

## OBSERVATIONS REGARDING THE SUPREME COURT'S DECISION IN *QUANTA COMPUTER, INC. V. LG ELECTRONICS, INC.*

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### ABSTRACT

This Article analyzes the arguments made to the Supreme Court by the Solicitor General in *Quanta Computer v. LG Electronics*, the Supreme Court's recent decision on patent exhaustion, and compares those arguments to the holdings announced or necessarily implied in the Court's opinion. The Article concludes that the Court adopted virtually all of the positions advanced by the Solicitor General, including his views regarding the continued vitality of the patent-exhaustion doctrine, the invalidity of the Federal Circuit's "conditional sale" exception to patent exhaustion, the potential availability of contractual remedies for patent holders seeking to enforce post-sale restrictions, the continued ability of patent holders to limit the effects of exhaustion by imposing restrictions on licensees' rights to sell, the application of exhaustion principles to the sale of components of patented inventions and the application of patent exhaustion to method claims. The Article also discusses some of the implications of *Quanta* for licensing strategies and issues likely to give rise to additional litigation in the future.

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## INTRODUCTION

There has been considerable debate, on the Internet and in the legal literature at least, over the precise meaning and actual holdings of the Supreme Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*<sup>1</sup> since the case was decided on June 9, 2008.<sup>2</sup> While an analysis of the Court's decision can proceed from a variety of perspectives, commentators on the Supreme Court's patent jurisprudence have observed that the views expressed by the Solicitor General, in patent cases in particular, often appear to have a considerable

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<sup>1</sup> 128 S. Ct. 2109 (2008).

<sup>2</sup> See generally James W. Beard, *The Limits of Licensing: Quanta v. LGE and the New Doctrine of Simultaneous Exhaustion*, 2008 U.C.L.A. J.L. & TECH. 3 (2008); F. Scott Kieff, *Quanta v. LG Electronics: Frustrating Patent Deals by Taking Contracting Options off the Table?*, CATO SUP. CT. REV. 315 (2007–08); Tod Michael Leaven, *The Misinterpretation of the Patent Exhaustion Doctrine and the Transgenic Seed Industry in Light of Quanta v. LG Electronics*, 10 N.C. J.L. & TECH. 119 (2008); John W. Schlicher, *The New Patent Exhaustion Doctrine of Quanta v. LG: What It Means For Patent Owners, Licensee, and Product Customers*, 90 J. PAT. & TRADEMARK OFF. SOC'Y 758 (2008); Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, 7 J. MARSHALL REV. INTELL. PROP. L. 682 (2008). For varying viewpoints regarding the *Quanta* case found on the Internet, see the following: Shubha Ghosh, *The Quandary of Quanta*, June 24, 2008, [http://www.antitrustinstitute.org/archives/files/aai-%20Ghosh%20Quanta%20commentary%206-24-08\\_062420082013.pdf](http://www.antitrustinstitute.org/archives/files/aai-%20Ghosh%20Quanta%20commentary%206-24-08_062420082013.pdf) (last visited May 1, 2009); Holman's Biotech IP Blog, *Quanta and Its Impact on Biotechnology*, <http://holmansbiotechblog.blogspot.com/2008/06/quanta-and-its-impact-on-biotechnology.html> (June 11, 2008 14:57 EST); Greg A. McAllister, *Quanta Computer v. LG Electronics: The Supreme Court Applies Its Patent Exhaustion Precedent and Rejects Recent Federal Circuit Modifications of the Doctrine*, 15 CASRIP NEWSL. (Univ. of Wash., Seattle, Wash.), Summer 2008, <http://www.law.washington.edu/casrip/newsletter/vol15/newsv15i2QuantaLG.html> (last visited May 1, 2009); Posting of David McGowan to Patently-O Blog, *Reading Quanta Narrowly*, <http://www.patentlyo.com/patent/2008/07/reading-quanta.html> (July 27, 2008, 15:17 EST); Timothy C. Meece, Shareholder, Banner & Witcoff, Ltd., *U.S. Supreme Court Decides Patent Exhaustion Case in Quanta Computer, Inc. et al. v. LG Electronics, Inc.*, June 9, 2008, [http://www.bannerwitcoff.com/\\_docs/publications/articles/Quanta.pdf](http://www.bannerwitcoff.com/_docs/publications/articles/Quanta.pdf); Ladas & Parry LLP, *Patent Exhaustion: The United States Supreme Court Decision in LG Electronics v Quanta*, July 2, 2008, [http://www.ladas.com/BULLETINS/2008/Quanta\\_Computer\\_Inc\\_vs\\_L\\_G\\_Electronics.shtml](http://www.ladas.com/BULLETINS/2008/Quanta_Computer_Inc_vs_L_G_Electronics.shtml); Patently-O Blog, *Supreme Court Decides Quanta v. LG Electronics, \_\_\_ U.S. \_\_\_ (2008)*, <http://www.patentlyo.com/patent/2008/06/supreme-court-d.html> (June 9, 2008, 12:45 EST) (various individuals commented on the posting) [hereinafter Patently-O, Supreme Court]; Posting of Fred von Lohmann to SCOTUSblog, *Quanta Discussion Board: More Litigation Ahead*, <http://www.scotusblog.com/wp/quanta-discussion-board-more-litigation-ahead> (June 10, 2008, 10:17 EST).

