in ordinary channels of trade. The UltraVent device was manufactured by the patentee; but the sale to the hospitals was the first sale and was with notice of the restriction. Medipart offers neither law, public policy, nor logic, for the proposition that the enforceability of a restriction to a particular use is determined by whether the purchaser acquired the device from a manufacturing licensee or from a manufacturing patentee. We decline to make a distinction for which there appears to be no foundation. Indeed, Mallinckrodt has pointed out how easily such a criterion could be circumvented.").

[115] *See, e.g.,* Jazz Photo Corp. v. ITC, 264 F.3d 1094, 1102–05, 1108–09 (Fed. Cir. 2001) (summarizing the right of repair under patent law).

[116] *Mallinckrodt*, 976 F.3d at 709.

Doctrine trilogy is *B. Braun Medical, Inc. v. Abbott Labs*.[117] *Braun* concerned a patent:

> [G]enerally directed to a reflux valve that attaches to an intravenous (IV) line and permits injection or aspiration of fluids by means of a needle-less syringe. This type of valve provides safety benefits to health care professionals by reducing the risk of needlestick injuries, which might transmit blood-borne pathogens. Since 1987, Braun had sold an embodiment of the patented reflux valve under the commercial name SafSite ®.[118]

Defendants created a similar valve, and were sued by Braun for patent infringement. A jury found non-infringement and patent misuse by Braun due to its restrictions on resale and use of its valve.[119] Relying on *Mallinckrodt*, the Federal Circuit vacated the jury's patent misuse finding because the court held that the jury instructions failed to properly apply *Mallinckrodt*:[120]

> The resolution of this issue is governed by our precedent in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 24 USPQ2D 1173 (Fed. Cir. 1992). In that case, we canvassed precedent concerning the legality of restrictions placed upon the post-sale use of patented goods. As a general matter, we explained that an unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter . . . . This exhaustion doctrine, however, does not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the "use" rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld. . . Because the district court improperly instructed the jury that it must find Braun guilty of patent misuse if Braun placed *any* use restrictions on its sales of the SafSite ® valves, rather than instructing the jury pursuant to the *Mallinckrodt* framework, we remand the case for further proceedings.[121]

[117] 124 F.3d 1419 (Fed. Cir. 1997).

[118] *Id.* at 1421.

[119] *Id.* at 1425–26.

[120] *Id***.** at 1426. The jury instructions provided: "[A] patent holder is not allowed to place restrictions on customers which prohibit resale of the patented product, or allow the customer to resell the patented product only in connection with certain products . . . . If you find, by a preponderance of the evidence, that Braun placed such restrictions on its customers, including Abbott, you *must* find that Braun is guilty of patent misuse." *Id*.

[121] *Id*. (citing Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992))**.**

Despite being fairly controversial,[122] the Conditional Sales Doctrine announced by *Mallinckrodt* and refined by *Braun* has been followed by later Federal Circuit cases and other federal courts to the point that by the time of *Quanta,* it was fairly well established.[123]

IV. *QUANTA* & ITS EFFECT

This section discusses the *Quanta* decision and its likely effects.

A. The Quanta Decision

Quanta involved a patent infringement suit by LG Electronics ("LGE"), the owner of various component and method patents pertaining to transfer and management of memory on a computer.[124] Generally, the patents related to a means of transferring, retrieving and managing data from (and between) a computer's various memory sources.[125] Of particular relevance

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[122] For a critique of the conditional sales doctrine, *see e.g.*, Ghosh , *supra* note 4, at 1220, 1229–30, 1235–36; Ritchie, *supra* note 37, at 147–49; Patterson, *supra* note 4, at 168-71; Richard H. Stern*, Post-Sale Restrictions After* Mallinckrodt – *An Idea in Search of Definition*, 5 ALB. L.J. SCI .& TECH. 1, 51–52 (1994); James B. Kobak, Jr., *Contracting Around Exhaustion: Some Thoughts About the CAFC's* Mallinckrodt *Decision*, 75 J. PAT. & TRADEMARK OFF. SOC'Y 550, 562, 564–65 (1993).

[123] LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 1369 (Fed. Cir. 2006), *rev'd by* 128 S. Ct. 2109 (2008); Monsanto Co. v. Scruggs, 459 F.3d 1328, 1336 (Fed. Cir. 2006); Ariz. Cartridge Remanufacturers Ass'n v. Lexmark Int'l, Inc., 421 F.3d 981, 986–87 (9th Cir. 2005) (quoting *B. Braun Med.*, 124 F.3d at 1426 (Fed. Cir. 1997)); TransCore, LP v. Elec. Transaction Consultants Corp., No.3:05-CV-2316-K, 2008 U.S. Dist. LEXIS 41812, at *12 (N.D. Tex. May 22, 2008) (citing *B. Braun Med.*, 124 F.3d at 1426); Boston Scientific Corp. v. Johnson & Johnson, 534 F. Supp. 2d 1062, 1077 (N.D. Cal. 2007); Massachusetts Inst. of Tech. v. Imclone Sys., Inc., No. 04-CV-10884-RGS, 2006 U.S. Dist. LEXIS 52600, at *4 (D. Mass. July 28, 2006) (quoting *B. Braun Med.*, 124 F.3d at 1426); Schofield v. United States Steel Corp., No. 2:04-CV-520-PRC, 2006 U.S. Dist. LEXIS 39605, at *31 (N.D. Ind. Mar. 31, 2006); United States Surgical Corp. v. Orris, Inc., 5 F. Supp. 2d 1201, 1205 (D. Kan. 1998) (quoting *B. Braun Med*., 124 F.3d at 1426).

[124] *Quanta,* 128 S. Ct. at 2113.

[125] *Id*. at 2113–14.(citations omitted) (summarizing the relevant patents: "The data processed by the computer are stored principally in random access memory, also called main memory. Frequently accessed data are generally stored in cache memory, which permits faster access than main memory and is often located on the microprocessor itself. When copies of data are stored in both the cache and main memory, problems may arise when one copy is changed but the other still contains the original 'stale' version of the data. The '641 patent addresses this problem. It discloses a system for ensuring that the

were method patents that would be practiced if components embodying LGE's patented technology were combined with other components.[126] LGE devised a licensing strategy for these patents, whereby it obtained separate royalties from manufacturers on different levels on the distribution chain for computer products.[127] Thus, rather than negotiate a broad license with manufacturers that practiced its patents or sold its patented components, LGE sought to collect royalties for its components and method patents from each purchaser of products embodying its patented inventions.[128]

Intel Corporation ("Intel") manufactures microprocessors and chipsets which it sells to manufacturers of end products, including computer manufacturers like Quanta. Intel and LGE negotiated a broad license concerning all component and method patents, even though Intel did not practice the method patents.[129]

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most current data are retrieved from main memory by monitoring data requests and updating main memory from the cache when stale data are requested. The '379 patent relates to the coordination of requests to read from, and write to, main memory. Processing these requests in chronological order can slow down a system because read requests are faster to execute than write requests. Processing all read requests first ensures speedy access, but may result in the retrieval of outdated data if a read request for a certain piece of data is processed before an outstanding write request for the same data. The '379 patent discloses an efficient method of organizing read and write requests while maintaining accuracy by allowing the computer to execute only read requests until it needs data for which there is an outstanding write request. Upon receiving such a read request, the computer executes pending write requests first and only then returns to the read requests so that the most up-to-date data are retrieved.

The '733 patent addresses the problem of managing the data traffic on a bus connecting two computer components, so that no one device monopolizes the bus. It allows multiple devices to share the bus, giving heavy users greater access. This patent describes methods that establish a rotating priority system under which each device alternately has priority access to the bus for a preset number of cycles and heavier users can maintain priority for more cycles without 'hogging' the device indefinitely.").

[126] *Id*. at 2113–14, 2117.

[127] *Id*. at 2114; Brief of E Papst Licensing GMBH & Co. KG as Amicus Curiae Supporting Plaintiff-Appellant, LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 13 (Fed. Cir. 2005) (No. 05-1261).

[128] *Quanta*, 128 S. Ct. at 2121; Brief of E Papst Licensing GMBH & Co. KG as Amicus Curiae, *supra* note 127, at 13.

[129] LG Elecs. v. Asustek Computer, Inc., 248 F. Supp. 2d 912, 914 (N.D. Cal. 2003), *rev'd by* Quanta Computer, Inc., v. LG Elec., Inc., 128 S. Ct. 2109 (2008). Practicing LGE's method patents required combining the patented components with other components, which Intel did not do. *Quanta*, 128 S. Ct. at 2114; *LG Elecs*., 248 F. Supp. 2d at 918 (finding that practicing the patent requires combining LGE's products with other products).

