No.

In the Supreme Court of the United States

OCTOBER TERM, 1993

INTEL CORPORATION, PETITIONER

v.

ULSI SYSTEM TECHNOLOGY, INC., RESPONDENT

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

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PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether an unlicensed infringer may escape liability for infringement of a patent on a product simply by having a licensee of the patent holder manufacture the infringer's product (using the infringer's design) and deliver the product to the infringer, who in turn sells the product.

RULE 29.1 STATEMENT

Petitioner Intel Corporation has no parent company and no subsidiaries other than wholly owned subsidiaries.

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OPINIONS BELOW

The opinion of the court of appeals and the dissent from denial of rehearing en banc (App., *infra*, 1a-23a, 41a-42a) are reported at 995 F.2d 1566. The opinion of the district court (App., *infra*, 24a-39a) is reported at 782 F. Supp. 1467.

JURISDICTION

The judgment of the court of appeals was entered on June 10, 1993. A petition for rehearing was denied on August 26, 1993. App., *infra*, 40a-42a. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 271(a) of the Patent Act, 35 U.S.C. § 271(a), provides, in relevant part: "[W]hoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent."

STATEMENT

This much-publicized patent case presents a broadly important and unsettled issue of law in the context of cutting-edge technology: whether an infringing product can be "laundered" by having it manufactured by a licensee of the patent holder.

The court of appeals misapplied the "first-sale" or "patent exhaustion" doctrine, which developed long ago to protect those who purchase patented articles from authorized sources. Under the first-sale doctrine, one who purchases an article that embodies a patent may use or resell that article at will without infringing the patent. *E.g.*, *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895).

In this case, by contrast, the patented invention was embodied in circuitry configurations that belonged to a third-party imitator, not the patentee or licensee. The licensee fabricated the imitator's products according to a design provided and owned by the imitator. The licensee did not own the products it fabricated. The Federal Circuit nonethe-

less held that the fabrication and physical transfer of a product that was never owned by the patentee or licensee was a "sale" by the licensee to the infringer that exhausted the *patentee's* rights, so that the infringing design was "laundered" or cleansed of patent infringement.

The importance of the Federal Circuit's decision is apparent. The panel dissent observed that "a wrong precedent in this particular context is a cause for concern, since it can only lead to even further confusion regarding an important issue of law." App., *infra*, 12a. The dissent from denial of rehearing en banc added, "the consequences * * * are economically far-reaching and likely to be harmful." *Id.* at 42a. Of particular concern were the effects on "American industry [within] a worldwide competitive environment," since under the Federal Circuit's rationale a U.S. patentee may be "held to have inadvertently lost the benefits of the patent system." *Id.* at 41a.

In this case there is as much judicial disagreement as is possible on a patent issue within the Federal Circuit's exclusive appellate jurisdiction (see 28 U.S.C. § 1292(c)(1)). There are directly conflicting district court decisions. Compare *Cyrix Corp.* v. *Intel Corp.*, 803 F. Supp. 1200 (E.D. Tex. 1992) (imitator may use foundry relationship with licensee to avoid liability for infringement), appeal pending, No. 93-1573 (Fed. Cir.), with App., *infra*, 24a-39a (district court ruling reversed by decision below: infringer cannot avoid liability by having its product made by licensee). See also *Timken* v. *Olin*, 41 F. 169, 171 (C.C.S.D. Ohio 1890) (rejecting "proposition that all that is necessary for an infringer to do * * * is to procure the manufacture of the infringing article by a licensee"). In addition, the Federal Circuit panel was divided, and there were three dissents from denial of rehearing en banc.

Parties on both sides of the issue have recognized its importance. Counsel for one of Intel's adversaries, for example,

wrote in a published article that "the substantial economic consequences of any decision by the Federal Circuit on this issue" lead him to "[a]ssum[e] a grant of certiorari," which would allow this Court — which has not addressed a "first-sale" issue since 1942 — "to reconsider the applicability of the rule of [*United States* v.] *Univis Lens* [*Co.*, 316 U.S. 241 (1942),] to products manufactured by a licensed foundry but owned and designed by that foundry's customers." Abramson, *When the Chickens Come Home to Roost: The Licensed Foundry Defense in Patent Cases*, COMPUTER LAW., Mar. 1993, at 1, 6.[1] And a ULSI spokesman admitted that the decision below had "ramifications * * * for the entire semiconductor industry." *Intel, Clone Maker ULSI at Odds Over Federal Court Decision*, PC WK., July 5, 1993, at 106. This case, in short, presents the kind of important issue that should not be left to a divided Federal Circuit alone, but should be reviewed by this Court.

A. Factual Background

An intensive program of research and development has made petitioner Intel the industry leader in semiconductor design and manufacturing. Intel introduced the first commercially available microprocessor in 1971. Intel integrated circuits (commonly known as "chips") have become the technology of choice within the computer industry. Intel's industry-leading inventions come at a high price — Intel spent more than one and one-half billion dollars on research and development from 1986 to 1990, and nearly as much in 1991 and 1992 alone. C.A. App. A406.

The product at issue in this case is a math coprocessor, which is an auxiliary computer chip that performs certain mathematical computations while the main microprocessor in

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[1] Mr. Abramson represented the defendant in *Intel Corp.* v. *Chips & Technologies, Inc.*, No. C-92-20111 JW (EAI) (N.D. Cal.), one of the several cases that have arisen raising the exact issue presented in this case. That action was settled before any ruling by the trial court.

a computer performs other functions. Intel owns the "Palmer patent" (U.S. Letters Patent 4,338,675 and U.S. Reissue Letters Patent 33,629), which describes a "numeric data processor" that was first incorporated into Intel's 8087 coprocessor in 1980 and more recently has been incorporated into Intel's 80387 coprocessor. The Palmer patent increases computation speed more than 100 times. C.A. App. A404.

1. *HP/Intel Cross-Licensing Agreement*

Within the computer industry, a multitude of competing innovators for years have engaged in research in related areas. Because intellectual property is the most valuable treasure in the business, each company patents as many innovations as it can. Improvements in the art frequently must build on previously patented inventions. Companies therefore either must design around existing patents that belong to their competitors, or risk infringing those patents, and meanwhile must expend sufficient resources to enforce their own patents against infringements by others.

The major participants in the industry in the 1970s and 1980s sought "patent peace." Rival innovators agreed to cross-license their existing and future patents for specified periods, so that each could develop its own products without worrying about the other's patented efforts in the same direction. Cross-licensing also increased the efficiency of their design efforts. Innovators did not need to design around as many patents and could redirect resources from patent litigation to research.