impact on the Court's ultimate disposition of those cases.<sup>3</sup> In light of that observation, it may be instructive to assess the scope and import of the Court's *Quanta* decision through the lens of the briefs filed by the Solicitor General.

After a review of the factual and procedural history of the case, this Article outlines the principal points advanced by the Solicitor General in his briefs and assesses the extent to which the Court's decision is best read as adopting, rejecting or avoiding any resolution of the various positions put forward by the government. For the reasons set forth below, this Article concludes that the Court adopted, either implicitly or explicitly, nearly all of the positions taken by the government, particularly the government's positions that: (1) the authorized sale of a patented article triggers patent exhaustion as a matter of law; (2) patent holders cannot avoid patent exhaustion by attempting to impose restrictions on a purchaser's use or resale after an authorized sale; (3) restrictions on use or resale after an authorized sale are potentially enforceable only under contract law; (4) sales in violation of license restrictions on the right to sell do not give rise to exhaustion; (5) the authorized sale of a component of a patented invention may result in exhaustion; and (6) patent exhaustion applies to method claims. As a consequence, the *Quanta* decision amounts to a sweeping reaffirmation of the Court's patent-exhaustion precedents and an implicit rejection of the exhaustion jurisprudence reflected in *Mallinckrodt, Inc. v. Medipart, Inc.*<sup>4</sup> and its progeny.

## I. BACKGROUND

### A. Facts

The underlying facts of the case can be summarized as follows: LG Electronics ("LGE") purchased several patents claiming systems and methods for receiving and transmitting data in computer systems and then entered into a cross-license agreement with Intel that authorized Intel to "make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of" any Intel products.<sup>5</sup> Intel manufactured and sold microprocessors and chipsets that did not directly infringe the system and method patent claims at issue but, according to LGE, did meet many of the limitations of those claims.<sup>6</sup> The sole intended

<sup>3</sup> See, e.g., John F. Duffy, *The Festo Decision and the Return of the Supreme Court to the Bar of Patents*, 2002 SUP. CT. REV. 273, 328–29 (2002); Craig Allen Nard & John F. Duffy, *Rethinking Patent Law's Uniformity Principle*, 101 NW. U. L. REV. 1619, 1640 (2007).

<sup>4</sup> 976 F.2d 700 (Fed. Cir. 1992).

<sup>5</sup> *Quanta*, 128 S. Ct. at 2113–14 (citation omitted) (internal quotation marks omitted).