According to the license, Intel had the unrestricted right to "'make, use, sell (directly or indirectly), offer to sell, import, or otherwise dispose of' its own products practicing the LGE patents."[130] However, the license expressly provided that it did not grant any rights to third parties, including purchasers of Intel products.[131] The license agreement also included a clause that expressly provided that the agreement did not intend to alter the first sale doctrine. [132]

In addition to the license agreement, Intel and LGE entered into a separate "Master Agreement," wherein Intel agreed to provide written notice to its customers informing them that although Intel had obtained a broad license "'ensur[ing] that any Intel product that you purchase is licensed by LGE and thus does not infringe any patent held by LGE,' the license 'does not extend, expressly or by implication, to any product that you make by combining an Intel product with any non-Intel product.'"[133] However, the Master Agreement expressly provided that "a breach of this Agreement shall have no effect on and shall not be grounds for termination of the Patent License."[134] The reason for this provision appeared to be LGE's efforts to obtain royalties from different manufacturers along the distribution chain. Consequently, although Intel had a license to practice *any* of the LGE patents—even those it did not practice—purchasers of Intel products were not necessarily covered; and if they sought to use the Intel components in combination with any non-Intel components, they were required to obtain licenses from LGE or face a potential infringement action.[135]

Quanta purchased Intel microprocessors and chipsets for use in its products. In manufacturing its computers, Quanta combined Intel components with non-Intel components in a

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130 *Quanta,* 128 S. Ct. at 2114.

131 Specifically, the license provided that no license "is granted by either party hereto . . . to any third party for the combination by a third party of Licensed Products of either party with items, components, or the like acquired . . . from sources other than a party hereto, or for the use, import, offer for sale or sale of such combination." *Id*.

132 The license provided that "[n]otwithstanding anything to the contrary contained in this Agreement, the parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products." *Id*.

133 *Id*. (citation omitted).

134 Quanta Computer, Inc., v. LG Elec., Inc., 128 S. Ct. 2109, 2114 (2008).

135 *Id.* at 2114–15.

manner that practiced LGE's method patents.[136] LGE brought an infringement action against Quanta and various other computer manufactures, asserting that its method patents were infringed.[137] Quanta maintained, and the District Court agreed, that LGE's patents were exhausted under the first sale doctrine.[138] Relying on *Braun*, the Federal Circuit reversed, holding that the first sale doctrine was not applicable because the sale to Intel was restricted (and thus not an "authorized sale"), and because method patents were not subject to the doctrine.[139]

In reversing, the Supreme Court made two important holdings with the effect of reaffirming and strengthening the first sale doctrine. First, the court expressly and unequivocally held that the first sale doctrine applies to method patents.[140] Although the Court's explanation was somewhat cryptic (including whether this was an expansion of the doctrine or consistent with precedent), it justified the holding based on a concern that otherwise, the first sale doctrine would be undermined:

> Eliminating exhaustion for method patents would seriously undermine the exhaustion doctrine. Patentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus . . . This case illustrates the danger of allowing such an end-run around exhaustion. On LGE's theory, although Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could nonetheless be liable

[136] *Id*. at 2114.

[137] *Id.* Note that LGE conceded that its component patents, which were embodied in Intel processors and chipsets, were subject to the first sale doctrine due to the authorized sale from Intel to Quanta. *See* Transcript of Oral Argument, *Quanta*, 128 S. Ct. 2109, 32–33, 47 (No. 06-937). However, it argued that the method patents were separate and distinct, and they were not subject to the first sale doctrine for various reasons, *i.e.*, the first sale doctrine did not apply to method patents, Intel did not have right to license the method patents to Quanta, and as Intel not practice the method patents, sale of the components could not exhaust the method patents. *Id*. at *41–47.

[138] *Quanta,* 128 S. Ct. at 2114–15; LG Elecs., Inc. v. Asustek Computer, Inc., 65 U.S.P.Q. 2d 1589, 1593 (N.D. Cal. 2002).

[139] *Bizcom*, 453 F.3d at 1370, 1377. The claimed license restriction was that Intel did not have the right to transfer any rights to purchasers. Thus while Intel had the right to *practice* LGE's patents, it did not have the right to *transfer* those rights. *See Quanta*, 128 S. Ct. at 2114; *see also* Transcript of Oral Argument, *supra* note 137, at 41–47 (arguing that Intel lacked authority to allow downstream purchasers to insert the licensed chips into separately patented systems).

[140] Quanta Computer, Inc., v. LG Elec., Inc., 128 S. Ct. 2109, 2117 (2008).

> for patent infringement. Such a result would violate the longstanding principle that, when a patented item is "once lawfully made and sold, there is no restriction on [its] *use* to be implied for the benefit of the patentee."[141]

Second, citing *Univis*, the Court applied the first sale doctrine to LGE's method patents, after finding that Intel had an unrestricted right to sell the components and that the components embodied the essential features of LGE's method patents.[142] In doing so, the Court rejected LGE's efforts to distinguish *Univis*.[143] While the Court agreed that generally, an authorized sale of a component will not exhaust all separate, related method patents, it did so in this case for two reasons.[144] First, the Court found that the sale from Intel to Quanta was an "authorized sale" because Intel had an unrestricted right to sell the LGE components:

> LGE overlooks important aspects of the structure of the Intel-LGE transaction. Nothing in the License Agreement restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts. It broadly permits Intel to 'make, use, [or] sell' products free of LGE's patent claims. To be sure, LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents. But neither party contends that Intel breached the agreement in that respect. In any event, the provision requiring notice to Quanta appeared only in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement. Hence, Intel's authority to sell its products embodying the LGE Patents was not conditioned on the notice or on Quanta's decision to abide by LGE's directions in that notice.[145] (Emphasis added)

Second, the authorized sale of the Intel components exhausted

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[141] *Id*. at 2117–18 (quoting *Adams*, 84 U.S. at 457).

[142] *Quanta*, 128 S. Ct. at 2120–21.

[143] *Id*. at 2120. First, LGE argued that *Univis* was inapplicable because unlike here, it only involved product patents and not separate component and method patents. *Id*. at 2117–18. Thus, according to LGE, unlike in *Univis*, while Intel's sale to Quanta may have exhausted any patent rights in the component, it did not exhaust the separate and distinct rights in the method patents. *Id*. at 2117. Second, LGE argued that practicing its patents required adding additional components to the Intel processor and chipsets—which was not addressed in *Univis*, and unlike the simple lens in *Univis,* is very common in technology goods involving hundreds of components. *Id*. at 2118–19.

[144] *Id*. at 2120–22.

[145] Quanta Computer, Inc., v. LG Elec., Inc., 128 S. Ct. 2109, 2121–22 (2008) (citations omitted).

LGE's related method patents because as in *Univis*, the additional steps necessary to practice LGE's method patents – adding "standard components" to the Intel components—were "common and noninventive."[146] In other words, the Court found that the Intel components "embody the essential features of the LGE Patents because they carry out all the inventive processes."[147] To summarize, the Court held that the first sale doctrine was applicable to the method patents because: (i) the essence of LGE's inventions were embodied in the Intel components; (ii) the Intel components had no reasonable non-infringing use; and (iii) the Intel license essentially required Quanta to practice the LGE method patents, by providing exact specification for how to incorporate the Intel products into its computers.[148]

B. Interpretation of Quanta

In *Quanta*, the Supreme Court unanimously reaffirmed the underlying policies of the first sale doctrine, if not strengthened its application.[149] However, it is not clear how expansively lower courts will interpret the decision, as evidenced by the few

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[146] *Id*. at 2120.

[147] *Id*.

[148] *Id*. at 2119, 2121–22, 2120 ("The Intel Products were specifically designed to function only when memory or buses are attached; Quanta was not required to make any creative or inventive decision when it added those parts. Indeed, Quanta had no alternative but to follow Intel's specifications in incorporating the Intel Products into its computers because it did not know their internal structure, which Intel guards as a trade secret. Intel all but practiced the patent itself by designing its products to practice the patents, lacking only the addition of standard parts.") (citation omitted).