Hewlett-Packard (HP) and Intel are among the principal innovators in the industry. Their 1983 cross-licensing agreement is both simple and broad. Scarcely 300 words, the agreement recites that "HP and INTEL each want to increase their freedom of design by obtaining a license under present and future patents and patent applications owned or controlled by the other" (C.A. App. A36), and provides, after an identical grant from HP to Intel, that

> INTEL hereby grants HP an irrevocable, retroactive, nonexclusive, world-wide, royalty-free license under all patents and patent applications owned and controlled by INTEL having a first effective filing date prior to January 1, 2000, said license to be effective until the expiration of said patents.

Id. at A37. The agreement does not empower either party to convey any rights to third parties. *Id.* at A36-A37.

2. *The Foundry Contract Between ULSI and HP*

HP sometimes acts as a contract manufacturer making other companies' parts according to designs that are developed and owned by the customers and then provided to HP. In industry parlance, it provides "foundry" services.

Respondent ULSI System Technology, Inc., like many other entrants into the computer industry, did not expend significant capital on manufacturing capacity *and* did not depend on innovative research to make its way. At the time of trial, ULSI's sole business was designing, having others fabricate, and selling the US83C87 coprocessor, an imitation of the Intel 80387 that, according to the only court that has addressed the question (App., *infra*, 28a-30a), infringes Intel's Palmer patent. Several other manufacturers, including Motorola, Weitek, and ITT, have designed math coprocessors that do not infringe the Palmer patent (C.A. App. A434). ULSI, however, did not design around the patent.

In 1991 ULSI recruited HP as a foundry for ULSI's 'C87 coprocessor. The ULSI/HP agreement made clear that HP would contribute only manufacturing capability and expertise, while ULSI would provide the design that could be used to transform raw silicon into a functioning coprocessor.

HP's role was to obtain blank silicon wafers and to etch ULSI's circuitry patterns on those wafers according to ULSI's design instructions. C.A. App. A38-A61, A412-A413. "ULSI supplied HP with the physical layout and design speci-

fications for the 'C87 coprocessor, encoded on a magnetic design tape." App., *infra*, 3a n. 3. But ULSI kept HP in the dark about the workings of the ULSI coprocessor: "HP did not receive complete functional diagrams or schematics." C.A. App. A412.

HP imprinted a pattern dictated by ULSI's design tape onto a series of quartz glass plates, also known as "reticles" or "masks." App., *infra*, 34a. This task was as menial as it sounds: any semiconductor foundry, whether or not licensed under Intel patents, could create identical reticles using ULSI's design tape. C.A. App. A412. Blank silicon wafers were exposed to light through reticles, forming a pattern that was chemically etched to become the circuitry of the coprocessor. *Ibid.* HP tested the wafers only to ensure that the fabrication was performed correctly; it did not test the functioning of the circuitry. *Id.* at A59-A60, A412-A413.

Although the ULSI/HP agreement was captioned a "sale" (C.A. App. A38), the agreement stated that HP was selling only "prototype and production fabrication of an integrated circuit designed by ULSI" (*ibid.*). ULSI at all times retained the ownership of the circuitry design (C.A. App. A43, A52); HP had no ownership rights whatever in the imprinted ULSI wafers, and had no right to use or sell those products (*id.* at A413).[2] HP could deliver the ULSI products only to ULSI, and had to return or destroy the design tapes and reticles upon completing the fabrication services. *Ibid.*

When HP learned that ULSI's coprocessor was intended to be compatible with the Intel 80387, it asked ULSI whether ULSI "had any concerns about intellectual property rights." C.A. App. A411. ULSI replied that it had none. *Ibid.* ULSI did not tell HP that HP's cross-license with Intel was impor-

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[2] Similar agreements sometimes allow the foundry to sell the foundry customer's product to third parties under the foundry's label, but the foundry must pay a royalty *to the customer that supplied the design.*

tant to ULSI because ULSI intended to benefit from the license without paying for the privilege. Instead, ULSI *warranted* that it had not "improperly or unlawfully acquired the information and processes submitted to HP" to aid HP in fabricating the ULSI products (*id*. at A42, A51), *indemnified* HP from all liability for patent infringement that might arise from HP's fabrication of the ULSI products (*id*. at A42, A51), *licensed HP* "under any patent and mask works required to execute this Agreement" (*id*. at A44, A53), and, as the owner (as against HP) of the intellectual property rights in the design, *assumed* the "sole responsibility" to obtain patent or other protection for that property (*id*. at A43, A52).

B. Proceedings Below

In 1991 ULSI introduced its imitative coprocessor. When installed with ULSI's demonstration diskette, a computer would display the message, "The math coprocessor detected is an Intel 80387," even though a ULSI chip had been installed. C.A. App. A164. Intel determined that ULSI's coprocessor infringed the Palmer patent and filed suit in the United States District Court for the District of Oregon. *Id*. at A159-A168. ULSI stipulated to a permanent injunction against the misleading demonstration diskette. App., *infra*, 25a-26a. Intel did not sue HP because Intel has no quarrel with HP's performance of foundry services for ULSI. This dispute is between Intel, which owns the patent, and ULSI, which has infringed Intel's patent without paying *anyone* for the privilege.

After a hearing, the district court entered a preliminary injunction against ULSI's patent infringement. The district court held that the Palmer patent was valid and that ULSI's coprocessor infringed. App., *infra*, 28a-32a. The court rejected ULSI's claim that, because HP was licensed to practice Intel's patent, ULSI was immune as well from liability for infringing the patent on the theory that HP had "sold" the ULSI-owned and -designed chips to ULSI. In the district court's view, ULSI

in effect was claiming that HP had sublicensed ULSI to practice the Palmer patent; the court held that HP was not authorized and did not intend to grant ULSI a patent sublicense. *Id.* at 34a-36a. Moreover, the court added, "no *sale* took place" because "Hewlett-Packard never assumed any ownership rights in any ULSI product and had no right to use or sell any ULSI product." *Id.* at 36a-37a n.7.

