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Quanta v. LG Electronics: Frustrating Patent Deals by Taking Contracting Options off the Table?

*F. Scott Kieff**

The Supreme Court's unanimous decision in *Quanta v. LG Electronics*[1] may make it significantly more difficult to structure transactions involving patents. While this decision does make a group of players into winners in the immediate term for existing patent deals (this group includes any customer who, like Quanta, buys patented parts without buying a patent license), almost everyone is likely to come out a loser going forward.

The Court in *Quanta* decided that a patent license that LG Electronics sold only to Intel—and explicitly limited to exclude Intel's customers, like Quanta, and priced to reflect these modest ambitions—would be treated by the Court as extending permission under the patent to those Intel customers. The legal ''hook'' on which the Court hung its decision is the patent law doctrine called ''first sale'' or ''exhaustion.''[2]

The *Quanta* decision is likely to have a serious negative effect on the nuts and bolts of patent licensing agreements. On one reading, it stands for little more than the unremarkable proposition that the actual patent license contract at issue was just badly written. But that would be a simple matter of applying state contract law to the

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[1] Quanta Computer, Inc. v. LG Elec., Inc., 555 U.S. ____ , 128 S. Ct. 2109 (2008).

[2] *Id.*, 128 S. Ct. at 2118, 21–22.

underlying facts of the contract—not the type of issue that typically gains the Supreme Court's attention. So the real motivating force behind the Court's decision to take the case is probably something else. The extensive briefing and commentary, as well as the opinion's colorful dicta, all suggest that the true import of the case is the way it speaks about what patent contracting can be done—as a matter of Court-created policy for federal patent law.

If this view of *Quanta* is correct, then the decision may be remarkably important in several respects. It may greatly frustrate the ability of commercial parties to strike deals over patents. It may also stand as an example of a seemingly conservative Court acting in direct contravention of clear congressional action.

I. Business Background

While patent law, like many areas of law, is a specialized field with its own jargon, the underlying business impact of the *Quanta* decision is accessible to an audience with no special understanding of patent law or practice. The business deal at issue in *Quanta* can be seen as an ordinary sales transaction between a sophisticated seller and a sophisticated buyer, with subsequent downstream sales from the initial buyer to additional sophisticated buyers (where all relevant parties well understood the express terms of the relevant contract). Put differently, this is not a case that invokes the standard state contract law and policy problems of unfairly sharp bargaining across a huge differential in bargaining power (such as the infamous rent-to-own businesses operated in underprivileged neighborhoods), or of a mistake in signing onto hidden terms, and so on.

In this deal, all parties knew the contract was for the proverbial slice of bread (a limited patent license to one) not the whole loaf (a license to all). Nevertheless, and contrary to the contract's wording and the parties' intent, the Court decided that this deal transferred the whole loaf.

To the extent the Court's decision is merely one of contract interpretation, suggesting that a better-written contract would have been respected by the Court, then the case is largely unremarkable. But what if the effect of the Court's decision is to render void any contract for a mere slice?

Sometimes a buyer and a seller want to strike a deal with each other for a slice of bread at a modest price, not a whole loaf at a much higher price. When the law makes such modest deals unenforceable, several bad outcomes are likely:

1. Neither side of a potential deal may get what it wants because it has to buy or sell more than it would like;
2. The deal may not get done because the parties can't muster the resources needed to match the high price;
3. The costs of structuring the deal may increase significantly as the parties attempt side agreements and other work-around deal structures to achieve their desired results while obscuring their true goal from the courts;
4. With the knowledge that their assets can simply be taken away by such a powerful legal rule, potential sellers may invest much less in those assets; or
5. The potential seller may engage in protective mechanisms that are both privately and socially costly but are designed to avoid leaving the asset vulnerable to free transfer.

The Court may not have intended these negative consequences—or to influence contract or patent law altogether—but they are the likely results of the high probability that clever lawyers and shrewd business people will try to exploit such an expansive reading in particular cases.