[149] Some have argued that in *Quanta* the Court expanded or strengthened the first sale doctrine. *See, e.g.*, Harold C. Wegner, *Post-*Quanta*, Post-Sale Patentee Controls*, 7 J. MARSHALL REV. INTELL. PROP. L. 682, 691 (2008) ("The Court restated the law of patent exhaustion in a manner to overrule both *Bandag* and *B. Braun*; it further expanded the doctrine of patent exhaustion insofar as post-*Quanta*, patent exhaustion now more broadly covers exhaustion of patents *not recited in the license* as well as the practice of technology that does not infringe any patent, but which can only be used in a manner by customers that would infringe a patent."); *Static Control*, 615 F. Supp. 2d. at 582–83 ("*Quanta* itself reaffirms the Supreme Court's articulation of the doctrine of patent exhaustion as set forth in the cases discussed in the previous section. It represents a change in the law, however, because the Court reasserted a broad understanding of patent exhaustion in the face of Federal Circuit case law that had narrowed the scope of the doctrine. That Federal Circuit case law had been followed as binding precedent by the district courts, including this one.").

published lower court's opinions to date. First, the *Quanta* opinion left unanswered the continuing validity of the Conditional Sales Doctrine. In fact, the Court's opinion never even cited any of the aforementioned Federal Circuit cases. And because neither LGE nor Quanta challenged the validity of *Mallinckrodt* and its progeny,[150] and since the Court found that Intel made an unrestricted, "authorized sale" of microprocessors and chipsets to Quanta, it was not required to address the Conditional Sales Doctrine.[151] While some have argued (and at least one Court agreed) that *Quanta* overruled *Mallinckrodt, sub silentio,* there is no consensus and thus it may be too early to be predicting *Mallinckrodt's* demise.[152]

[150] While Quanta did challenge *Mallinckrodt* and its progeny, it was more of a collateral attack, as Quanta did not believe that overruling those cases was required for a successful defense. Rather, Quanta argued that since Intel had an *unrestricted* license to make, use, and sell, the Conditional Sales Doctrine was not invoked. *See generally* Initial Brief of Appellant-Petitioner, *supra* note 4, at 30–32, 35–45. For its part, LGE did not defend *Mallinckrodt*, but rather rested its defense on distinguishing *Univis* and citing to Supreme Court cases that permitted conditions and restrictions on sales of patented products. *See* Transcript of Oral Argument, *supra* note 137, at 32; Initial Brief of Respondent-Appellee, *supra* note 15, at 35–45.

[151] *Quanta,* 128 S. Ct. 2109, 2122 (2008). Unlike the Federal Circuit, the Supreme Court's decision did not address whether the LGE–Intel license was an "authorized sale." In its opinion, the Federal Circuit held that *both* the license from LGE to Intel and the sale from Intel to Quanta were "authorized sales" for purposes of exhaustion. *Bizcom*, 453 F.3d. at 1370. Because the Supreme Court did not address whether the first sale doctrine applied to the LGE–Intel license, this part of the Federal Circuit's decision may still be valid. *See* LG Elecs., Inc. v. Hitachi Ltd., No. C 07-6511 CW, 2009 U.S. Dist. LEXIS 20457, at *31–32 (D. Cal. March 13, 2009) (relying on the Federal Circuit's decision that exhaustion applied to the Intel-LGE license).

[152] *See* Wegner, *supra* note 149, at 695 (arguing the Court was correct in not addressing whether *Mallinckrodt* was good law); Kieff, *supra* note 14, at 323, 325 (describing the *Quanta* opinion as anti-contract, in contrast to the *Mallinkrodt* opinion that upheld a license restriction as long as its terms did not violate general contract rules); Christopher Holman, Holman's Biotech Blog, http://holmansbiotechipblog.blogspot.com/2008_06_01_archive.html (June 23, 2008, 14:57 EST) (stating that *Quanta* "appears to cut the doctrinal footing out from under the Federal Circuit with respect to *Mallinckrodt*"*)*; *Static Control*, 615 F. Supp. 2d at 585–86 ("After reviewing *Quanta*, *Mallinckrodt,* and the parties' arguments, this Court is persuaded that *Quanta* overruled *Mallinckrodt sub silentio*"). *See also Hitachi Ltd.*, 2009 U.S.Dist LEXIS at *22–24 (citing *Quanta* to justify application of the first sale doctrine to "authorized foreign sales"). *But see* Monsanto Co. v. Scruggs Farm & Supplies, LLC, No. 3:00CV-161-P-D, 2009 U.S. Dist. LEXIS 20829 at *5–6 (Fed. Cir. March 3, 2009) (denying a Motion for Reconsideration on patent exhaustion because "the Quanta decision in no way undermines the basis for the Federal Circuit's holding on the issue of patent exhaustion."). The rationale for the implicit overruling is that *Mallinckrodt* relied on a narrow interpretation of *Univis* that

Even assuming, *arguendo,* that the Conditional Sale Doctrine is still valid, *Quanta* raises questions concerning how it should be applied. Much of the criticism of *Mallinckrodt* and the Conditional Sales Doctrine is that courts have been too deferential of restrictions imposed against purchasers of products embodying patented inventions.[153] Since the first sale doctrine is a substantive rule of patent law—as *Quanta* reaffirms—*Mallinckrodt's* test of whether a restriction is "reasonably within . . . the scope of the patent,"[154] seems inadequate, as evaluating patent rights should include ascertaining whether the patents were exhausted.[155] Indeed, *Mallinckrodt's* test may be more suited for antitrust or misuse assessment, and post-*Quanta*, it is probably best to confine it to those areas. While *Quanta* does not address this directly (and indeed the Court provides little guidance on how its new test should be applied), given that it was a unanimous decision and the most recent of several cases reigning in the Federal Circuit's pro-patentee jurisprudence, an expansive interpretation of the case is not without merit.

Second, some may attempt to limit *Quanta* by its particular, complex factual scenario: (i) a case with separate method and component patents; (ii) involving a downstream end user which purchased the components and followed the seller's specifications in their use (resulting in infringement of the method patents); (iii) where there was no other reasonable, non-infringing use for components but to practice the method patents; (iv) where the inventive aspect was in the component; and (v) where the patentee likely obtained the full value of its patent.[156] Accordingly, at the most technical level, if all of these facts are

is not consistent with the Supreme Court's interpretation of *Univis* as discussed in *Quanta*.

[153] *See, e.g.*, Patterson, *supra* note 4, at 170–71; Stern, *supra* note 122, at 4–5.

[154] *Mallinckrodt*, 976 F.2d at 708.

[155] This was pointed out in the government's amicus brief. *See* Brief for the United States as Amicus Curiae , *supra* note 23, at 26.

[156] While the opinion does not address whether the Court believed that LGE was able to obtain the "full value" of its patents, the issue was addressed in various briefs. Moreover, the Court's opinion suggests that it believed the licensing strategy was an effort by LGE to obtain royalties at various levels of the distribution chain. *See* Brief of Respondent, *supra* note 15, at 18–19, 27, 31–32, 36–37, 51; Reply Brief for Petitioners at 2–4, 8–9, 20–21, *Quanta*, No. 06-937 (U.S. Dec. 28, 2007). *See also Quanta*, 128 S. Ct. at 2116 (stating that in previous decisions the Court had held that patent laws are not designed to create fortunes for those who own patents).

not present, there is an argument that *Quanta* may not control, *e.g.*, in cases where a component has a reasonable, non-infringing use, or where it appears that a patentee cannot get its "full value" from the initial transfer.

Third, the Court's application of the first sale doctrine in *Quanta*—referred to by some as the "substantial embodiment" test—is less than clear. While the essence of the test appears to be whether a method patent is an "inventive process" in its own right (separate and apart from the component),[157] the Court provided little guidance.[158] While some have argued that "substantial embodiment" essentially requires that the method patent be "patentably indistinct" (as that term is defined in patent jurisprudence),[159] others have criticized the test as confusing, and inconsistent with other areas of patent law.[160]

To date, only a few cases have applied *Quanta*. As of August 2009, a search found only four published opinions that have applied the decision substantively—only one being from a federal appellate court. While it would be a mistake to make too much from a few opinions, these courts' divergent interpretations of *Quanta* may foreshadow the difficulties that lower courts may have in applying the decision. In *Static Control Components, Inc. v. Lexmark International, Inc.*, the District Court found that "*Quanta* has changed the landscape of the doctrine of patent exhaustion[,] . . . "and it was thereby compelled to reconsider and reverse its previous order granting summary judgment on behalf of a patentee.[161] *Lexmark* concerned a patent infringement suit by a manufacturer of patented printer toner cartridges against a remanufacture of used toner cartridges.[162] The suit concerned

157 *Quanta*, 128 S.Ct at 2120.

158 One District Court has interpreted the test as follows: "Substantial embodiment will be found where the item has no reasonable, non-infringing use and includes all essential, or inventive, aspects of the patent claims." Acco Brands, Inc. v. PC Guardian Anti-Theft Products, No. C 04-03526 SI, 2008 U.S. Dist. LEXIS 68441 *7 (N.D. Cal. Aug. 21, 2008).

159 John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH L.J. 643, 673–74.

160 *See, e.g.*, Kieff, *supra* note 14, at 315, 320, 329–330 (arguing that the Quanta decision "may make it significantly more difficult to structure transactions involving patents"); Holman, *supra* note 152 (foreseeing difficulty in the application of the "substantially embodied" standard).

161 615 F. Supp. 2d 575, 577 (E.D. Ky. 2009), *vacated on motion for reconsideration under Quanta*, 487 F. Supp. 2d 830, 847–48 (E.D. Ky. 2007).

162 "The remanufacturers take used toner cartridges, repair them, refill the toner, et cetera, and resell the cartridges to end-user consumers." 615 F. Supp.