<sup>6</sup> *Id.* at 2114–15; *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d (BNA) 1589, 1592 (N.D. Cal. 2002), *aff'd in-part, rev'd in-part, vacated in-part & remanded sub nom.* LG

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use of those microprocessors and chipsets was to be combined with generic computer components like memory, buses and peripheral devices to make computers that infringe LGE's system and method claims.<sup>7</sup>

The license agreement provided that “no license is granted . . . to any third party for the combination” of licensed Intel products with components “acquired . . . from [other] sources,”<sup>8</sup> and that ““nothing in the licenses granted hereunder or otherwise contained in this Agreement shall expressly or by implication, estoppel or otherwise give either party any right to license the other party's Patents to others.”<sup>9</sup> The license agreement also included a statement that attempted to prevent the “effect of patent exhaustion” with respect to LGE's patent rights.<sup>10</sup> In a separate master agreement, which referenced the license agreement, the parties stipulated that LGE's grant of a license to Intel “shall not create any express or implied license under [LGE's] patents to computer system makers that combine Intel Integrated Circuits with other non-Intel components.”<sup>11</sup> The master agreement also required Intel to “send a notice to its customers stating that . . . ‘any Intel product that [they] purchase is licensed by [LGE] and thus does not infringe any patent held by [LGE],’” but that Intel's license “does not extend, expressly or by implication, to any product that [they] may make by combining an Intel product with any non-Intel product.”<sup>12</sup>

The petitioner, Quanta, is a computer manufacturer to which Intel sold microprocessors and chipsets that Quanta combined with other generic computer components to create finished computer systems.<sup>13</sup> These combined parts are then sold to companies like Dell and Hewlett-Packard, which in turn sell them to end-users. In accordance with the terms of the master agreement, Intel noti-

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Elects., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364 (Fed. Cir. 2006), *rev'd sub nom.* Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109 (2007).

<sup>7</sup> *Id.* at 1598–1600.

<sup>8</sup> *Quanta*, 128 S. Ct. at 2114.

<sup>9</sup> Brief of Respondent at 7, *Quanta Computer, Inc., v. LG Elecs.*, 128 S. Ct. 2109 (2008) (No. 06-937) [hereinafter Brief of Respondent].

<sup>10</sup> *Quanta*, 128 S. Ct. at 2114 (quoting Brief of Respondent, *supra* note 9, at 8) (“[N]othing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products.”). This seeming truism generated some puzzlement at oral argument, Transcript of Oral Argument at 7–9, 31–34, *Quanta Computer, Inc., v. LG Elecs.*, 128 S. Ct. 2109 (2008) (No. 06-937) [hereinafter Transcript of Oral Argument], but, ultimately, appears to have played no role in the Court's decision, as the Court did not even discuss it when explaining why exhaustion was appropriate here.

<sup>11</sup> Brief for the United States as Amicus Curiae Supporting Petitioners at 2, *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937) [hereinafter U.S. Merits Brief].

<sup>12</sup> *Id.* at 3 (emphasis omitted).

<sup>13</sup> *Quanta*, 128 S. Ct. at 2114.

fied Quanta that Intel's license did not authorize Quanta to combine Intel microprocessors or chipsets with components obtained from other sources.<sup>14</sup> Quanta nonetheless proceeded to make and sell computer systems using Intel's chips and other components obtained elsewhere.<sup>15</sup>

### B. Lower Court Proceedings

After entering into the licensing arrangement with Intel and receiving an undisclosed royalty payment,<sup>16</sup> LGE brought suit against Quanta—and other similarly situated computer manufacturers—alleging infringement of its system patents by virtue of Quanta's combination of the Intel components with other components.<sup>17</sup>

On summary judgment, the district court found that the components, which Quanta purchased from Intel, were “essential components of the patented products,”<sup>18</sup> “cannot be used to carry out a non-patented function,”<sup>19</sup> “were ‘destined . . . to be finished by the purchaser in conformity with the patent’”<sup>20</sup> and “ha[d] no reasonable non-infringing use.”<sup>21</sup> Given those undisputed facts, the district court concluded that most of LGE's infringement claims were barred by the patent-exhaustion doctrine. In light of Federal Circuit precedent, however, the court held that LGE's method claims were not subject to patent exhaustion and further concluded that the claims were not infringed.<sup>22</sup>

On appeal, the Federal Circuit reversed in part.<sup>23</sup> Relying on *Mallinckrodt* and its progeny, the court held that the patent-exhaustion doctrine is trig-

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<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> Petition for a Writ of Certiorari at 2, *Quanta Computer, Inc., v. LG Elecs.*, 128 S. Ct. 2109 (2008) (No. 06-937) [hereinafter *Petition for Cert.*].