II. Legal Background

In this case, LG Electronics, the patentee, entered into a written contract with Intel, a large, sophisticated party, to settle a set of disputes about patent infringement by giving Intel a limited license to the patents. The contract expressly limited the settlement's effect on third parties and was reached at a price that reflected these modest ambitions. It made sense for Intel to seek such a blanket settlement of intellectual property cases to buy freedom from suit for itself—but only itself—because the company might otherwise have been found guilty of inducing third parties to infringe when it sold its products.

Quanta and the other alleged infringers in this case are also large sophisticated commercial entities. They bought products from Intel with notice of the limited terms of Intel's license and the opportunity to negotiate a price in their sales contracts that reflected this limited reach of Intel's license. They paid for products they knew were not licensed in their hands and ended up receiving, through the Court's decision, a full license for free.

The crux of the infringers' argument, and the Court's opinion, is the patent law doctrine that goes by two names: ''patent exhaustion'' and ''first sale.'' The doctrine has the effect of recognizing 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 a patented article from the patentee.

In the case of a patentee's unrestricted sale of a patented product, the buyer presumably has paid the patentee not only for title to the physical product (a sale of product), but also for permission to use the product for its intended purpose (a license under the patent). In transactions like this, the 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.

Under well-established principles of law and equity, there are several routes to arriving at a conclusion about implied terms of a contract. Implied-in-fact terms may be found as a matter of interpretation from evidence of the parties' intent. Implied-in-law terms are imposed in the interest of fairness to ensure that both parties receive the rights for which they bargained. But, as courts have long recognized, the implied-in-law doctrine only provides a default rule, and differing terms in a sale—such as a sale accompanied by a promise to make only a single use of the patented article—will be enforceable as long as they do not violate some other rule of positive law. The logic of this view is straightforward: absent a direct conflict with positive law, there is no room for the law to imply terms when the parties themselves have provided their own agreed-to terms as a matter of their express and properly formed contract.

The Court's decision in *Quanta* seems to apply the doctrine more expansively and rigidly than it has long been applied. This expansive approach converts a deal involving express contracting over a limited license to one party into a blanket license to a host of other commercial parties, regardless of the efforts by all parties to contract for a more modest result at a lower price.

The central criticism of this essay is in no way directed at all efforts to explore arguments that might achieve the basic business result of patent license that was reached in this case. The essay would embrace any such arguments that are supported by the facts when made in accordance with long-recognized categories of legal doctrines, such as express license, implied-in-fact license (including by first sale), or license implied by equitable or legal estoppel. The central criticism of the essay is with the Court's decision to essentially convert the long-standing first sale doctrine into an *über*-immutable rule that an expressly limited license to one party will be deemed by the courts to also be a license to all those who are downstream in the market.

III. Some Key Legal Errors

Applying a seemingly common sense approach, much of the Court's opinion pays close attention to the question of whether the products at issue are substantially covered by each of the relevant patents. The Court decides that there is a close enough tie between each product and each patent that the first sale doctrine is triggered. The Court concludes that because the doctrine is triggered when the product is infringing, it also is triggered when the product is likely to be used by the end customer in a way that will substantially infringe. Out of fear that patentees might otherwise engage in strategic claim-drafting to include both product and process claims in each patent, the Court also concludes that because the doctrine is triggered for product patents it is also triggered for process patents. This all sounds reasonable, at first blush.

By following this approach, the Court is essentially guessing about how questions of patent infringement might have played out in a hypothetical case in the past, and which transactions the parties would have made with each other against the backdrop of a final and non-appealable judgment in such a case. The Court does so using post hoc factual knowledge and with the certainty that it is the court of last resort.

When real parties have that degree of confidence in specific facts and legal outcomes, they can—and sometimes do—strike sales and patent license agreements that expressly or implicitly speak in terms of specific patent numbers and product model numbers or product lines. But what is well-known by any attorney involved in patent licensing, settlement negotiations around ongoing or potential patent litigation, or mediation of a patent dispute, is that what the potential infringer often wants is mere peace from future litigation risk (often called ''freedom to operate'').