Plaintiff's "single-use" toner cartridge program, wherein consumers would buy discounted toner cartridges in exchange for an agreement to only use the cartridge once.[163] The Plaintiff, which placed the restriction on the toner cartridge and the packaging, claimed that the single-use restriction was a condition of the patent license. Plaintiff sued Defendant for selling used and refilled toner cartridges, asserting that violation of the restriction constituted patent infringement.[164] Based on Federal Circuit law, the District Court granted summary judgment to Plaintiffs, holding that the single-use restriction prevented application of the first sale doctrine.[165] However, in March 2009, holding that *Quanta* overruled *Mallinckrodt*, the District Court granted Defendant's Motion for Reconsider and held that Plaintiff's patents on the toner cartridges were exhausted and the single-use restrictions unenforceable under patent law.[166]

In contrast, in *Monsanto v. Scruggs*, the District Court found *Quanta* to be "unremarkable" and limited, and thereby declined to grant a motion to reconsider the court's denial of summary judgment on Defendant's first sale doctrine defense.[167] *Scruggs* concerned patents relating to genetically modified seeds.[168] Plaintiff licensed its patents to seed companies to develop herbicide resistance.[169] The license contained various restrictions including that the seeds only be sold to growers who signed a

2d at 577.

[163] *Lexmark*, 487 F. Supp. 2d at 836. Consumers also agreed to return empty cartridges to Plaintiff, although it is not clear how often this happened. *Id.*

[164] *Id.* at 836, 842.

[165] *Id.* at 847–48, 860.

[166] *Lexmark*, 615 F. Supp. 2d at 585, 588.

[167] No. 3:00CV-161-P-D, 2009 U.S. Dist. LEXIS 20829, at *4–6 (N.D. Miss. Mar. 3, 2009).

[168] The case involved U.S. Patent No. 5,352,605 ("the '605 patent") owned by Plaintiff Monsanto:

> [W]hich is directed toward insertion of a synthetic gene consisting of a 35S cauliflower mosaic virus ("CaMV") promoter, a protein sequence of interest, and a stop signal, into plant DNA to create herbicide resistance . . . . Monsanto used the technology in the '605 patent to develop glyphosate herbicide resistant soybeans and cotton, sold as Roundup Ready (R) soybeans and cotton. One of the glyphosate herbicides to which the Roundup Ready (R) plants are resistant is Roundup, which is also sold by Monsanto. Monsanto used the '605 patent in combination with the McPherson patents to develop stacked trait cotton . . . , which is resistant to glyphosate herbicide and certain insects.

Monsanto Co. v. Scruggs, 459 F.3d 1328, 1332–33 (Fed. Cir. 2006).

[169] *Id.* at 1332–33.

license with Plaintiff.[170] The license agreement with growers had numerous restrictions as well, including that seeds would only be used to grow a single commercial crop.[171] Defendant was a farmer who purchased the seeds without signing a license, and replanted second generation seeds in violation of the license agreement.[172] Citing *Mallinckrodt,* the District Court granted summary judgment for Plaintiff, finding that the restrictions prevented application of the first sale doctrine.[173] Unlike *Lexmark*, in evaluating the effect of *Quanta* on Defendant's Motion for Reconsideration, the District Court found that "the *Quanta* decision in no way undermines the basis for the Federal Circuit's holding on the issue of patent exhaustion."[174] However, acknowledging "the wealth of persuasive authority which posits the opposite conclusion, e.g., that *Quanta's* holding on the doctrine of patent exhaustion is a substantial limitation on the rights of patent holders", the court permitted Defendants to seek an interlocutory appeal.[175]

The third opinion, *LG Electronics v. Hitachi LTD*, has essentially the same facts as *Quanta,* with LGE alleging that Hitachi infringed the same patents that were involved in *Quanta*.[176] Applying *Quanta*, the court held that the patents were exhausted.[177] The decision made two other holdings that are noteworthy. First, it applied the rule in *Quanta* to authorized foreign sales of products embodying LGE's patents, even though it acknowledged that the Supreme Court's decision did not expressly address foreign sales.[178] The court justified its application of *Quanta* to foreign sales by focusing on the policy concerns articulated by the Supreme Court in its decision:

> Accepting LGE's argument that authorized foreign sales do not exhaust a patentee's rights would permit the type of "end-run around exhaustion' disapproved in *Quanta*, because "any

[170] *Id.* at 1333.
[171] *Id*.
[172] *Id*.
[173] Monsanto Co. v. Scruggs, 342 F. Supp. 2d 584, 599 (N.D. Miss. 2004), *aff'd*, 459 F.3d 1328 (Fed. Cir. 2006).
[174] Monsanto Co. v. Scruggs, No. 3:00CV-161-P-D, 2009 U.S. Dist. LEXIS 20829, at *5 (N.D. Miss. Mar. 3, 2009).
[175] *Id*. at *6.
[176] *See* No. C 07-6511 CW, 2009 U.S. Dist. LEXIS 20457, at *4 (N.D. Cal. Mar. 13, 2009), *see also* Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2113 (U.S. 2008).
[177] *LG Elecs.*, 2009 U.S. Dist. LEXIS 20457, at *33.
[178] *Id.* at *22–23, *31.

downstream purchaser" of an Hitachi product could be liable for infringement even though the product had been "once lawfully made and sold" pursuant to the license agreement between LGE and Intel.[179]

Second, after finding that LGE received its reward for its patented methods via its license with Intel, and relying on the Federal Circuit's holding in *Quanta (sub nom BizCom)*, the court applied the first sale doctrine to the LGE–Intel license, rather than the sale of the product.[180]

Finally, the most recent opinion was from the Federal Circuit itself, where the court indirectly applied *Quanta*. In *Transcore v. Electronic Transaction Consultants Corp.*, the Federal Circuit held that a sale authorized by an unrestricted covenant not to sue was an "authorize[d]" sale for purposes of the first sale doctrine.[181] *Transcore* involved a patent infringement suit against a downstream purchaser of products embodying patents on automatic toll road collection systems (*e.g.*, E-ZPass).[182] Prior litigation between the patentee and a manufacturer of products embodying the patents resulted in a settlement, wherein the patentee agreed to payments in exchange for granting the manufacturer an unconditional covenant not to sue.[183] After the settlement of that litigation, the manufacturer sold products embodying the patents to the Defendant in *Transcore*, whose use of the products led to patentee's infringement suit.[184] The Federal Circuit affirmed summary judgment on behalf of the defendant, based on three factors. First, citing *Quanta*, the court interpreted the settlement broadly as authorizing all acts that would otherwise constitute infringement, including unrestricted sales of products embodying the patents.[185] Second, the court rejected the patentee's efforts to argue how the parties intended

[179] *Id*. at *24.

[180] *Id*. at *32–33 ("LGE received its reward for the use of its patented methods, in the form of a payment and a cross-license, when it entered into the license agreement with Intel . . . . Here, the reward occurred when LGE licensed its patents to Intel; it did not receive a reward when the articles that embodied those patents were sold from LGE to Intel."). According to the court, because the Federal Circuit's opinion found two authorized sales—the LGE-Intel license and the Intel-Quanta sale—and because the Supreme Court's decision in *Quanta* only addressed the latter, it was still bound by Federal Circuit law that the LGE-Intel license was an "authorized sale." *Id*.

[181] 563 F.3d 1271, 1274 (Fed. Cir. 2009).

[182] *Id.* at 1273.

[183] *Id*.

[184] *Id.*

[185] *Id.* at 1276–77.

the settlement to impact downstream customers, interpreting *Quanta* as making such consideration irrelevant for purposes of the first sale doctrine.[186] And third, the court cited precedent that equated a covenant not to sue with a non-exclusive license.[187] Based on those considerations, the court held that the sale from the manufacture to defendant was an "authorized" sale under the first sale doctrine.[188]

V. ARGUMENT: QUANTA SHOULD BE READ BROADLY TO LIMIT THE ABILITY OF PATENTEES TO CONTROL DOWNSTREAM USE AND RESALE

In this section, I argue that *Quanta* should be liberally interpreted to overrule or at least limit the Conditional Sales Doctrine. As discussed,[189] the Supreme Court has long acknowledged the benefits of the policies underlying the first sale doctrine, and at the very least, *Quanta* reaffirms its belief in those principles. Moreover, in the broader context, as the latest of several cases in which the Court has curtailed Federal Circuit jurisprudence expanding patentees' rights, I argue that an expansive application of *Quanta* is warranted. Consequently, while some may read the decision narrowly,[190] I contend that courts should liberally apply the "spirit" of *Quanta* to limit patentees' efforts at post-sale control of articles that embody their inventions.

A. Why Quanta Should be Applied Expansively

In addition to the policy arguments in support of the first sale doctrine,[191] the following are my justifications for why *Quanta* should be interpreted and applied broadly.

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[186] *Id.* at 1275 ("As the Supreme Court explained in Quanta, however, the parties' intent with respect to downstream customers is of no moment in a patent exhaustion analysis.").

[187] 563 F.3d 1271, 1275–76 (Fed. Cir. 2009).

[188] *Id.* at 1276.

[189] *See* discussion *supra* Part I.B.1.