<sup>17</sup> *Quanta*, 128 S. Ct. at 2114.

<sup>18</sup> *LG Elecs., Inc. v. Asustek Computer, Inc.*, 248 F. Supp. 2d 912, 916–17 (N.D. Cal. 2003), *aff'd in-part, rev'd in-part, vacated in-part & remanded sub nom.* *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *rev'd sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2007).

<sup>19</sup> *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d (BNA) 1589, 1600 (N.D. Cal. 2002), *aff'd in-part, rev'd in-part, vacated in-part & remanded sub nom.* *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *rev'd sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2007).

<sup>20</sup> *LG Elecs.*, 248 F. Supp. 2d at 915.

<sup>21</sup> *Id.*

<sup>22</sup> *Quanta*, 128 S. Ct. at 2115.

<sup>23</sup> *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1381 (Fed. Cir. 2006), *rev'd sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2007).

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gered only by an “unconditional” sale and “does not apply to an expressly conditional sale or license.”<sup>24</sup> The court reasoned that Intel’s sale of microprocessors and chipsets to Quanta was “conditional” in the relevant sense because the LGE-Intel agreement “expressly disclaims granting a license allowing computer system manufacturers to combine Intel’s licensed parts with other non-Intel components” and “required Intel to notify its customers of the limited scope of the license, which it did.”<sup>25</sup> Even though “Intel was free to sell its microprocessors and chipsets” without fear of infringement, the court concluded that Intel’s customers could not use those components for their only intended use without infringing LGE’s patents.<sup>26</sup> Quanta filed a petition for a writ of certiorari and the Supreme Court granted review.<sup>27</sup>

**II. ANALYSIS OF THE SOLICITOR GENERAL’S BRIEFS AND THE COURT’S DECISION**

The Solicitor General filed two amicus briefs in *Quanta*; the first was at the invitation of the Court while it was considering whether to grant certiorari<sup>28</sup> and the second was at the merits stage of the case.<sup>29</sup> For the most part, the points made in the certiorari-stage brief are addressed in greater detail in the merits brief, so this Article will focus primarily on the arguments made in the latter. The position advanced by the Solicitor General in *Quanta* can be distilled to several basic points, which will be discussed in turn, together with an assessment of the Court’s resolution of those issues.

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<sup>24</sup> *Id.* at 1369–70 (quoting *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)).

<sup>25</sup> *Id.* at 1370.

<sup>26</sup> *Id.*

<sup>27</sup> Petition for Cert., *supra* note 16, at 1.

<sup>28</sup> Brief for the United States as Amicus Curiae, *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937) [hereinafter U.S. Certiorari Brief].

<sup>29</sup> U.S. Merits Brief, *supra* note 11.

A. *The Supreme Court’s Traditional Enunciation of the Patent-Exhaustion Doctrine Remains Controlling: The Authorized Sale of a Patented Article Triggers Patent Exhaustion as to That Article*

1. The Solicitor General’s Brief

The first point addressed by the government through the Solicitor General was the validity of and continued justification for the patent-exhaustion doctrine as enunciated in numerous Supreme Court decisions prior to the 1952 re-enactment of the Patent Act.<sup>30</sup> The government traced the development of the doctrine from *Bloomer v. McQuewan*<sup>31</sup> in 1852, through and beyond *United States v. Univis Lens Co.*<sup>32</sup> in 1942, explaining that the Court’s cases had consistently defined exhaustion as an integral limitation on the scope of the patent grant that arises from the very nature of the exclusive right to sell that patent law confers on the patent holder.<sup>33</sup> Accordingly, exhaustion necessarily follows by operation of law from the exercise of the exclusive right to sell, in other words, from any “authorized,” “lawful[]” or “legal” sale of a patented item.<sup>34</sup>

The Solicitor General explained that the re-enactment of the patent laws in the Patent Act of 1952 did not change or undermine the patent-exhaustion doctrine, notwithstanding the absence of any explicit discussion of patent exhaustion in the Act.<sup>35</sup> As a substantive limitation that is derived from the terms of the exclusive rights granted by patent law, and in particular the exclusive

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<sup>30</sup> *Id.* at 5–6.