Sometimes the potential infringer has such sufficient ties to its customers or input-providers that it wants to buy freedom for them as well—and is willing to pay a sufficient price. But sometimes, as in *Quanta*, the patentee and the potential infringer elect to strike a contract that buys peace only for that potential infringer, at a much lower price, leaving others to fend for themselves when and how they see fit. And while it might well be the case that key supplier companies such as Intel could act as de facto coordinators by passing along license costs to customers, the goal of the first sale doctrine has never been—and should never be—to mandate particular business models. One size rarely fits all, especially in rapidly changing markets like those involving innovation. While the law should allow parties the option to do such all-up-front deals if they so desire, it should also leave them the option to strike more dynamic deals, such as those that let each customer get exactly the terms it prefers at the time it develops that preference.

Not only does the Court's focus on issues relating to the substantiality of infringement miss the parties' key business interests, but it also leads the Court to write broad pronouncements about patent law that are analytically problematic in several respects. In so doing, the Court overlooks the basics of the U.S. patent regime, historical experience with such subjective approaches, express congressional action to jettison the problems created by that historical case law, and a host of practical problems created by the Court's ex cathedra rulings.

By using the term ''patent exhaustion'' instead of ''first sale,'' the Court overlooks the very basics of the patent right itself. As Judge Giles S. Rich pointed out:

> ''Patent exhaustion'' is a misnomer. To think clearly about this fact, one must consider two things: (1) the meaning of ''exhaustion''; and (2) the nature of the patent right. ''Exhaustion'' means the state of having been drained or used up completely. It assumes there was something there to begin with that could be used up. The patent right, as recognized by the Supreme Court in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852), and as more recently defined in 35 U.S.C. § 154, is the right to exclude others from making, using,

> offering for sale, or selling the patented invention. When a patentee of a patented article sells the article, how is he in any way exercising his patent right to exclude others from doing so? Clearly he is not. If he is, therefore, not using it at all—let alone using it up—how can he be exhausting it?[3]

The distinction between these two terms is not merely a matter of which label is more descriptive. The terms steer the analysis in different directions. By treating the patent right as having been used up, the term ''exhaustion'' suggests an immutable state of affairs, leaving no opt-out possible. In contrast, the contractual nature of the first sale doctrine focuses attention on the actual terms of the initial sale that is said to give rise to the license. This encourages observers to determine whether the parties to that sale opted out of the default terms otherwise implied into such deals.

By focusing on how near a product is to a patent claim, the Court overlooks the long and bad experience we had in the United States during the first half of the 20th century, and the express response Congress enacted to correct that mess. During the early 1900s, courts routinely focused on which element of a patent claim was ''key'' or at the ''heart of the invention'' to determine questions of contributory infringement, induced infringement, patent misuse, and antitrust. The inquiry was so subjective that it became the plaything of the judiciary, with most courts in the early part of that period routinely ruling in favor of patentees on each issue, while most courts in the later part of the period routinely ruling against patentees. One of the two central motivating factors behind the congressional decision to promulgate the 1952 Patent Act—essentially our present patent statute—was to statutorily jettison this entire line of cases and create an objective framework for determining patent infringement and valid patent licenses.[4]

By imposing a strong mandatory rule, the *Quanta* Court interferes with the freedom of large commercial parties to strike the deals that are essential to avoiding and resolving disputes, and that help them

[3] Judge Giles S. Rich, Address at Sixth Annual Conference on International Intellectual Property Law & Policy, Fordham University (April 16, 1998) (as quoted in F. Scott Kieff et al., Principles of Patent Law 1144 (4th ed. 2008)).

[4] For a more detailed discussion see F. Scott Kieff & Troy A. Paredes, The Basics Matter: At the Periphery of Intellectual Property, 73 Geo. Wash. L. Rev. 174 (2004).

better invest in new products and services. Such deals may now not materialize because the high price can't be paid, or will have to be structured in costly, confusing, and convoluted ways to avoid the blunt impact of such an immutable legal rule. For example, parties interested in contracting for a limited patent license may have to first initiate litigation and then strike deals labeled as settlement agreements instead of patent licenses, in the hopes of having courts see their contracts more as matters of state contract law and general federal policy in favor of settling litigation rather than matters of federal patent policy as potentially controlled by *Quanta*.