[190] *See*, *e.g.,* Richard H. Stern, *Quanta Computer Inc v. LGE Elecs Inc–Comments on the Reaffirmation of the Exhaustion Doctrine in the United States*, 2008 E.I.P.R. 527, 527 (2008) ("[T]he Court's unanimous decision did no more than restate the black-letter core of the exhaustion doctrine without any significant elaboration.").

[191] *See* discussion *supra* Part I.B.1.

1. A Liberal Interpretation is Consistent with Supreme Court Precedent

The United States Supreme Court has consistently supported a robust first sale doctrine as a check on patentees' control over downstream products embodying their inventions. In early cases like *McQuewan, Adams*, and *Keeler,* the Court established the importance of the first sale doctrine, and later cases like *Motion Picture Patents*, *General Talking Pictures*, and *Univis*, reaffirmed the Court's support for the doctrine.

Supporters of the Conditional Sales Doctrine have cited *Mitchell*, *Bement,* and *A.B. Dick* as evidence that the Court sanctions a patentee's right to retain certain control over downstream products embodying their inventions.[192] However, at best these cases have limited application today, and at worst are of questionable validity. *A.B. Dick,* for instance, was expressly overruled by *Motion Picture Patents*.[193] *Mitchell* and *Bement* concerned manufacturing licenses, and are thereby consistent with subsequent cases permitting certain field of use restrictions on manufacturer licenses. Interpreting these cases as allowing patentees to use patent law to restrict downstream purchasers' use or sale of products embodying their inventions is improper.[194] And, broad language used in *Mitchell* and *Bement* supporting nearly any restriction or condition in patent licensees is of questionable validity post *Motion Picture Patents*, *Univis* and now *Quanta*.

General Talking Pictures has also been cited as support for

[192] *See*, *e.g.,* Kieff, *supra*, note 14, at 318; Amicus Brief of MPEG LA, *supra* note 17, at *6–7, *19; Amicus Brief of Wi-LAN, *supra* note 20, at *6, *10, *18–19; Brief of Appellee-Respondent, Quanta Computer, Inc. v. LG Elecs., Inc., 2006 U.S. Briefs 937, 2007 U.S. S. Ct. Briefs LEXIS 1875, *19, *35, *39, *42–44 (Dec. 3, 2007) (No. 06-937).

[193] Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 518 (1917).

[194] In *Mitchell,* while the Court upheld patent infringement against a purchaser, the license there expressly prohibited licensee's rights past the original patent term. 83 U.S. 544, 550–51 (1872). Also, the Court's opinion suggested that the purchaser could have learned of this limitation with due diligence. *Id.* at 551. *Bement v. Nat'l Harrow Co.* was an antitrust case that dealt with minimum retail price maintenance in the context of an exclusive patent license to a manufacturer. 186 U.S. 70, 93 (1902). Given that it involved restrictions on a manufacturer license, it was not inconsistent with *Adams* and *McQuewan.* Resale price maintenance, however, has always been controversial, and was once outright prohibited under the antitrust laws. *See* Dr. Miles Med. Co. v. John D. Park & Sons Co., 220 U.S. 373, 411–12 (1911), *rev'd*, Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877, 907 (2007).

allowing patent litigation to enforce restrictions against downstream purchasers of products embodying patented inventions.[195] The case, however, is unique as the Court was persuaded by the District Court's finding that both the licensee and the purchaser knew that the sale was outside the scope of the license, and thereby was not an "authorized sale."[196] At most, then, *General Talking Pictures* creates a narrow exception to the application of the first sale doctrine, *i.e.,* the doctrine cannot be used as a defense by downstream purchasers who knowingly and intentionally violate the terms of a manufacturer license. While the rule may be somewhat inconsistent with earlier cases that apply the doctrine regardless of a purchaser's intent and use, *e.g., Adams, Hobbie,* and *Keeler*, it should not be read as a significant exception.[197]

2. The Proliferation of Licensing Schemes Requires a Vibrant First Sale Doctrine.

As discussed *supra*[198], a core principle of intellectual property policy is to strike a balance between incentives to create and innovate, and providing the benefits of creations and inventions to the public. Although there is substantial debate concerning the "correct" balance and the "best" means of achieving that balance, it is a policy decision made by Congress and the courts. IPR Owners should not be permitted to alter that balance via contract. Nevertheless, this is *precisely* what some IPR owners have been attempting to do.

Quanta is merely the most recent example of efforts by some

195 Osborne, *supra* note 159, at 659; Amicus Brief of Papst, *supra* note 17, at *4–5; Brief of Appellee-Respondent, *supra* note 192, at *35; Braun Med., Inc. v. Abbott Labs*,* 124 F.3d 1419, 1426 (Fed. Cir. 1997); Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 705 (Fed. Cir. 1992).

196 Gen. Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175, 181–82 (1938).

197 Moreover, there is an argument that this holding of *General Talking Pictures* does not survive *Quanta*. In *Quanta,* LGE argued that the first sale doctrine could not apply because the license agreement between Intel and LGE expressly "disclaimed any license to third parties." 128 S. Ct. 2109, 2122 (2008). In rejecting the argument the Court stated, "exhaustion turns only on Intel's own license to sell products practicing the LGE patents," implying that for purposes of application of the first doctrine, intent of parties in a license agreement regarding downstream users is irrelevant. *Id. See* TransCore v. Elec. Transaction Consultants, 563 F.3d 1271, 1275 (Fed. Cir. 2009) ("As the Supreme Court explained in Quanta, however, the parties' intent with respect to downstream customers is of no moment in a patent exhaustion analysis.").

198 *See* discussion *supra* Part I.B.1.

IPR owners of using contracts to alter the rights granted by intellectual property law. Indeed, it has become fairly common in the software industry. By use of "shrink-wrap," and "click-wrap," agreements, those having copyrights in software products have prohibited conduct that may otherwise be permitted under the copyright laws.[199] Notwithstanding criticism that these practices circumvent copyright law, they have largely been upheld and found enforceable.[200] In the patent context, inventors have used

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199 "Click-wrap" agreements are typically made on the Internet whereby a user indicates consent to the terms of an agreement by an affirmative "click" of the mouse, such as to a clause stating, "I have read and agree to the User Agreement and . . . privacy policy." Richard Raysman and Peter Brown, *Clarifying the Rules for Clickwrap and Browsewrap Agreements,* N.Y. L. J., Nov. 14, 2002, at 3, *available at* http://www.thelenreid.com/resources/documents/nylj_11-14-021.pdf. "Shrink-wrap" agreements are common in retail sales of software. MacTech.com, *Shrink Wrap license Agreements Unraveling Some of the Confusing Legal Issues*, http://www.mactech.com/articles/mactech/Vol.09/09.03/Shrinkwrap/index.html (last visited Dec. 20, 2009). In a typical shrink-wrap agreement, the user indicates non-consent to the terms of the software agreement by reading the terms of the agreement located in the box and returning the product within a certain time period, or consent by tearing open the separate plastic wrap on the software. New York State Science & Technology Law Center, *Shrink Wrap Agreements*, http://nysstlc.syr.edu/Law_Resources/Law_Library/Contract/ShrinkWrapAgreement/ShrinkWrap.aspx (last visited Dec. 20, 2009). For a summary of cases and commentary on enforceability of shrink-wrap and click-wrap agreements, *see* THE AMERICAN LAW INSTITUTE, PRINCIPLES OF THE LAW OF SOFTWARE CONTRACTS, TENTATIVE DRAFT NO. 1, 169–76 (2008). For a copyright preemption analysis of shrink-wrap agreements, *see* Nimmer, *supra* note 27, at § 1.01[B][1][a][iii], at 1-21-26. For a discussion and summary of the law on application of first sale doctrine in software context, *see* Nimmer, *supra* note 35, at § 8.12[B][1][d]. *Supra* note 35 (containing a list of articles criticizing software contracts that have the effect of circumventing copyright).