A divided Federal Circuit panel reversed. App., *infra*, 1a-23a. The panel reached only the first-sale issue, but determined it with finality, holding that "ULSI is immune from infringement." *Id.* at 9a; see also *id.* at 10a ("we hold that the 'C87 coprocessors were insulated from Intel's claim of infringement because they were sold to ULSI by HP").[3]

The panel seized on the caption of the HP/ULSI agreement to determine that HP had managed to "sell" to ULSI the ULSI products that HP never owned. App., *infra*, 7a. Intel's right under the patent laws not to have a third party (as opposed to a licensee) practice its patents was irrelevant: "That ULSI, rather than HP, might have owned any existing intellectual property rights to the chips was a matter between ULSI and HP, and did not concern Intel." *Ibid.*

Judge Plager dissented, stating that the panel transformed "a sensible and socially desirable agreement between Intel and HP * * * into an unintended gift to all manner of infringers." App., *infra*, 22a. In his view, the "` patent exhaustion' or ` first sale' defense was simply lawyer argument by ULSI trying to capitalize on the existence of an agreement between other parties (Intel and HP) in which ULSI had no part." *Ibid.*

Examining the ULSI/HP transaction in light of the policy of the patent laws, Judge Plager concluded that the "question

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[3] Judge Plager, in dissent, asserted (without contradiction from the majority) that the panel opinion "not only overturns the injunction but terminates the litigation." App., *infra*, 23a.

of whose design and whose property was involved is not only relevant, but determinative." App., *infra*, 15a. The substance of the transaction was that HP "ma[de] [ULSI]'s invention for [ULSI]'s account." *Id.* at 18a-19a. Transfer of the fabricated product to ULSI did not constitute a "first sale" that exhausted Intel's patent because "HP never had ownership rights in the invention to sell to ULSI; if there was a `sale,' it must have been of something else," namely HP's *services*. *Id.* at 21a. The first sale of the "*accused product*" was by ULSI to its customers (*id.* at 19a-20a) and did not take place under the patent or the HP/Intel license.

Judge Plager also noted that the testimony "indicate[d] unequivocally that neither party to the [HP/Intel] cross-license understood or intended their cross-license to bring [ULSI's] activity within the scope of the cross-license." App, *infra*, 19a. Therefore, because HP was not "authorized * * * to manufacture infringing embodiments of the Palmer patent at the behest of others," any "first sale" by HP to ULSI was not authorized and could not immunize ULSI from liability for infringement. *Id.* at 16a.

The court denied Intel's petition for rehearing and suggestion of rehearing en banc. App., *infra*, 40a. Judge Plager, joined by Judges Newman and Rader, dissented, noting that the panel opinion "frustrate[d] the contracting parties' reasonable commercial expectations, and destroy[ed] important property rights they had under the patent laws." *Id.* at 41a. They observed: "it is not the place of courts to limit or expand these arrangements * * * in a manner that is avowedly inconsistent with what the parties intended," particularly "when the consequences of doing so * * * are economically far-reaching and likely to be harmful." *Id.* at 41a-42a.

REASONS FOR GRANTING THE PETITION

In the course of enforcing a patent in favor of a leading innovator of the 19th century, this Court noted, "There are al-

ways those who are ready to gather where they have not sown." *Rubber Co.* v. *Goodyear*, 76 U. S. (9 Wall.) 788, 793 (1870). That observation holds just as true in the late 20th century. The Federal Circuit, however, misinterpreted patent law to prefer an unlicensed imitator over an innovator, and held that an infringer could escape liability merely by having its infringing product fabricated at the production facility of a patent licensee. As the dissenting judge noted, that is "both bad law and bad policy." App., *infra*, 22a.

The Federal Circuit gave its imprimatur to a method of patent evasion. The laundering technique that the court of appeals endorsed has appeared so far mainly within the multi-billion-dollar semiconductor industry, but — now bolstered by judicial approval — has limitless potential for application elsewhere, for it is not uncommon for one company to contract with another company to manufacture the first company's products. A patent infringer now "need only find a suitably cross-licensed company to be [its] manufacturing supplier" in order to disregard any licensed patent. Hustein & Greguras, *Cross-License Agreements Can Circumvent Patent Infringement*, S.F. DAILY J., Nov. 8, 1993, at 5.

The Federal Circuit made "[n]o effort * * * to justify this result on the grounds of public policy" (App., *infra*, 41a (en banc dissent)), nor did it purport to analyze the language, structure, or legislative history of the patent laws. Instead, the court reached its puzzling result under the perceived compulsion of a 1942 antitrust decision of this Court, *United States* v. *Univis Lens Co.*, 316 U.S. 241, and prior Federal Circuit decisions that addressed other issues. The older first-sale decisions involved sales of articles made by the patentee or by a licensee using an invention obtained from the patentee. They did not approve an attempt by an unlicensed party to launder its own infringing invention by engaging a patent licensee to fabricate articles incorporating that invention.

I. THE ISSUE PRESENTED IN THIS CASE IS IMPORTANT TO AMERICAN INDUSTRY

This Court long ago recognized that the "vast pecuniary results involved in [patent exhaustion] cases, as well as the public interest," counseled particular judicial care in addressing the first-sale doctrine within different factual contexts. *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 455 (1873). The basics of the first-sale doctrine have since become established, but this case presents a conspicuous new wrinkle, a wrinkle that presents the same "vast pecuniary results" and "public interest" that spurred this Court's previous attention to the issue.

The press immediately noted that the Federal Circuit's "ruling has broad implications for the semiconductor industry." Clark, *Intel Loses in Ruling on Patents*, S.F. CHRON., June 15, 1993, at C1. It is difficult to overstate the importance of that industry alone. Microchips virtually define the high-technology environment of the 1990s; not only personal computers, but a vast range of devices from automobiles to irrigation systems, now depend on semiconductors.

"[T]he ULSI case is not limited to semiconductors," however; "[c]ross-license agreements exist in innumerable variations relating to many technologies and industries." Hustein & Greguras, *Impact of the ULSI Case on High-Technology Industry*, S.F. DAILY J., Nov. 9, 1993, at 5. "Attorneys and executives concerned with intellectual property licensing and litigation will be fascinated by the * * * decision * * *. Its treatment of the doctrine of patent exhaustion has far reaching implications for a broad range of technologies * * *." Martin, Intel Corp. v. ULSI System Technology, Inc.*:* *Patent Exhaustion and Post-Sale Restrictions on the Use of a Component Made Under License*, 2 TEX. INTELL. PROP. L.J. 5, 6 (1993). Even if future cross-licenses might explicitly preclude the free-riding that occurred in this case, the effect of exposing current licenses to that misuse should not be underestimated: the HP/Intel agreement, for example, covers all patents for which applications are submitted before January 1,

2000. Allowing a typical two years from the filing of an application to the issuance of the patent, the last patents under that agreement will not expire until 2018.