The Court also may be endeavoring to force free transfers of portions of overall intellectual property value from owners who would like to have been able to sell or even give more limited licenses. If this is the case, then these parties may invest too little in such assets (that they now know can be taken away). They may also have to engage in protective mechanisms that are both privately and socially costly but are designed to avoid leaving the asset vulnerable to free transfer. The risk is not imaginary. Soon after *Quanta* came down, a district court in California held that sales on eBay were allowed for limited-distribution promotional CDs that were loaned, for free, to a small set of industry insiders for pre-release review and clearly marked with express restrictions against sale or further distribution.[5]

IV. Some Red Herrings

The recent fashion among commentators—which seems to be popular with the Court as well—is to see the Court of Appeals for the Federal Circuit as creating new law rather than following Supreme Court precedent. But at least for the first sale doctrine, the Federal Circuit case law is required by the Supreme Court's jurisprudence, in addition to statute.

The Federal Circuit's first sale doctrine closely follows the longstanding precedents of the Court stemming as far back as *Adams v. Burke*, which held that ''when the patentee . . . sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use.''[6]

[5] UMG Recordings, Inc. v. Augusto, No. CV 07-03106 (AJWx), 2008 U.S. Dist. LEXIS 48689 (C.D. Cal. June 10, 2008) (court allows sale under first sale doctrine).

[6] 84 U.S. 453, 456 (1873).

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Even the early cases in the Court's first sale jurisprudence made clear that the doctrine arises from the interaction between patent and contract law. For example, the Court focused on determining that the particular restrictions at issue in the *Adams* case were ''not contemplated by the statute nor within the reason of the contract.''[7] Similarly, in *Mitchell v. Hawley* the Court acknowledged the importance of the freedom of contract, re-emphasizing the ability to restrict contractually the otherwise implied-in-fact patent license at issue in that case.[8] The Court stated, ''Sales of the kind may be made by the patentee with or without conditions, as in other cases.''[9] In effect, the Court treated the first sale doctrine as a default rule that parties could opt out of contractually.

The power to contract around the default first sale rule was clearly demonstrated in numerous cases over the ensuing years.[10] The view was also reaffirmed after the 1952 Patent Act in cases like *Aro Mfg. Co. v. Convertible Top Replacement Co.*, which pointed out that ''it is fundamental that sale of a patented article by the patentee or under his authority carries with it an 'implied license to use.'''[11] The Federal Circuit has closely followed these precedents of the Court. For example, in *Mallinckrodt v. Medipart*, the court upheld a single-use restriction in a label license as long as the terms were not objectionable on grounds applicable to contracts in general—for example, if they violate a rule of positive contract law such as by being adhesionary or unconscionable.[12] Explaining a bit further, the court in *B. Braun Med., Inc. v. Abbott Labs.*, stated that the first sale doctrine

> 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

[7] *Id.*

[8] 83 U.S. 544 (1872).

[9] *Id.* at 548.

[10] See, e.g., Waterman v. Mackenzie, 138 U.S. 252, 255 (1891); Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 662–63 (1895); Gen. Talking Pictures Corp. v. W. Elec. Co., 304 U.S. 175 (1938).

[11] 377 U.S. 476, 484 (1964) (quoting Adams v. Burke, 84 U.S. 453, 456 (1873)).

[12] 976 F.2d 700 (Fed. Cir. 1992). The Federal Circuit's view is also shared by prominent decisions in sister circuits. See, e.g., ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir.1996) (Easterbrook, J.) (non-commercial use restriction in shrink-wrap copyright license for computer program held valid and enforceable as a contractual limit on use).