200 Major cases dealing with the issue of the enforceability of click-wrap and shrink-wrap agreements include: Bowers v. Baystate Tech., 320 F.3d 1317, 1324–25 (Fed. Cir. 2003) (holding that the shrink-wrap agreement was not preempted by the Copyright Act because a majority of other courts would follow the reasoning of *ProCD* when considering the issue at bar); Specht v. Netscape Commc'n Corp., 306 F.3d 17, 35 (2d Cir. 2002) (finding that the plaintiffs had not entered into license agreement because a reasonably prudent person would not have known prior to downloading the software of the license terms hidden on the next screen and as a result the agreement was not enforceable); ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1455 (7th Cir. 1996) (holding that the shrink-wrap agreement was enforceable because "[it] is not 'equivalent to any of the exclusive rights within the general scope of copyright.'"); Step-Saver Data Systems, Inc. v. Wyse Tech., 939 F.2d 91, 103 (3d Cir. 1991) (finding that the box-top license was not the complete and final expression of the terms of agreement between both parties and was therefore unenforceable); Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 269–70 (5th Cir. 1988) (finding that restriction against decompilation or disassembly is unenforceable in the license agreement between the parties because it conflicts with those rights protected

contracts to circumvent not only the first sale doctrine, but also the "on sale" bar and the right to repair.[201] Referring to this practice as "privately-legislated licenses," Professor Winston argues that courts reviewing these contracts are much too deferential of efforts to use contract to thwart the policies behind the intellectual property laws:

> When should the private right to enter into a contract be limited in scope by the public interest in promotion of intellectual property? A balance must be struck between allowing intellectual property owners to augment their rights for the purpose of circumventing public legislation and allowing them the freedom to protect their interests through the use of private legislation. When such protection serves a legitimate purpose not contrary to public legislation, then private legislation of intellectual property rights should be enforced. Much of the support behind the intellectual property system rests on the idea that it protects the public's interest. But the system as it exists today regulates the sale of intellectual property and not the licensing of it. Without thoughtful extension of the principles of intellectual property into the domain of licenses, the balance between the rights of the intellectual property owner and the public interest in intellectual property shifts away from the public interest.[202]

Exacerbating these concerns is the growing trend of characterizing contracts as "licenses" for the purpose of avoiding the first sale doctrine and availing IPR owners of remedies under copyright or patent laws rather than contract law. While the licensing of intellectual property has long been recognized as legitimate, using licenses as a means of controlling *articles* embodying intellectual property may be an effort by IPR owners to unjustifiably extend their control over downstream products. Indeed, fairly early in its first sale doctrine jurisprudence, the

by federal copyright law); *see also supra* note 35 (citing articles criticizing software contracts that have the effect of circumventing copyright).

201 The "on sale" bar makes an invention unpatentable if it has been "on sale in this country, more than one year prior to the date of the application for patent in the United States." 35 U.S.C. §102(b) (2002). For a summary on the right of repair in patent law, *see* Jazz Photo Corp. v. Int'l Trade Comm'n, 264 F.3d 1094, 1101–05 (Fed. Cir. 2001). For a discussion of the use of contract terms to circumvent rights protected by intellectual property laws (including the on sale bar and right of repair), *see* Patterson, *supra* note 4, at 185–91; Elizabeth I. Winston, *Why Sell What You Can License? Contracting Around Statutory Protection of Intellectual Property*, 14 GEO. MASON L. REV. 93, 115 (2006).

202 *Id.* at 132–33; *see also* Patterson, *supra* note 4, at 160 (arguing that courts are too deferential to field-of-use restrictions).

Supreme Court rejected such an effort by a patentee as a means to control the resale price of a product embodying its patents. In *Straus v. Victor Talking Mach. Co.*,[203] a manufacturer of sound-recording machines "embodying various features covered by patents" furnished its machines to dealers under a "License Contract" that contained various restrictions on use and resale.[204] In addition, each machine was accompanied by a "License Notice," informing purchasers that the product was licensed and subject to numerous restrictions on use and resale (including resale price) until the expiration of the patents.[205] Defendant was a company that had acquired a number of these machines without having signed a "License Contract" and sold them to the public at a price below that listed on the "License Notice."[206] This caused patentee to file an infringement action against Defendant, to which the Defendant asserted the first sale doctrine as a defense.[207] In determining whether the patentee's transfer of the machine was an "authorized sale," the Court looked beyond formalities to the "substance and realities of the transaction."[208] Based on evidence indicating that the patentee took little interest in how the machine was used post-transfer (e.g., patentee required full compensation prior to parting with a machine, took little effort to monitor post-sale use of the machine), as well as evidence suggesting that the scheme was merely an affront to fix the resale price, the Court found that the transfer was an outright sale, and thereby subject to the first sale doctrine. [209]

[203] 243 U.S. 490 (1917).
[204] *Id.* at 494–95.
[205] *Id.* at 494–96.
[206] *Id.* at 496.
[207] *Id.* at 496–97.
[208] *Id.* at 497–98.
[209]

It thus becomes clear that this "License Notice" is not intended as a security for any further payment upon the machine, for the full price, called a "royalty," was paid before the plaintiff parted with the possession of it; that it is not to be used as a basis for tracing and keeping the plaintiff informed as to the condition or use of the machine, for no report of any character is required from the "ultimate user" after he has paid the stipulated price; that, notwithstanding its apparently studied avoidance of the use of the word "sale" and its frequent reference to the word 'use,' the most obvious requirements for securing a *bona fide* enforcement of the restrictions of the notice as to "use" are omitted; and that, even by its own terms, the title to the machines ultimately vests in the "ultimate users," without further payment or action on their part, except patiently waiting for patents to expire on inventions, which, so far as this notice shows, may or may not be incorporated in the machine. There remains for this

Subsequent to *Straus,* and in both the patent and copyright context, courts and commentators have considered the economic realities of transactions in evaluating whether a transfer is a license or sale.[210] And while efforts to characterize transfers as "licenses" to avoid the first sale doctrine are not novel, the practice seems to have become prevalent with the wide-spread, public distribution of software.[211] As already mentioned, software manufactures have been generally successful in distributing copies of software to the mass public via restrictive "licenses" that may negate rights granted under copyright. As the practice has grown and achieved a certain level of acceptance, it is essential that courts review these agreements to ensure that IPR owners are not attempting to unlawfully extend their control over products embodying their inventions, by for instance, using contract to alter the first sale doctrine, on sale bar, or right of repair. And while a robust first sale doctrine will not solve all the problems of "privately-legislated licenses," it is a step in the right direction.

3. Other Legal Doctrines Do Not Adequately Protect Purchasers

Some have argued that a strong first sale doctrine is unnecessary because purchasers of articles embodying patented inventions are adequately protected by other legal doctrines.[212] In particular, antitrust and patent misuse are referenced.[213] Yet, neither of these doctrines offers much protection.

Patent misuse occurs when an IPR owner exploits a patent in a manner as to exceed the scope of the patent. It is commonly

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> "License Notice" so far as we can discover, the function only, of fixing and maintaining the price of plaintiff's machines to its agents and to the public, and this we cannot doubt is the purpose for which it really was designed.

243 U.S. 490, 500 (1917).

[210] *See, e.g.,* U.S. v. Masonite Corp., 316 U.S. 265, 274–78 (1942); *In re* Dak Industries, 66 F.3d 1091, 1095 (9th Cir. 1995); U.S. v. Wise, 550 F.2d 1180, 1192 (9th Cir. 1977); Platt & Munk Co. v. Republic Graphics Inc., 315 F.2d 847, 854 (2d Cir. 1963); UMG Recordings, Inc., v. Augusto, 558 F. Supp. 2d 1055, 1060 (D.C.C.D. Ca. 2008); Vernor v. Autodesk, Inc., 555 F. Supp. 2d 1164, 1169–70 (W.D. Wa. 2008); Winston, *supra* note 201, at 120–21 (discussing "sham licensing" in detail).

[211] Winston, *supra* note 101, at 100–01.

[212] *See* Brief of Various Law Professors, *supra* note 17, at *3, *5, *11–12; Amicus Brief for Wi-LAN, *supra* note 20, at *22–24; Amicus Brief of Amberwave Systems, *supra* note 18, at *18–19; *see also* Kieff, *supra* note 14, at 326-–27.

[213] *See* Brief of Various Law Professors, *supra* note 13, at *4, *9–12; Amicus Brief for Wi-LAN, *supra* note 20, at *20, *21; Amicus Brief of Amberwave Systems, *supra* note 18, at *7.

asserted as a defense against patent infringement, and if successful, renders a patent unenforceable.[214] An "elusive doctrine," that has never been definitely defined, patent misuse is the creation of common law, as amended by statute.[215] Over the years, courts have found various types of conduct by patentees as constituting patent misuse, including resale price maintenance,[216] prohibiting a licensee from manufacturing competing products,[217] conditioning a patent license upon acceptance of another license,[218] and basing royalty payments on total sales regardless of the extent to which the patented article was used.[219] In the last several decades, however, patent misuse has fallen out of favor (with the Federal Circuit in particular having attacked it directly), raising questions about the extent of its continuing viability.[220] Accordingly, given its elusive and ambiguous nature and questionable continuing viability, the misuse doctrine offers purchasers of end products insufficient protection against potential patent infringement claims.

Neither does antitrust provide much consolation to downstream purchasers of products embodying patented inventions. While several Supreme Court cases involving the first sale doctrine have been brought as antitrust actions or raised antitrust claims,[221] these cases arose during a time when

[214] Leitch Mfg. Co. v. Barber Co., 302 U.S. 458, 460, 462 (1938); Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 494 (1942); *see also* SCHECTER & THOMAS, *supra* note 8, at § 21.3. For a historical review of the patent misuse doctrine, including a review of early cases, *see* 5 DONALD S. CHISUM, CHISUM ON PATENTS, § 17.02[1] (2004).

[215] *See* SCHECTER & THOMAS, *supra* note 8, at § 21.3; *see also* 35 U.S.C. § 271(d) (exempting certain conduct from liability under patent misuse doctrine, thereby significantly limiting the patent misuse doctrine).