The decision in this case transforms any broad patent license to a *single* company into a vehicle for an unlimited number of infringers. Declaring open season on licensed, patented intellectual property can only hurt the competitive position of U.S. business in the world market. In addition, by penalizing innovation and rewarding imitation and deviousness, the Federal Circuit's decision thwarts the purpose of the patent laws.

A. The Patent Evasion Sanctioned by the Federal Circuit Is Likely to Become Widespread Because Cross-Licensing and Use of Contract Fabricators Are Common

The problem of the potential misuse of licenses by third parties is especially acute in industries in which cross-licenses are common. They have been very common in the computer industry, and helped spur the progress of that technology. See Merges & Nelson, *On the Complex Economics of Patent Scope*, 90 COLUM. L. REV. 839, 893-894 (1990). The cross-licensing parties licensed only innovators in related fields, not mere imitators who brought no intellectual property to the table. By inviting beggars to the banquet, the Federal Circuit has penalized the innovators in this leading segment of the American economy.

Cross-licenses also are common in other industries that depend on rapid technological innovation.[4] Because the Fed-

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[4] *E.g.*, *Agchem Producers Sow Plans for a Rich Harvest*, CHEMICAL WK., Aug. 18, 1993, at 33 (genetic engineering); *Siemens Agrees to Pay Medtronic $75 Million*, N.Y. TIMES, Sept. 12, 1992, at 35 (pacemakers); *Motorola, Philips OK Licensing Deal*, CHI. TRIB., Apr. 1, 1992, at C3 (telecommunications); *Westinghouse Electric Corp.*, WALL ST. J., Mar. 24, 1992, at B4 (nuclear power); *Rapidly Made Models Won't Warp, Shrink*, ADVANCED MFG. TECH., Dec. 15, 1990, at 4 (three-dimensional modeling); *Syntro: Focus on Animals Now*, INSIDE R & D, Oct. 3, 1990, at 4 (vaccines); Merges & Nelson, *supra*, 90 COLUM. L. REV. at 890 ("relatively automatic cross licensing" in automobile industry); *id.* at 891

eral Circuit's decision opens cross-licenses in *all* industries to abuse by third-party imitators who make use of licensees' manufacturing facilities, strategies similar to ULSI's may be expected to appear in the fields of genetic engineering, telecommunications, and medical devices, among others.

Foundry and other contract manufacturing agreements also are widespread. Foundry arrangements are commonplace in the computer industry because manufacturing capacity for integrated circuits is overbuilt, and it is cost-effective for many companies to spend resources in improving designs rather than in adding their own redundant fabrication capability. Rappaport & Halevi, *The Computerless Computer Company*, HARV. BUS. REV., July-Aug. 1991, at 69, 72-75; *Small Semicon Firms Drop Fabs for Foundries*, ELECTRONIC NEWS, Mar. 7, 1988, at 16. Most of the principal market participants — including Intel — perform foundry services for smaller firms, and in turn have some of their own products manufactured by outside foundries. But the socially desirable situation in which one who is *entitled* to make a product contracts to have manufacturing performed by someone who can do it efficiently differs markedly from that in which an unlicensed imitator claims entitlement simply *because* it has chosen a foundry having a license with the patent holder.

The practitioners of the art of laundering infringing designs by using licensed foundries show no hesitation to publicize its advantages for those who would rather profit from others' research than do their own. Counsel for one company remarked that, by "making clear that these arrangements are OK, the decision [below] may well encourage others to adopt the ULSI approach." Clark, *supra*, S.F. CHRON. at C1 (quo-

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(same in aircraft industry); *id.* at 900 (chemical industry).

ting counsel for Chips & Technologies, Inc.). And counsel for ULSI declared that infringers no longer need worry about designing around patents or paying for licenses: "[A]ll we have to do is use a licensed foundry and we're all set." Orenstein, *Chip Makers Given New Defense Against Infringement Claims*, THE RECORDER (S.F.), June 15, 1993, at 1.

Intel's multi-billion-dollar research program is the target of the licensed-foundry device in this case, but Intel's position is not unique. If this Court allows the Federal Circuit's decision to stand, other innovators soon will find their intellectual property involuntarily shared with those who — like ULSI — give up nothing for the right to use that property.

B. The Federal Circuit's Decision Injures American Competitiveness in a Global Economy

In addition, the Federal Circuit's holding "potentially disadvantag[es] companies in a volatile [high-technology] industry * * * in competing world-wide." App., *infra*, 22a (panel dissent). In the 1990s and beyond, America's primary competitive asset in international markets — particularly in the high-technology sector — is intellectual property.

The Federal Circuit's decision dramatically weakens the protection of that key resource by easing the path for third parties to use licensed patents freely by engaging the licensee in a fabrication contract in which the licensee's patent rights play a legal but not a technological role. The court of appeals' decision will not go unnoticed overseas.

The decision also discourages "new and innovative arrangements for sharing emerging technology" within a "worldwide competitive environment," by increasing the risk that those arrangements will cost American companies their intellectual property. App., *infra*, 41a (en banc dissent). The Federal Circuit's decision discourages technology sharing among American innovators facing foreign competition and

exposes American companies to abuse by current and future contractual partners of their licensees. A foreign company could easily use a licensee American or foreign as a foundry in order to gain free access to a U.S. company's patents, at great cost to the American company's competitiveness here and abroad.[5] Indeed, cross-licenses, which are often necessary for U.S. companies to enter foreign markets effectively, already present some opportunities for abuse. See Spero, *Patent Protection or Piracy — A CEO Views Japan*, HARV. BUS. REV., Sept.-Oct. 1990, at 58, 64. The structure of continuing reciprocal relationships between large groups of companies within Japanese industry, for example, is especially conducive to misuse of cross-licenses to launder infringing products. Sakai, *The Feudal World of Japanese Manufacturing*, HARV. BUS. REV., Nov.-Dec. 1990, at 38, 48 (Japanese subcontractors regularly clone products licensed by American patentees to larger Japanese companies); see also Molina, *The US Revalues Its Electronics Patents*, NEW SCIENTIST, May 1, 1986, at 40, 43 (Japanese companies "participate in a complex mesh of cross-licensing").