> ''use'' rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld.[13]

The *Quanta* Court focuses a great deal on the decision in *United States v. Univis Lens Co*.[14] But that case simply does not support the broad sweep the *Quanta* opinion gives it. To the contrary, the most that *Univis* can be fairly understood to have accomplished is a slight expansion of the first sale doctrine to apply regardless of whether ''the patented article [is sold] in its completed form or . . . before completion for the purpose of enabling the buyer to finish and sell it.''[15] In addition, *Univis* must be understood as what it expressly purports to be: a government enforcement case brought under the Sherman Act to enjoin the enforcement of contract requirements to maintain certain resale prices that were determined to be illegal under then-prevailing views of antitrust (and the related doctrine of patent misuse). Unlike in *Univis*, the contract terms at issue in *Quanta* have not been held to be illegal, and would not be today because prevailing antitrust jurisprudence now treats such vertical pricing restraints under the more permissive rule of reason analysis, instead of under the old per se illegality analysis.[16]

Indeed, as mentioned previously, the contract-based view of doctrines like first sale was a central animating principle behind the 1952 Patent Act, which remains the applicable set of patent statutes. As the Court has itself carefully recounted in the lengthy 1980 *Dawson* opinion reviewing this history, the '52 Act expressly revived contributory infringement by substantially narrowing patent misuse and statutorily overruled cases doctrinally related to *Univis*.[17] For many years before the '52 Act, patentees were severely limited in the exercise of the rights to sue or license those who induced or contributed to infringement by the too-often-applied doctrine of patent misuse, which stemmed largely from then-existing antitrust principles. Section 271 set forth express provisions for direct, induced, and contributory infringement, as well as an express provision that

[13] 124 F.3d 1419, 1426 (Fed. Cir. 1997).

[14] 316 U.S. 241 (1942).

[15] *Id.* at 252.

[16] See State Oil v. Khan, 522 U.S. 3 (1997); Leegin Creative Leather Prods., Inc., v. PSKS, Inc., 555 U.S. ____, 127 S. Ct. 2705 (2007).

[17] See Dawson Chem. v. Rohm & Haas, 448 U.S. 176 (1980).

effectively allowed a patentee to sue, license, or even restrictively license anyone otherwise guilty of direct or indirect infringement without committing patent misuse.[18]

Ironically, the *Quanta* opinion's broad anti-contract reading of *Univis* is in conflict with the principles embodied in the '52 Act, as reaffirmed and extensively reviewed by the Court in *Dawson*. As a result, this approach more closely resembles those of the Warren Court in decisions like *Brulotte v. Thys Co.*,[19] than it does the reasoning of the Burger Court in decisions like *Dawson* and *Aronson v. Quick Point Pencil Co.*[20]

It also is fashionable to see cases like *Quanta* as highlighting the tension between two somewhat conflicting legal principles: one generally in favor of freedom of contract, and one generally in favor of freedom from unknown servitudes running with chattels. While the law is rightly skeptical toward restrictive servitudes, especially those that might run with the sale of ordinary chattels,[21] this policy it not so strong and far-reaching as to prevent the commonplace contractual restrictions at issue in limited patent licenses, which, it should be noted, are not even sales of chattels.

There is no need to overturn as an undue imposition on the freedom from servitudes, the long-standing first sale doctrine—which recognizes the enforceability of limited licenses because a number of existing companion doctrines already exist to protect legitimate interests of innocent third parties. As a result, it is possible for all parties to potential transactions to identify sensible categories of cases to which established principles of law or equity apply without resorting to case-by-case judgments of the social desirability of patents where none of the traditional grounds for intervention are

[18] See 35 U.S.C. § 271(d). See also Ill. Tool Works Inc. v. Indep. Ink, Inc., 547 U.S. 28 (2006) (holding that a patent does not support a presumption of market power and abrogating Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942), Int'l Salt Co. v. United States, 332 U.S. 392 (1947), United States v. Loew's Inc., 371 U.S. 38 (1962), and Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2 (1984)).

[19] 379 U.S. 29 (1964) (Douglass, J.).

[20] 440 U.S. 257 (1979).

[21] See 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) (pointing out that ''American precedent is largely, if not quite exclusively, in accord'' with the view that ''one cannot create servitudes in personal property'').

present. But of central importance is the ability of parties to determine, *ex ante*, whether their case meets or fails the requirements of the legal tests that trigger these other doctrines when applied on their own terms. Put differently, it would be unfair and inefficient to bestow the protections provided by such doctrines without requiring a showing that all elements of their legal tests have been met. A broad reading of the *Quanta* decision would obliterate the nuances of existing legal principles that already accommodate appropriate concerns.