[216] *See* Bauer & Cie v. O'Donnell, 229 U.S. 1, 17 (1913). Although the holding has not been reversed, *Bauer* was decided during a time when courts were hostile to resale price maintenance, and such conduct was per se illegal under the antitrust laws. *See also* Dr. Miles Med. Co. v. John D. Park & Sons Co., 220 U.S. 373, 408–09 (1911), *overruled by* Leegin Creative Leather Prod., Inc. v. PSKS, Inc., 551 U.S. 877, 907 (2007).

[217] *See* Nat'l Lockwasher Co. v. George K. Garrett Co., Inc. 137 F.2d 255, 256 (3d Cir. 1943).

[218] *See* Am. Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769, 775–76 (3d Cir. 1959).

[219] *See* Zenith Radio Corp. v. Hazeltine Research, Inc., 401 U.S. 321, 347–48 (1971).

[220] *See* Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 708–09 (Fed. Cir. 1992) (rejecting misuse defense); *see also* USM Corp. v. SPS Tech., Inc. 694 F.2d 505, 510–11 (7th Cir. 1982) (rejecting critically the misuse defense).

[221] *See, e.g.*, U.S. v. Gen. Elec. Co., 272 U.S. 476, 479–80, 484, 488 (1926); Ethyl Gasoline Corp. v. U.S., 309 U.S. 436, 452 (1940); Univis Lens Co., Inc. v.

antitrust law was more suspicious of vertical restraints.[222] In recent times, however, courts and commentators have grown less suspicious of vertical restraints, and specifically, whether they are likely to be anticompetitive. Based on price theory economics, some have even argued that such restraints be presumed efficient and valid.[223] Even government enforcement of vertical restraints has waned significantly in the past few decades. And over the past six years, the Supreme Court has become critical (or even somewhat hostile) to antitrust, having decided eight antitrust cases—all having the effect of weakening antitrust enforcement.[224] Consequently, based on the Supreme Court's less than enthusiastic disposition towards antitrust, the

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U.S. 316 U.S. 241, 249–52 (1942).

[222] At the time when these cases were decided, resale price maintenance (also known as vertical price fixing) was categorically prohibited; this is no longer the case. *See* Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911), *overruled by* Leegin Creative Leather Prod., Inc. v. PSKS, Inc., 551 U.S. 877, 907 (2007).

[223] For recent arguments made concerning resale price maintenance, examine the briefs filed by the petitioner and supporting amicus in Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877 (2007). *See, e.g.*, Brief for Petitioner, Leegin Creative Leather Prods., Inc. v. PSKS, Inc., *15 (5th Cir. Jan. 22, 2007) (No. 06-480); Brief for the United States as Amicus Curiae Supporting Petitioner, Leegin Creative Leather Prods., Inc. v. PSKS, Inc., *10 (5th Cir. Jan. 22, 2007) (No. 06-480).

[224] Pac. Bell Tel. Co. v. LinkLine Commc'ns., Inc., 129 S. Ct. 1109, 1118 (2009) (providers' price-squeezing claim was not cognizable under the Sherman Act and they failed to state predatory pricing claim); Credit Suisse Sec. (USA) LLC v. Billing, 551 U.S. 264, 283–85 (2007) (holding that securities laws were incompatible with antitrust laws, such that securities law implicitly precluded antitrust claims); Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877, 886–87, 895, 899 (2007) (administrative convenience of *per se* rule cannot justify its application to vertical resale price maintenance); Bell Atl. Corp. v. Twombly, 550 U.S. 544, 556–57, 564–65 (2007) (holding allegations of parallel business conduct and bare assertions of conspiracy will not alone suffice to state a claim under the Sherman Act); Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co., 549 U.S. 312, 325–26 (2007) (holding that the test applicable to claims of predatory pricing also applied to claims of predatory bidding); Illinois Tool Works Inc. v. Indep. Ink, Inc., 547 U.S. 28, 42–43 (2006) (holding that the mere fact a tying product is patented does not support a presumption of market power in a patented product); Texaco Inc. v. Dagher, 547 U.S. 1, 5–6 (2006) (holding that the decision by the companies' joint venture to sell separately branded gasoline to service station owners at the same price was not per se illegal horizontal price fixing agreement); Verizon Commc'ns., Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 415–16 (2004) (holding traditional antitrust principles did not justify the addition of this case among the exceptions to the proposition that there is no duty to aid competitors). Given how the court came out in all of these cases (favoring defendants), one might even argue that antitrust is the one area that the Court has been even more hostile to than patents.

current attitude towards vertical restraints, and the deference courts seem to give whenever a government sanctioned patent "monopoly" is involved, it is not likely that antitrust will provide much protection to downstream purchasers of products embodying patented inventions.

4. If Needed, *Sui Generis* Legislation Will Provide Protection to Specific Technologies

A concern raised in amicus and commentary on *Quanta,* is application of the first sale doctrine to self-replicating products. Specifically, companies representing manufacturers of genetically modified seeds expressed concerns about application of the first sale doctrine to sales of self-replicating seeds.[225] Genetically modified seeds are seeds that have been genetically modified to either be resistant to particular pesticides or to address particular issues, e.g., specific parasites or diseases.[226] Typically, either the finished seed and/or methods used in creating the genetic modification are patented.[227] As with most seeds, the byproduct of planting the modified seeds are new seeds that are essentially a copy of the original seed.[228] Manufacturers of genetically modified seeds have argued that purchasers and licensees of these seeds should not be permitted to rely on the first sale doctrine, since then, manufacturers would be unable to recoup their hefty investments.[229]

While arguments made by seed manufacturers are more convincing that those made by others, the argument is far from evident. Similar concerns have been raised in other technologies, like software which can also cost a great deal to create and is

[225] *See, e.g*., Amicus Brief for Croplife Int'l, *supra* note 19, at *9.

[226] *Id.* at *2, *4–5.

[227] *Id.* at *8.

[228] *Id.* at *8–9.

[229] Specifically, manufacturers have argued that replanting second generation modified seeds infringes their method patent for "making" the genetically modified seeds. *See, e.g*., Amicus Brief for Croplife Int'l, *supra* note 19, at *9; Amicus Brief for Biotech Indus. Org., *supra* note 19, at *13. To prevent replanting second generation modified seeds, manufacturers have restricted use and transfer of these seeds via "licensing" the patented invention along with the seeds, which courts have upheld even against downstream purchasers. *See, e.g.*, Monsanto Co. v. Scruggs, 459 F.3d 1328, 1340 (Fed. Cir. 2006); Monsanto Co. v. McFarling, 363 F.3d 1336, 1343 (Fed. Cir. 2004); Pioneer Hi-Bred Int'l v. Ottawa Plant Food, Inc., 283 F.Supp.2d 1018, 1048 (N.D. Iowa 2003).

nearly costless to duplicate.[230] Rather than argue that the first sale doctrine should not apply to *any* self replicating technology, a better course may be to identify *how* it applies in such contexts.[231] At the very least, if public policy favors limits on the first sale doctrine in cases of genetically modified seeds, Congress can enact specific *sui generis* legislation to address the issue or amend the patent laws to deal with the specific issue. Congress has done so before,[232] and such an act would only limit the first sale doctrine as needed.

B. Three Applications of the First Sale Doctrine Post-Quanta

The following are three areas where I believe that *Quanta* should be directly applied.

[230] *See, e.g.*, Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 441, 453–54 (2007) (finding that a producer does not infringe on a software patent where the software is sent to a foreign country on a master disk, copied in that country, and then installed on computers in that country, and that the ease and cheapness of copying software abroad does not make the copies of the master disk "components" for Patent Act purposes); Ina Fried, *Microsoft Sets Windows 7 Pricing, Upgrade Programs*, CNET NEWS (June 25, 2009), http://news.cnet.com/8301-13860_3-10272259-56.html (last visited Dec. 20, 2009) (stating low cost to upgrade to Windows 7 or Snow Leopard for Apple, presumably because of low cost of duplicating the software programs once they have been created).

[231] For example, what is "making" the patent in the context of a patent for self-replicating seeds? Does the first sale doctrine apply to the initial transfer to a wholesaler (like a manufacturer license) or subsequent transfers to retailers and even consumers?

[232] Section 109(b) of the Copyright Act delineates specific exemptions from the first sale doctrine. 17 U.S.C.A. § 109(b)(1)(B) (West 2009). An example of *sui generis* legislation is the Semiconductor Chip Act of 1984, which defines certain rights relating to use, distribution and transfer of semiconductor chips independent and apart from those under copyright. 17 U.S.C.A. §§ 901–914 (West 2009). The legislative history suggests it was enacted (at least in part) to fill a gap for semiconductors that were not sufficiently protected by copyright or patent. *See* S. Rep. No. 98-425, at 1, 4–10 (1984). In contrast, in 1980, Congress enacted the Computer Software Copyright Act of 1980, amending the Copyright Act to add Section 117 dealing with computer programs. 17 U.S.C.A. § 117 (West 2009). Among other things, Section 117 provides an exception to the normal rules of copyright infringement by permitting an owner of a copy of computer software program to copy the software as necessary to use the program or do maintenance or repair. 17 U.S.C.A. § 117 (West 2009).