Foreigners' intellectual property violations impose an annual cost of $40 to $60 billion on U.S. businesses. *Intellectual Property and International Issues: Hearings Before the Subcomm. on Intellectual Property and Judicial Admin. of the House Comm. on the Judiciary*, 102d Cong., 1st Sess. 8 (1991) (statement of Carla A. Hills, U.S. Trade Representative). Thus, there is a statutory U.S. negotiating objective to induce foreign governments to protect intellectual property adequately. See 19 U.S.C. § 2901(b)(10). The Federal Circuit's decision undercuts that objective. For example, the "Japanese patent system is short on disincentives to piracy and

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[5] Lost royalties also could have a significant impact on U.S. businesses, which in 1990 took in $12.6 billion more in patent license royalties from foreign companies than they paid out. Perez, *Exploitation and Enforcement of Intellectual Property Rights*, COMPUTER LAW., Aug. 1993, at 10, 12 (Fig. 2).

remedies for companies whose technologies are targeted." Spero, *supra*, HARV. BUS. REV. at 66. American negotiators will find it difficult to convince Japan that its system is inadequate when American patent protection is so fragile. It is still more difficult to argue in an arena such as the General Agreement on Tariffs and Trade that broader international intellectual property protections should be modeled on U.S. patent law, see Maskus, *Intellectual Property*, in COMPLETING THE URUGUAY ROUND 164, 170 (J. Schott ed., 1990), when the protections afforded by U.S. law can be evaded as easily as they were in this case. And, to undercut American negotiators' credibility further, the enforcement of Tariff Act Section 337 (19 U.S.C. § 1337) — already controversial — seems all the more trivial and arbitrary if a foreign infringer's ability to maneuver past the ITC depends on minor variations in the language of cross-licenses to which the infringer is not even a party. See App., *infra*, 9a-10a (distinguishing this case from *Intel Corp.* v. *ITC*, 946 F.2d 821 (Fed. Cir. 1991) (*Atmel*), because the license in that case was expressly restricted to the licensee's products).

The Federal Circuit's decision would exacerbate the trend to send manufacturing jobs overseas. Now, not only may a foreign manufacturing house exploit lower labor costs to draw contracts away from the United States, but manufacturers that are licensed to practice American patents can entice U.S. concerns with cut-rate access to the intellectual property of their American rivals.

C. The Federal Circuit's Decision Creates Perverse Incentives and Bestows Perverse Rewards That Thwart the Purpose of the Patent Laws

The purpose of the patent laws is to advance the progress of technology by ensuring that innovators have the exclusive right to the fruits of their inventions "as an incentive for their inventiveness and research efforts." *Diamond* v. *Chakrabarty*, 447 U.S. 303, 307 (1980). The Federal Circuit, by

contrast, condoned the circumvention of valid patent rights by free-riders, thus encouraging imitation over innovation. Yet the court of appeals offered no *reason* to penalize innovators who contributed to the synergistic growth of an industry by allowing those who have added nothing to use those hard-won innovations for free. Rather than using patent law to encourage technological discovery, the Federal Circuit encouraged the discovery of others' patent licenses.

The decision distorts another incentive by encouraging arrangements based not on the most efficient use of manufacturing capacity, but on the opportunity to use patents without paying for them. Designers will pick foundries because of their patent license portfolios rather than their manufacturing skill. According to counsel for one designer: "[F]irms preparing to launch compatible products * * * recognized a way to turn their nascent foundry relationships to defensive advantage. Having heard about the patent cross-license agreements entered into by many large semiconductor companies in the 1970s, they formed foundry relationships with parties to these licenses." Abramson, *supra*, COMPUTER LAW. at 2-3.

The decision below also discourages innovation by companies that have entered into licensing agreements, including most major innovators in the U.S. computer industry. There is a drastically reduced incentive for a company like Intel to spend hundreds of millions of dollars in research each year if any imitative producer that has its infringing products fabricated by a licensee can use Intel's expensive inventions —and need not contribute to the research effort either by paying royalties or by cross-licensing patented technology.

The decision certainly discourages broad cross-licensing arrangements of the type that helped the American computer industry prosper. Although parties might contract around *this* decision, the court has made clear that free-riders may use patented inventions without paying, unless the particular circumvention is expressly forbidden by the terms of the license. See

Hustein & Greguras, *supra*, S.F. DAILY J., Nov. 9, 1993, at 5 ("transactions can be fashioned in clever ways to achieve what may amount to a legal circumvention of patent limitations"). Any firm that licenses its inventions consequently risks that some third-party imitator will appear with a new contractual arrangement that was not "expressly" prohibited, or a new argument for disregarding the patent based on the fabricator's cross-license rights, and will obtain a sympathetic ruling in the Federal Circuit.

D. This Court Alone Can Correct the Problem

No lower court is at liberty to disagree with the Federal Circuit on a patent issue. No circuit conflict is possible. The error in this case can be corrected only by this Court.

Perhaps for that reason, this Court rarely declines to review a substantive patent law issue on which one or more Federal Circuit judges have published an opinion dissenting from denial of rehearing en banc.[6] The three votes supporting rehearing en banc in this case demonstrate the importance of the issue presented and the need for review by this Court.

II. THE FEDERAL CIRCUIT ERRONEOUSLY ENLARGED THE FIRST-SALE DOCTRINE

Long before there was a Federal Circuit, a federal judge put the issue in this case succinctly: "The mere statement of

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[6] See *Morton International, Inc.* v. *Cardinal Chemical Co.*, 967 F.2d 1571 (Fed. Cir. 1992) (three judges dissenting from denial of rehearing en banc), rev'd, 113 S. Ct. 1967 (1993); *Eli Lilly & Co.* v. *Medtronic, Inc.*, 879 F.2d 849 (Fed. Cir. 1989) (one judge dissenting from denial of rehearing en banc), aff'd, 496 U.S. 661 (1990); cf. *Asgrow Seed Co.* v. *Winterboer*, 989 F.2d 478 (Fed. Cir. 1993) (one judge dissenting from denial of rehearing en banc), petition for cert. pending, No. 92-2038. But cf. *Malta* v. *Schulmerich Carillons, Inc.*, 959 F.2d 923 (Fed. Cir.) (one judge dissented from denial of rehearing en banc on retroactive application of circuit decision post-dating trial and standard for reviewing jury verdicts), cert. denied, 112 S. Ct. 2942 (1992).

the proposition that all that is necessary for an infringer to do, in order to escape liability for his infringement, is to procure the manufacture of the infringing article by a licensee of the complainant, is sufficient for its refutation." *Timken* v. *Olin*, 41 F. 169, 171 (C.C.S.D. Ohio 1890). The proposition makes no more sense now than it did then, and the Federal Circuit's contrary holding should be overturned.