The types of contractual restrictions that implement a limited patent license are not foreign to property or contract law generally, are commonly used throughout consumer society, and are even more common in transactions among large commercial parties. Consider, for example, a typical lease for the rental of real or personal property containing a restriction against subleasing: Even the general view favoring the ability to assign and delegate rights and obligations in intangible assets like contracts fully respects the power of restrictive terms in an underlying contract governing whether or how such third-party rights in it can be created.

At the same time, courts have long recognized a host of legal and equitable doctrines to protect purchasers of patented goods from unfair surprise and charges of infringement when patentees have led the purchasers reasonably to think that no patent infringement will lie. Examples of these doctrines include implied-in-fact and implied-in-law licenses, equitable and legal estoppel, and the first sale doctrine itself. Also relevant are contract law doctrines governing contract formation, such as mistake, fraud, misrepresentation, duress, and both procedural and substantive unconscionability, among others.

The law has long recognized that patent law does not include a good-faith purchaser rule. Even an innocent infringer, without knowledge of a patent, who makes something covered by a valid patent claim with her own hands from materials gathered from land she and her ancestors have owned free and clear since time immemorial, is nonetheless liable for patent infringement. The infringement can be of patents that were in existence at the time the product was made. Subsequent patents also may be infringed. Absent a fully paid judgment from a victorious infringement lawsuit against a competitor to convert infringing products into licensed

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products, even innocent buyers who buy from an infringer can be sued for patent infringement. The Court and Congress have both expressly recognized that patentees may therefore face the daunting task of having to sue for infringement all customers who bought from their competitor and stepped in to help patentees by making available causes of action for indirect infringement (like those that motivated the underlying license at issue in this case):

> The court permitted the patentee to enforce his rights against the competitor who brought about the infringement, rather than requiring the patentee to undertake the almost insuperable task of finding and suing all the innocent purchasers who technically were responsible for completing the infringement.[22]

Indeed, the risk of widespread infringement across commercial transactions is so well-known that it has been expressly allocated as a matter of most states' commercial law to merchants regularly dealing in goods of the kind (who are by default required to warranty their buyers against infringement), and to buyers (who are by default required to warranty their sellers) if they provide their sellers with specifications for the goods.[23]

But this does not leave third parties unduly exposed because the doctrines of implied license by equitable estoppel and legal estoppel appropriately step in to fill needed gaps. Although the clearest grant of permission to engage in activities otherwise constituting patent infringement generally is an express grant from the patentee in a contractual license,[24] or even a settlement agreement following a suit for patent infringement,[25] courts have long recognized that the grant need not be express. In addition to the doctrine of first sale as an implied-in-fact contract, at least two distinct additional legal grounds exist to create authority by less than express contractual grant: (1) the doctrine of implied license by legal estoppel triggered when

[22] Dawson, 448 U.S. at 188 (citing Wallace v. Holmes, 29 F. Cas. 74, 80 (C.C.D. Conn. 1871)).

[23] See U.C.C. § 2-312(c).

[24] See McCoy v. Mitsubishi Cutlery, Inc., 67 F.3d 917 (Fed. Cir. 1995) (license is a contract governed by ordinary principles of state contract law).

[25] See Gjerlov v. Schuyler Laboratories, Inc., 131 F.3d 1016 (Fed. Cir. 1997) (suit for breach of settlement agreement is matter of state contract law and treble damages under patent law are unavailable).

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a patentee has licensed or assigned a right, received consideration, and then sought to derogate from the right granted; and (2) the doctrine of implied license by equitable estoppel triggered by a patentee's conduct that reasonably leads another to act in reliance in such a way that it would be unjust to allow the patentee to exclude the actions taken in reliance.