<sup>31</sup> 55 U.S. (14 How.) 539 (1852).

<sup>32</sup> 316 U.S. 241 (1942).

<sup>33</sup> U.S. Merits Brief, *supra* note 11, at 8–15. In addition to *McQuewan* and *Univis*, the following Supreme Court cases were also cited in support: *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) (plurality opinion); *United States v. General Electric Co.*, 272 U.S. 476 (1926); *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502 (1917); *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659 (1895); *Hobbie v. Jennison*, 149 U.S. 355 (1893); *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873); and *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1872).

<sup>34</sup> U.S. Merits Brief, *supra* note 11, at 21 (citing *Keeler*, 157 U.S. at 666) (stating that exhaustion is triggered by “the purchase of the article from one *authorized* by the patentee to sell it” (emphasis added)); see *Hobbie*, 149 U.S. at 363 (explaining that exhaustion occurs when a patented item is “*lawfully* made and sold” (emphasis added)); *Adams*, 84 U.S. (17 Wall.) at 457 (same); *Chaffee v. Boston Belting Co.*, 63 U.S. (22 How.) 217, 223 (1859) (exhaustion arises whenever “a person *legally* acquires a title to” a patented item (emphasis added)).

<sup>35</sup> See U.S. Merits Brief, *supra* note 11, at 12–13.



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right to “vend” or “sell,”<sup>36</sup> the patent-exhaustion doctrine “delimit[s] the scope of the patent grant”<sup>37</sup> and was accordingly left intact by the 1952 re-enactment. “Acting against the backdrop of almost 100 years of [the Supreme] Court’s precedents applying the first-sale doctrine to patent law, Congress made no effort to alter that construction” in 1952.<sup>38</sup> And “when ‘judicial interpretations have settled the meaning of an existing statutory provision, repetition of the same language in a new statute indicates, as a general matter, the intent to incorporate its . . . judicial interpretations as well.’”<sup>39</sup>

Although neither the Federal Circuit nor LGE had suggested that the 1952 enactment of 35 U.S.C. § 271(d)<sup>40</sup> undermined or affected the continued vitality and scope of the Supreme Court’s patent-exhaustion precedents, the Solicitor General also raised and disposed of that issue in his certiorari-stage brief. That brief noted that “[r]ead in isolation, and without an understanding of its context and purpose, [§] 271(d) of Title 35 might be construed to entitle a patentee in [LGE’s] position” to avoid application of patent exhaustion, but concluded that

[u]pon analysis, . . . the only plausible reading of [§] 271(d) is that it addresses the relationship between the doctrines of patent misuse and contributory infringement, not the distinct doctrine of patent exhaustion. A patentee whose

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<sup>36</sup> See *id.* at 9–10 (citing *Adams*, 84 U.S. (17 Wall.) at 455) (“[T]he sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used.”); *McQuewan*, 55 U.S. (14 How.) at 549 (“[A]ll that [the patentee] obtains by the patent” is “the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee,” and one who purchases a patented article “for the purpose of using it in the ordinary pursuits of life . . . exercises no rights created by the act of Congress, nor does he derive title to [the article] by virtue of the franchise or exclusive privilege granted to the patentee.”).

<sup>37</sup> *Aro Mfg. Co.*, 377 U.S. at 497.

<sup>38</sup> U.S. Merits Brief, *supra* note 11, at 12.

<sup>39</sup> *Id.* (quoting *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit*, 547 U.S. 71, 85 (2006)).

<sup>40</sup> 35 U.S.C. § 271 provides, in pertinent part:

No patent owner *otherwise entitled to relief* for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent . . .

35 U.S.C. § 271(d)(2) (2006) (emphasis added).

infringement claim is barred by principles of patent exhaustion is not ‘otherwise entitled to relief,’ and therefore obtains no benefit from [§] 271(d).<sup>41</sup>

## 2. The Supreme Court’s Opinion

In its opinion, the Court accepted and reaffirmed the same fundamental principle advanced by the Solicitor General, namely, that the patent-exhaustion doctrine retains its historic force and effect in the modern era. The Court began its opinion stating that “[f]or over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item,” and reiterated that “[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”<sup>42</sup>

The Court did not specifically address the general effect of the 1952 Patent Act or of § 271(d) in particular, a fact that has caused some commentators to suggest that there is unresolved tension between the statute and the Court’s holdings in *Quanta*, perhaps creating a need for future resolution by the Court.<sup>43</sup> The Court’s unequivocal endorsement, reaffirmation and application of its traditionally robust understanding of the patent-exhaustion doctrine, however, leaves little room for either hope or fear that the Court will subsequently eviscerate that doctrine by concluding for the first time—more than fifty years after the 1952 enactment of § 271(d)—that Congress unknowingly and unintentionally overturned a century’s worth of patent-exhaustion law in that 1952 enactment. A more likely explanation for the *Quanta* opinion’s silence on this issue is that the Court was satisfied with its previously expressed understanding that § 271(d) is addressed to an entirely distinct subject—specifically, the interplay between contributory infringement and patent misuse<sup>44</sup>—and accordingly there was no need to address a side-issue that neither the courts below, nor the litigating par-

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<sup>41</sup> U.S. Certiorari Brief, *supra* note 16, at 20 n.7 (citations omitted); *see also* Reply Brief for Petitioners at 12–15, *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937).

<sup>42</sup> *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2113, 2115 (2008); *see id.* at 2118 (relying on “the longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee’” (quoting *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 457 (1873) (emphasis omitted))).

<sup>43</sup> *See, e.g.*, *Kieff*, *supra* note 2, at 324–25 & n.18, 330; *McAllister*, *supra* note 2; *McGowan*, *supra* note 2.

<sup>44</sup> *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 200–13 (1980) (discussing legislative history of § 271(d) in terms of contributory infringement and patent misuse); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 491–92 (1964) (plurality opinion) (stating Congress’s express reasoning for the enactment of § 271).

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ties, had deemed sufficiently persuasive to merit raising at any stage thus far in the litigation.<sup>45</sup> When the Court's attention is drawn to an issue that is not properly presented in the case before it, but that could significantly affect the broader scope or import of the Court's decision, the Court will typically lay down a marker of sorts by expressly stating that it is leaving that issue undecided.<sup>46</sup> It did not do so here, which suggests that the Court did not view § 271(d) as a meaningful impediment to continued application of patent-exhaustion principles.

***B. Patent Holders Cannot Avoid Patent Exhaustion by Attempting to Impose Restrictions on Purchasers' Use or Resale After an Authorized Sale***

**1. The Solicitor General's Brief**

After setting forth the historical and logical underpinnings and traditional scope of the patent-exhaustion doctrine, the Solicitor General asserted in his brief that the doctrine had “evolved in the Federal Circuit in a manner that is materially different from the doctrine expounded by this Court.”<sup>47</sup> The government observed that, under Federal Circuit case law, patent exhaustion “‘does not apply to an expressly conditional sale’—that is, to a sale that is subject to an express restriction on the right to use or to resell the patented invention.”<sup>48</sup>

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<sup>45</sup> Interestingly, only Justice Ginsburg—perhaps the most IP-friendly Justice on the Court—raised any question at oral argument about the significance of the 1952 Act. Transcript of Oral Argument, *supra* note 10, at 17–18. Further, even *she* did not suggest that § 271(d) had any relevance to the case. Rather, she asked the government's counsel whether there was any explanation for Congress's decision not to codify the exhaustion doctrine expressly and whether the Patent and Trademark Office had taken any position on the need for such codification. *Id.* She asked no follow-up questions after counsel responded that:

[There was nothing] in the legislative history of the 1952 codification on the subject of the patent exhaustion doctrine one way or the other; but, obviously, Congress did not express any dissatisfaction with it. It did change certain aspects of patent law, but it did not attempt in any way to override or change the effect of the first-sale doctrine, which under this Court's cases has been perfectly clear for well over a century and has the effect we've suggested.

*Id.* at 18–19.