1. Post-*Quanta*, the Conditional Sales Doctrine Should Be Overruled or Limited. Courts Should Be Less Deferential to License Restrictions and Evaluate the Underlying Patent Claims When Necessary.

Post-*Quanta*, patentees should not be able to circumvent the first sale doctrine merely by placing restrictions or conditions in contracts for the sale of products embodying their inventions. To the extent that *Mallinckrodt* and its progeny permit this, these cases should be overruled. While it is true that *Quanta* never expressly overruled (or even cited) these cases,[233] its spirit is clearly inconsistent with the Federal Circuit's Conditional Sales Doctrine. In addition, *Mallinckrodt* relied on a narrow interpretation of *Univis,* which is inconsistent with how *Univis* was interpreted by *Quanta*.[234]

As the Supreme Court has unequivocally held that the first sale doctrine is a substantive rule of patent law,[235] courts should review restrictions imposed on products embodying patented inventions more critically, to determine whether the first sale doctrine is applicable. According to Professor Patterson, courts reviewing restrictions under the Conditional Sales Doctrine have generally done little analysis of either the anticompetitive effects of a restriction or whether patent(s) at issue have been infringed.[236] Rather, relying on *Mallinckrodt,* so long as the restrictions are found to be otherwise lawful, courts have found the first sale doctrine inapplicable and assumed the restrictions to be within the scope of the patent.[237] While not every case requires a full blown claims construction analysis to determine whether Defendant's use infringes the patent claims, surely some analysis is warranted, as infringement is required for liability.[238] In cases where the restriction may have substantial

[233] *See generally* Quanta Computer, Inc., v. LG Elecs., Inc., 128 S. Ct. 2109 (2008).

[234] Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 708 (Fed. Cir. 1992).

[235] Quanta Computer, Inc., v. LG Elecs., Inc., 128 S. Ct. 2109 (2008); Bloomer v. McQuewan, 55 U.S. 539, 549–50 (1852).

[236] Patterson, *supra* note 4, at 176, 181, 190–92.

[237] *See id.* at 170, 181, 190–91. According to Professor Patterson, few courts have done a rigorous analysis concerning whether the conduct being restricted actually infringes the literal claims of the patent, *i.e.*, claims construction analysis.

[238] While it is true that infringement under the doctrine of equivalents is possible, I am unaware of any case involving the first sale doctrine that has applied that doctrine.

anticompetitive effects, courts should be particularly vigorous about ensuring that the patentee not be able to exclude beyond what the patent expressly provides (*i.e.*, as demarked by the patent claims).[239]

2. Post-*Quanta*, Courts Should Not Enforce Contractual Restrictions Against Downstream Purchasers Under Patent Law, But Rather Under Contract Law.

Post-*Quanta*, the rights and obligations of downstream purchasers of products embodying patented inventions should be governed by the respective contract, and use of such products should not give rise to an infringement action. While the Court in *Quanta* did not expressly address the parties' contract rights and obligations, it noted in a footnote that LGE may have contractual remedies against Quanta.[240] Accordingly, post-*Quanta*, contract restrictions placed on downstream purchases should be evaluated under contract law and other substantive areas that regulate enforcement of contractual terms, like antitrust and estoppel.[241]

Of course, the first sale doctrine does not terminate a patentee's exclusive rights to its *invention*. To the extent a downstream purchaser violates an exclusive right retained by the patentee—such as "making" or "reconstructing" the invention—the purchaser may still be liable for patent infringement.[242]

[239] *See* Patterson, *supra* note 4, at 175–76, 227–28. In its amicus in *Quanta*, the government also argued for more rigorous analysis of the restrictions. *See* Brief for United States as Amicus Curiae Supporting Petitioners, Quanta Computer Inc. v. LG Elecs, Inc., 128 S. Ct. 2109, 22–23 (2008) (No. 06-937), 2007 WL 3353102.

[240] Quanta Computer Inc. v. LG Elecs, Inc., 128 S.Ct. at 2122 n.7 (2008).

[241] In cases where contract provisions may attempt to alter substantive rights granted by patent law, restrictions may be evaluated as to enforceability and preemption. *See supra* note 35 (citing articles criticizing software contracts that have the effect of circumventing copyright—some arguing that these contracts provisions should be preempted).

[242] *See* Jazz Photo Corp. v. International Trade Comm'n, 264 F.3d 1094, 1102–05 (Fed. Cir. 2001) (discussing the difference between permissible repair rights and prohibited reconstruction of a patent). It is worth noting that LGE tried to get around exhaustion by arguing that assembly of the components practiced its method patents and was thus "making" the patent—which is not subject to the first sale doctrine. However, the Court soundly rejected this argument as merely clever characterization:

> Alternatively, LGE invokes the principle that patent exhaustion does not apply to postsale restrictions on "making" an article. Brief for Respondent 43. But this is simply a rephrasing of its argument that combining the

3. Post-*Quanta,* Courts Should Be Skeptical of Related Patents and Other Means By Which Patentees Attempt to Extract Greater Value For Their Patents.

Finally, post-*Quanta*, courts should be skeptical of intricate schemes by patentees to extract greater value for their patents, including claiming various related patents. The Court's opinions in both *Univis* and *Quanta* seemed motivated in part by its skepticism that via the particular distribution and/or licensing scheme, the patentee was essentially attempting to extract more from the invention than the patent laws permitted. In *Quanta*, LGE conceded that the first sale doctrine applied to the processor and chipsets but not to the separate, distinct method patents.[243] The Court disagreed, unconvinced that the method patents were separate and distinct (or even independently innovative).[244] Accordingly, post-*Quanta*, lower courts should be less deferential of efforts by patentees to obtain greater royalties or extend control over their patents, to ensure that by those efforts patentees are not exceeding the scope of their patent rights to the detriment of purchasers of end products (including consumers).

VI. CONCLUSION

A common supposition in the legal literature is that a vibrant patent system is a fundamental aspect of an innovative, free market economy.[245] While there is strong evidence that for certain technologies or even industries, patent rights are necessary for inventors to be able to recoup their investments, the actual correlation between patents and innovation is ambiguous.[246] Nevertheless, it is probably uncontroversial to

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> Intel Products with other components adds more than standard finishing to complete a patented article. As explained above, making a product that substantially embodies a patent is, for exhaustion purposes, no different from making the patented article itself. In other words, no further "making" results from the addition of standard parts—here, the buses and memory—to a product that already substantially embodies the patent.

Quanta, 128 S. Ct. at 2122.

[243] *See* Transcript of Oral Argument, *Quanta*, 128 S. Ct. at 25–48 (2008), 2008 WL 143658.

[244] *Quanta*, 128 S. Ct. at 2117.

[245] *See* Ariel Katz, *Making Sense of Nonsense: Intellectual Property, Antitrust, and Market Power*, 49 ARIZ. L. REV. 837, 844–46 (2007) (stating that the third "period" of IP law began in the mid-1970s and that antitrust and IP laws are now seen as "complementary policies within a harmonized legal system").

[246] For a summary of empirical studies, *see* James Bessen & Michael J. Meurer, *Lessons For Patent Policy From Empirical Research On Patent*

state that ensuring that there are sufficient incentives to innovate (and disclose innovations to the public) is a significant consideration of patent policy. Providing incentives to upstream innovators, however, is not the sole goal of the patent laws. Rather, achieving the "optimal" balance between all policy goals, including encouraging innovation at all levels, and allowing purchasers of products the ability to freely use and transfer goods, should be the desired result.

The first sale doctrine is an important tool in achieving the desired balance between all policy goals of intellectual property law. While patentees should be afforded the exclusive rights to their inventions as granted by the patent laws, the doctrine acts as a significant limit on patentee's ability to exceed the scope of those rights by controlling articles embodying their inventions. In recent years, the Federal Circuit has shifted the balance by expanding patentees' rights and weakening doctrines that have limited patentees' control over their inventions and products embodying their inventions.

As one of a series of cases cutting back on Federal Circuit law, *Quanta* acts to shift back the balance by reaffirming the importance of the first sale doctrine and limiting patentees' ability to use patent laws to enforce contract terms that are not sufficiently connected with their patent rights. Unfortunately however, the Court's decision was limited and somewhat ambiguous. However, hopefully courts will interpret *Quanta* expansively to limit the Federal Circuit's Conditional Sales Doctrine and curb various strategies by patentees to maximize their royalties along the distribution chain of products embodying their inventions, and thereby extract greater revenue and control than permitted under patent law.

Litigation, 9 LEWIS & CLARK L. REV. 1 (2005). Based on the abstract, the authors provide an even more in-depth analysis in their book, PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK (2008).