The doctrine of implied license by equitable estoppel illustrates the broad reach of these existing doctrines. Equitable estoppel arises in those cases in which the active conduct of a patentee leads some other party to reasonably believe that it has a right to practice the patented invention. For example, as the Federal Circuit wrote in *Wang Labs., Inc. v. Mitsubishi Electronics of America, Inc.*:

> The record shows that Wang tried to coax Mitsubishi into the SIMM [short for ''Single In-line Memory Module''] market, that Wang provided designs, suggestions, and samples to Mitsubishi, and that Wang eventually purchased SIMMs from Mitsubishi, before accusing Mitsubishi years later of infringement. We hold, as a matter of law, that Mitsubishi properly inferred consent to its use of the invention of Wang's patents.[26]

The court noted that ''[a]lthough judicially implied licenses are rare under any doctrine, Mitsubishi proved that the 'entire course of conduct' between the parties over a six-year period led Mitsubishi to infer consent to manufacture and sell the patented products.''[27]

Importantly, the Federal Circuit has also made clear that the inference of license can be eroded by several factors including: (1) whether the price paid for the relevant product is more closely linked to alternative non-infringing uses than infringing uses, and (2) whether the party asserting the reasonable belief about the license was ever actually in contact with the patentee in a way that would suggest communications about a license had occurred.[28] At the same time, the court has admonished that efforts by patentees to ward off any impression that the grant of a license should be implied will

[26] 103 F.3d 1571, 1582 (Fed. Cir. 1997) (relying on De Forest Radio Tel. Co. v. United States, 273 U.S. 236, 241 (1927)).

[27] *Id.* at 1581–82.

[28] See Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903 (Fed. Cir. 1984).

be ineffective if made after the purchase of the underlying products.[29] Thus, whereas evidence of actual reasonable reliance can be essential to a claim of license under this doctrine, evidence designed to defeat reliance must have arisen at the appropriate time to support a claim of no license.

At bottom, that implied license by estoppel situations may be rare is not a reason to doubt the sense of the legal rule from cases like *Wang Labs*. It is a reflection of the sensible fact that in most high-value deals, the parties will negotiate adequate legal agreements for the benefit of all. Yet *Wang Labs* shows that the principles of equity will work as an important barrier against sharp conduct.

As with cases of laches, the particular applications of these doctrines of equitable and legal estoppel are likely to be fact-intensive, and their proper resolution necessarily requires the use of judicial discretion of the sort that the Federal Circuit applied in *Wang Labs*. But three points are worthy of notice. First, the use of the principles of discretion does not necessarily require a full trial. Some cases are clear enough for judgments as a matter of law. Second, the application of estoppel principles in no way upsets the balance of strong property rights needed for commercialization, as the patentee has it always within its power to avoid the conduct that, depending on the scope of the estoppel, leads to the loss of past damages, injunctive relief, or both. Third, in some cases, the extent of the reliance and the nature of the course of dealing could justify protection against injunctive relief—an issue not explicitly addressed in *Wang Labs*. Indeed, relief by estoppel may even be prospective, as in real estate cases like *Holbrook v. Taylor*.[30]

Conclusion

The long-standing first sale doctrine has been a gap-filling default rule. It merely implies into contracts for sale of patented products from the patentee that are otherwise silent as to license some terms that reflect the parties' actual intent giving the buyer license to use the purchased products. The *Quanta* decision appears to upset this efficient and long-established landscape by doing violence to the

[29] See Met-Coil Sys. Corp. v. Korners Unlimited, Inc., 803 F.2d 684 (Fed. Cir. 1986).

[30] 532 S.W.2d 763 (Ky. 1976).

expressed intent of even commercially sophisticated contracting parties—as reflected in their actual contract terms that are designed to create only a limited patent license. Such license restrictions should be enforceable as long as they comply with contract law and other applicable areas of law. This would help parties resolve and avoid litigation, thereby helping them bring new products and services to market. For all these reasons, let's all hope that *Quanta* will be limited to its facts—including the particular contract terms at issue—which the Court hopefully saw as having merely failed as a matter of contract law to achieve on their own terms the limited license that would ordinarily be enforced under the long-established first sale doctrine.