<sup>46</sup> See, e.g., *Cooper Indus., Inc. v. Aviall Servs., Inc.*, 543 U.S. 157, 168–70 (2004); *Herman & MacLean v. Huddleston*, 459 U.S. 375, 379 n.5 (1983); *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 191–92 n.7, 193 n.12 (1976).

<sup>47</sup> U.S. Merits Brief, *supra* note 11, at 18.

<sup>48</sup> *Id.* (quoting *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)).

Pointing to the decision below and to *Mallinckrodt*,<sup>49</sup> the government concluded that Federal Circuit precedent would permit a patent holder to “attach (by notice or agreement) restrictions on products embodying its patented invention and enforce those restrictions, in actions for patent infringement, against downstream purchasers even after an authorized sale by the patentee or a licensee.”<sup>50</sup>

The Solicitor General then explained that the Supreme Court’s patent-exhaustion precedents “foreclose the Federal Circuit’s view that patent exhaustion is merely a default rule to be discarded whenever patentees choose to impose explicit restrictions on authorized purchasers’ use or resale.”<sup>51</sup> The government’s brief pointed to Supreme Court decisions making clear that “the patent-exhaustion doctrine delimits the substantive scope of the patent grant,”<sup>52</sup> as well as the Court’s multiple precedents “appl[ying] the patent-exhaustion doctrine in concluding that explicit restrictions imposed on authorized purchasers are ineffective as a matter of patent law.”<sup>53</sup> The government concluded that “[t]he reasoning of those cases is irreconcilable with the Federal Circuit’s treatment of patent exhaustion.”<sup>54</sup>

That conclusion was bolstered by a careful analysis of the *Univis* decision, in which the Court had “relied on the [patent-exhaustion] doctrine in concluding that explicit post-sale restrictions were not within the scope of the patent grant.”<sup>55</sup> *Mallinckrodt* had distinguished *Univis* on the ground that the latter case’s patent-exhaustion holding was dependent on and limited by the Court’s conclusion that the restrictions imposed by the patent holder violated the anti-trust laws.<sup>56</sup> But that purported distinction reflected a fundamental misunderstanding of the *Univis* Court’s reasoning.<sup>57</sup> Far from premising its patent-law holding on an analysis of antitrust law, the *Univis* Court proceeded in precisely the opposite fashion: “[B]efore considering whether the defendants’ conduct violated antitrust law, the Court *first* asked whether that conduct was ‘excluded

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<sup>49</sup> See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992) (holding that some post-sale use restrictions are enforceable by means of an infringement suit even after an authorized sale).

<sup>50</sup> U.S. Merits Brief, *supra* note 11, at 19.

<sup>51</sup> *Id.* at 20.

<sup>52</sup> *Id.*; see *supra* Part II.A.

<sup>53</sup> U.S. Merits Brief, *supra* note 11, at 20 (citing *United States v. Univis Lens Co.*, 316 U.S. 241, 244, 249–52 (1942); *Boston Store v. Am. Graphophone Co.*, 246 U.S. 8, 25 (1918); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917)).

<sup>54</sup> U.S. Merits Brief, *supra* note 11, at 20.

<sup>55</sup> *Id.* at 22.

<sup>56</sup> *Id.* (citing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992)).

<sup>57</sup> *Id.* at 23.

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by the patent monopoly from the operation of the Sherman Act.”<sup>58</sup> And in order “to answer that question (*i.e.*, to determine whether the defendants’ conduct was within the scope of the patent grant, and thus immune from antitrust scrutiny), the Court looked to the patent-exhaustion doctrine.”<sup>59</sup> Thus, the Court found the patent holder’s restrictions invalid as a matter of antitrust law only *after* the Court had first applied traditional patent-exhaustion principles and concluded that the authorized sale of the lens blanks exhausted the patent holder’s patent-based rights, notwithstanding the explicit and purportedly binding nature of the post-sale restrictions at issue in that case. It is simply impossible to reconcile the *Mallinckrodt* court’s reasoning with that understanding of *Univis*.