An analogy shows the unsoundness of the Federal Circuit's reasoning. A lawyer brings the manuscript of a brief to a printer's shop. The printer obtains blank paper, sets the submitted manuscript in type, and prints several copies of the brief. The lawyer then pays the printer a price per brief. The logic of the Federal Circuit compels the conclusion that the printer has "sold" the briefs to the lawyer, and in so doing has "sold" whatever intellectual property might inhere in the briefs, even though that intellectual property originated with the lawyer and was not changed by the printer. If the printer was licensed to print a third party's copyrighted material that the lawyer had plagiarized, the lawyer would be immune from an infringement action by that third party.

Substitute ULSI for the lawyer, HP for the print shop,[7] and patent for copyright,[8] and this case is on all fours. The relevant information — the *only* aspect of ULSI's product that infringed Intel's patent — was the circuitry that HP cut into the reticles (*i.e.*, typeset) and etched into the blank silicon (*i.e.*, printed on blank paper), circuitry that follows exactly the pattern contained on the tapes (*i.e.*, manuscript) ULSI submitted to HP. HP no more "sold" infringing coprocessors to

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[7] "Foundries * * * are printing presses, and designers are writers." Barney & Waller, *Moore vs. Mead: Is Silicon Valley Obsolete?*, ELECTRONICS, Apr. 2, 1987, at 61 (paraphrasing Carver Mead, Cal Tech, co-inventor of design method that made semiconductor foundries possible).

[8] A virtually identical first-sale doctrine applies to copyrights. 17 U.S.C. § 109; *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908).

ULSI than Wilson-Epes Printing Company "sells" briefs to undersigned counsel. To use another analogy, it no more "sells" coprocessors than Fotomat "sells" photographs to the person who brings in the negatives. Yet the decision below depends entirely on the opposite premise.

The Federal Circuit stretched the first-sale doctrine out of shape to apply it in this case. The reasoning in *Univis Lens*, the antitrust case on which the court of appeals relied, makes that point clear.

A. The Federal Circuit Applied the "First-Sale" Doctrine to a Situation Not Addressed in Prior Cases and Not Covered by the Policy of That Rule

1. The venerable first-sale or patent exhaustion rule arose when patentees claimed that purchasers of the patented products (either from the patentee or a licensee) infringed the patent by their use of the purchased article. *E.g.*, *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453 (1873). Before the current spate of litigation involving Intel, no court had ever suggested that the rule extended to exhaust a patentee's rights over infringing products that were designed by and manufactured exclusively for an unlicensed third party, but were fabricated by a patent licensee. When the issue arose contemporaneously with the origin of the rule, the court dismissed out of hand the argument that an infringer could evade liability so cheaply and easily. *Timken* v. *Olin*, *supra*.

The Federal Circuit provided no reason to extend the rule to such transactions, but apparently thought itself bound by a 1942 antitrust decision, *United States* v. *Univis Lens Co.*, *supra*. See App., *infra*, 6a, 9a-10a. *Univis Lens* condemned resale price restrictions imposed on purchasers of a product manufactured by the patentee's parent corporation under a patent license. No unlicensed parties had any input into the intellectual property at issue in *Univis Lens*, and there was no infringement issue in the case. The Federal Circuit has endowed *Univis Lens* with more significance than the case can

bear, and with significance that ignores controlling language in the older case. Because the most innovative American companies may suffer from an uncorrected misinterpretation of that 50-year-old antitrust case for at least another quarter century, the formalism of the Federal Circuit (equating any transfer of a patented device to an infringer, after fabrication by a licensee, with the patent-exhausting sale of a product incorporating a patented invention) should be rejected.[9]

The first-sale doctrine exists to protect *innocent* purchasers — who participate in neither design nor fabrication of a patented article — from suits brought by a patentee that has already received its recompense for the patent on the article sold. *E.g.*, *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659 (1895); *Adams* v. *Burke*, *supra*. To carry out that purpose, the "first sale" that exhausts the patent holder's rights must be a sale by the party that owns (or has the right

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[9] The Federal Circuit placed ULSI's activities under the rubric of cases that involved products made under the typical licenses to fabricate from the *patentee's* design — in other words, "private label" cases in which the patentee was upset because the licensee was doing exactly what it was licensed to do, but was allowing its customer to sell the product as if it were the customer's. See App., *infra*, 6a, 8a (citing *Unidisco, Inc.* v. *Schattner*, 824 F.2d 965 (Fed. Cir. 1987), cert. denied, 484 U.S. 1042 (1988), and *Lisle Corp.* v. *Edwards*, 777 F.2d 693 (Fed. Cir. 1985)). In *Lisle* the court of appeals rejected the contention that a licensee's customer infringed the patent because the licensee affixed the customer's label to the licensed product. In this case, however, the "customer" did not merely supply a label to be attached to the licensee's embodiment of the patented invention, but rather provided the specifications for the invention to be fabricated. In *Unidisco*, the court merely held that a distributor that purchased the licensee's patent-practicing product did not infringe the patent by reselling that licensed product. Neither *Lisle* nor *Unidisco* bears directly on the question whether an infringer may freely practice its infringing "invention" by hiring a licensee to fabricate it for the infringer's account *and according to infringing design specifications provided by the infringer and not by the licensee.*

to use) the intellectual property incorporating the patented invention that inheres in the product sold.

2. This Court has never addressed the application of the first-sale doctrine to a situation in which the invention, or intellectual property, was divorced from manufacture. In all of this Court's first-sale cases, the seller had control over the design function as well as the fabrication and had *legally* obtained the rights to the patented invention.

Consideration of a mirror image of this case shows that it is the ownership of the design that incorporates the invention, not the manufacture of the physical article, that matters when the two *are* separate. If a licensee submitted a patented design to a third party to make for the licensee's benefit a patented product, the "first sale" would be from the licensee to the next purchaser not *to* the licensee from the fabricator (who was entirely passive with respect to the intellectual property). The unlicensed fabricator would not infringe the patent by "selling" the licensee's product to the licensee. See *Southwire Co.* v. *ITC*, 629 F.2d 1332 (C.C.P.A. 1980).

In this case, ULSI at all times owned the intellectual property incorporating the patented invention that was inherent in ULSI's infringing chips. HP owned the blank silicon wafers, but once they were etched with ULSI's design HP possessed the wafers for the benefit of ULSI only. At no time did HP own the functioning coprocessor that was the infringing article. Yet the Federal Circuit declared that ownership of the design, *i.e.*, ownership of the patented "invention" that is embodied in the chip is *irrelevant* to the patent issue. App., *infra*, 7a. But that is exactly what the patent laws are intended to protect, and what the cross-licensees intended to share with each other.

The Federal Circuit "managed to take a shield the law provides to purchasers of products containing patented inventions and turn it into a sword to cut off the legitimate rights of the patent owner." App., *infra*, 11a (panel dissent). The

court of appeals accomplished that result by blindly invoking the word "sale" to negate the protections of the patent, without considering just what the patent laws are supposed to reserve to patent owners — *i.e.*, the use of intellectual property incorporating the patented invention — and what, therefore, a patentee or its licensee would have to own and then relinquish in a sale in order to exhaust the patent.

B. There Was No "First Sale" Because HP Did Not Sell Intel's Invention to ULSI

Only a "*valid* sale and purchase" takes an article that practices a patent beyond the scope of the protections afforded the patentee. *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) 340, 351 (1864) (emphasis added). The question before this Court is whether there was a *valid* first sale when an unlicensed party (ULSI) illicitly practiced a patent by having an infringing product fabricated by a licensee (HP) that did not provide the infringing aspects of the product.

The question of what constitutes a "valid sale" that exhausts an inventor's right in its patent is a matter to be determined with reference to the policies of the patent laws, not merely as a matter of contractual interpretation. *United States* v. *Masonite Corp.*, 316 U.S. 265, 280 (1942); *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175, 181, on reh'g, 305 U.S. 124 (1938).[10] When a trans-

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[10] The outcome of this case accordingly turns on "the inherent meaning and effect of the patent laws," *Keeler*, 157 U.S. at 666, not on the interpretation of contracts. As Judge Plager noted, "the duty that [ULSI] owes to [Intel] is determined by neither of [the HP/Intel and the ULSI/HP] agreements, but by the law of patent infringement." App., *infra*, 15a. The Federal Circuit's determinative holding was that a first sale under the patent laws occurs when a licensee fabricates a made-to-order product for an unlicensed third party who at all times owns the infringing "invention" underlying the product. The court of appeals did assert that additional contract terms might have changed the outcome if those terms forbade the licensee to do what HP did in this case. See App., *infra*, 10a (distinguishing *Atmel*, *supra*). But that holding simply establishes an illogical *presumption* that uncontemplated third parties may reap the benefits of a

action is examined for its effects on the operation of a patent, the substance, not the form, of the transaction controls the analysis. *Masonite*, 316 U.S. at 278.

In this case, however, the Federal Circuit ignored the substance of this common transaction and instead relied on the caption of the contract. Consideration of the *normal* foundry relationship clarifies who did what for whom in this case. The purchaser who orders the product and supplies the design is expected to own any necessary patent or the right to practice it; the ULSI/HP contract reflected precisely that understanding. C.A. App. A41-A44, A51-A53. There is no question whose product is being made, as the passive fabricator has no right to make, use, or sell the product on its own account; again, the ULSI/HP agreement is in accord.

In contrast to the panel majority, the district court *did* examine the substance of the transaction. It noted that HP provided "foundry *services* for the [ULSI] coprocessor," and "never assumed any ownership rights in any ULSI product and had no right to use or sell any ULSI product"; therefore HP could not and did not *sell* to ULSI anything that would release ULSI from liability for patent infringement. App., *infra*, 36a-37a n.7. Indeed, even one of Intel's adversaries has conceded in a published article that the question presented in these cases is "the applicability of the rule of *Univis Lens* to products

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license unless the license's terms exclude that result. The Federal Circuit decision presents a *default* rule: any license that (like the HP/Intel agreement) does not *expressly* limit its benefits to the licensee will automatically be held to have given away all patent rights to uncontemplated third-party contractors for fabrication services. Because that interpretation supposedly is rooted in patent law, the court of appeals imposed it *despite* uncontradicted testimony that the parties to the license intended to do no such thing, and despite the utter failure of ULSI "to explain why the parties would have intended such a result." App., *infra*, 19a (panel dissent) (quoting *Atmel*, 946 F.2d at 827).

manufactured by a licensed foundry but *owned* and designed by that foundry's customers." Abramson, *supra*, COMPUTER LAW. at 6 (emphasis added). In other words, one can find a sanitizing "first sale" in this case only by holding that a transfer *from* a *non*-owner (the foundry) *to* the owner (the customer) constitutes a "sale" — a bizarre use of language, to say the least. HP could not sell what it did not own. See *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544, 550 (1873).

Judge Plager, in dissent, reiterated that, "[b]ecause ULSI had provided its own integrated circuit design, HP never had ownership rights in the invention to sell to ULSI; if there was a `sale,' it must have been of something else": blank silicon wafers and "*services*, measured per chip." App., *infra*, 21a. HP never contemplated that it was selling "to ULSI a chip containing the Palmer invention pursuant to the authority granted by the HP-Intel cross-license" (*ibid.*); therefore nothing that HP did sell to ULSI could have exhausted Intel's patent.

C. *Univis Lens* Does Not Support the Federal Circuit's Result

The Federal Circuit assumed that *Univis Lens*, a 50-year-old resale price maintenance case in which infringement had no part, somehow compelled the extension of the first-sale doctrine to this case. When carefully parsed, however, what this Court said about the first-sale doctrine in *Univis Lens* actually undercuts, rather than supports, the decision below.

1. The Court described the kind of sale necessary to "exhaust" a patent as "the vehicle for *transferring* to the buyer *ownership of the invention* with respect to that article." 316 U.S. at 252 (emphasis added). HP could not and did not transfer to ULSI "ownership of the invention" with respect to the article at issue in this case the ULSI imitation of the invention protected by the Palmer patent.

Both the reasoning and the express terms of *Univis Lens* condition patent exhaustion on a "*complete transfer of owner-*

ship" of an article that is "*within the protection of the patent law*." 316 U.S. at 249 (emphasis added). The basis for cutting off a patent holder's rights on sale of a patented article is that the patentee (either alone or in combination with a licensee) has received a reward "for the article *and* the invention which it embodies." *Id*. at 251 (emphasis added). Yet this case presents in clear form the separation of ownership of an invention from the provision of services that help realize that invention. It is quite clear that ULSI never paid HP (or Intel) for the "invention" that the ULSI coprocessors "embodied"; in fact, HP was never in a position to sell that invention because HP never owned it.

HP never owned "a product incorporating [Intel's] patented invention" (App., *infra*, 14a (panel dissent)) because ULSI owned the "chip designs, mask works, and physical layout computer data and processes" — that is, the physical embodiment of the circuitry invention that infringed Intel's patent (*id*. at 20a (quoting C.A. App. A43)). Whatever "transfer of ownership" from HP to ULSI might have been effected in the course of the foundry transaction, that transfer could not be "complete" because the intellectual property rights to ULSI's integrated circuit were never transferred; moreover, HP did not transfer to ULSI anything that was "within the protection of the patent law." HP never "retain[ed] the ownership of the patented article" (*Univis Lens*, 316 U.S. at 250), and therefore HP could not "relinquish[ ] * * * the patent monopoly with respect to the article sold" (*id*. at 249). Indeed, under the fabrication contract with HP, ULSI insulated its rights in its infringing design from HP (and thus from the patent license). ULSI cannot now claim the benefit of that license on the ground that HP sold ULSI what ULSI already owned.

Univis Lens also states that the first sale of any "article *manufactured under a patent*" puts that article beyond the control of the patent holder. 316 U.S. at 252 (emphasis added). In earlier cases, too, this Court recognized that the

first-sale doctrine does not apply to an end product that as a whole embodies the invention of a patent, if the product was not manufactured or sold under the patent. *General Talking Pictures Corp.* v. *Western Electric Co.*, 305 U.S. 124, 125 (1938) (Brandeis, J.) (opinion on rehearing). The parties' mere characterization of a transaction as a "sale" does not dispose of the question whether the transaction exhausted all rights under the patent. See *id*. at 129 (Black, J., dissenting) (insisting unsuccessfully that any "sale" necessarily exhausted the patent). ULSI's chips were not "manufactured under a patent," because HP's paid performance of fabrication processes simply followed ULSI's infringing specifications and did not transfer to ULSI the "embodiment of the Intel patented invention," App., *infra*, 16a (panel dissent). The infringement arose from ULSI's specifications, not from the manner in which HP followed those specifications.

2. Furthermore, the facts of this case are radically different from those that led the Court in *Univis Lens* to apply the first-sale doctrine. In *Univis Lens*, lens blanks (embodying essential features of a *patented* finished lens) were fabricated according to the *patentee's* design by the licensee (the patentee's parent corporation) using a *patented* process, and then sold to third parties, whose only potential use of the blanks was in the completion of the *patented* finished lenses. 316 U.S. at 243, 246, 249. The open and authorized operation of the patent was clear at every step of every transaction in that case. In this case, by contrast, an *infringer*, ULSI, supplied a magnetic blueprint for infringement to HP; it did not acquire from HP the blueprint or the invention encoded in it and etched into the chips. ULSI alone made the first sale of a product that — illicitly — incorporated Intel's invention.

3. In any event, *Univis Lens* is of limited value in adjudicating a claim of infringement, particularly in this context. It makes little sense to assert that a 1942 case finding an antitrust violation controls a 1993 patent infringement issue

that was not before the Court a half-century ago. The Court in *Univis Lens* was concerned with resale price maintenance conditions imposed on purchasers by licensees, and with the question whether patent rights might be exhausted by the sale of an article that could be used only to practice the patent. If an issue of this importance to American industry is to be governed by pronouncements of this Court, they should be pronouncements made in the context in which the issue now arises, not language wrested from a hoary antitrust precedent that indisputably did not present the same facts and policy issues as this case.

D. The Proper Application of the First-Sale Doctrine to Foundry Arrangements Is Plain

The proper application of first-sale principles to foundry arrangements is not difficult to discern in light of the purpose of the patent laws to protect patented intellectual property. In the absence of explicit contrary language in the license, whatever intellectual property the licensee-fabricator contributes to the product in the fabrication process should be immune from infringement suits. Any intellectual property the unlicensed designer contributes, however, should not be immune.

This result properly balances the protections granted the inventor by the patent with the expedition and efficiency sought by cross-licensing and foundry agreements. There is nothing efficient about allowing patent infringers to misuse foundry arrangements to avoid paying for protected intellectual property. Under the rule that we urge, those who pay have the benefit of protected intellectual property. Companies like ULSI that want something for nothing do not.

E. Because HP Did Not — and Could Not — Sublicense ULSI to Sell Intel's Invention, the First-Sale Issue Determines the Outcome of This Case

Because HP did not exhaust Intel's patent by fabricating ULSI's coprocessors, only a sublicense would protect ULSI from liability for infringement; ULSI's product was not licensed by Intel directly. A license, of course, entitles the *licensee* to produce, use, and sell the patented article *for its own benefit*, or to have another produce the article for the licensee's use or sale. When the article is produced according to the directions of, and for use or sale by, an unlicensed third party, that party must be licensed or sublicensed itself. *Carey* v. *United States*, 326 F.2d 975, 979-980 (Ct. Cl. 1964); see *E.I. du Pont de Nemours & Co.* v. *Shell Oil Co.*, 498 A.2d 1108, 1113-1114 (Del. 1985).

Incontestably there is no sublicense here. The Federal Circuit did not hold that Intel had licensed HP to sublicense third parties. As the district court held, "neither Intel nor Hewlett-Packard intended their agreement to be so broad as to grant the other party the power to sublicense any patent granted under the Intel/Hewlett-Packard agreement" (App., *infra*, 36a). The only appellate judge who reached the issue agreed that the HP/Intel cross-license could not be read silently to authorize sublicensing "[w]ithout something to explain why the parties would have intended such a result." *Id.* at 19a (emphasis omitted). See also 3 P. ROSENBERG, PATENT LAW FUNDAMENTALS § 16.01[1][b], at 16-13 (2d ed. 1993) (licensee may not sublicense "in the absence of an express provision in the license sanctioning sublicensing").

A contrary conclusion would be insupportable. The HP/Intel agreement does not expressly authorize sublicenses, and the ULSI/HP agreement restricts to the current owners all rights to use any intellectual property implicated in the manufacture of ULSI's coprocessors. HP and Intel agree that, between them, there was "no intent to immunize third party infringers." *Id.* at 17a (panel dissent); see C.A. App. 408.

And HP disclaimed any intent to sublicense ULSI to practice the Intel patent even if HP *had* that power. *Ibid.*

The Federal Circuit's holding on the first-sale issue excused ULSI's failure to obtain its own license. Once that erroneous application of the first-sale doctrine is corrected, ULSI cannot justify its infringement. The determination of the first-sale issue therefore controls the outcome of this case, and confirms ULSI's liability for infringement.

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The Federal Circuit has considerable expertise in patent law, but its decision in this case rests *not* on that expertise, but on perceived marching orders from this Court. This Court, not a divided Federal Circuit, should have the last word on the subject.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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