### 2. The Supreme Court’s Opinion

In the *Quanta* opinion, the Supreme Court did not explicitly overrule or even cite *Mallinckrodt*, and accordingly, questions have arisen regarding the continued vitality of that case and its Federal Circuit progeny, with various commentators vigorously asserting both sides of the question.<sup>60</sup> A careful examination of the manner in which the *Quanta* case was litigated and decided,

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<sup>58</sup> *Id.* at 22 (quoting *Univis*, 316 U.S. at 243) (emphasis added).

<sup>59</sup> *Id.*

<sup>60</sup> Compare Meece, *supra* note 2, at 4 (“[T]he limited holding in this case does not affect current Federal Circuit law that—by virtue of an appropriately worded restricted license and notice—a patent owner can reserve patent rights that would otherwise be exhausted by an unrestricted sale.”); Tully, *supra* note 2, at 2–3 (“There appears to be nothing within *Quanta* . . . that suggests alteration of this Federal Circuit precedent” holding that “the exhaustion doctrine does not apply to a *conditional* sale” (emphasis in original)); Patently-O, Supreme Court, *supra* note 2 (“Nothing in *Quanta* leads to the conclusion that it overruled *Mallinckrodt*.”) (comment posted by t\_blossom), and Ladas & Parry, *supra* note 2 (“It was hoped that the Supreme Court might resolve this controversy when it decided the case of *Quanta Computer Inc. v. L.G. Electronics*. Unfortunately . . . it did not address some of the key issues in the criticism of *Mallinckrodt* . . .”), with Holman’s Biotech IP Blog, *supra* note 2 (“[I]t appears to me that *Quanta* implicitly overrules *Mallinckrodt* . . .”), and McAllister, *supra* note 2 (“Although *Quanta* does not expressly address the *Mallinckrodt*’s conditional sale rule, application of *Quanta*’s authorized sale rule prohibits a patentee from imposing conditions on use where the sale itself is unrestricted.”). See also Ghosh, *supra* note 2, at 4 (“Nowhere in its opinion does the Court mention the *Mallinckrodt* decision, but footnote 7 strongly suggests that *Mallinckrodt* no longer stands as the prevailing precedent and that there are now limits on the Federal Circuit’s conditional sale doctrine.”); Schlicher, *supra* note 2, at 845 (concluding that “[a]fter *Quanta*, it is unclear whether th[e] patent owner [in *Mallinckrodt*] could sell and license in this way”).

however, sheds considerable light on that question, and indicates that there is no longer any room for continued adherence to the *Mallinckrodt* line of cases.

One possible explanation for the Court's failure to discuss *Mallinckrodt* in its opinion is as follows: LGE's counsel, after viewing the Solicitor General's and Quanta's extended criticisms of that decision in their briefs, chose not to defend the reasoning or holding of *Mallinckrodt* and instead sought to defend the judgment below on alternative grounds—principally that Quanta purchased mere components of the patented systems, that Intel was a licensee with limited rights, that LGE was seeking to restrict only the right to *make* patented systems (rather than the right to use purchased articles) and that method patents are not subject to exhaustion.<sup>61</sup> Indeed, the only discussion on the merits of *Mallinckrodt* in LGE's brief was contained in a footnote that concluded as follows: "Even if this Court firmly believes that the Federal Circuit erred in its specific holding in *Mallinckrodt*, the issue presented there is not the one presented here."<sup>62</sup> And at oral argument, Justice Stevens specifically asked LGE's counsel, "Am I correct in understanding that you do not defend the *Mallinckrodt* decision?"<sup>63</sup> Counsel replied: "I do not defend the *Mallinckrodt* decision, Justice Stevens, and clearly I don't believe I have to."<sup>64</sup>

### 3. *Mallinckrodt* after *Quanta*

Notwithstanding the absence of any direct discussion of *Mallinckrodt*, the *Quanta* opinion necessarily rejects both the specific holding and the broader reasoning of that case. *Mallinckrodt* involved a patent holder's attempt to enforce a "single use only" restriction, initially imposed by the patent holder, to control the post-sale use of patented articles that had been sold *by the patent holder*.<sup>65</sup> Thus, the sales at issue were, by definition, "authorized" in the relevant sense, because a sale by a patent holder obviously cannot infringe the patent holder's own patent, assuming that the patent holder has not previously assigned away the right to sell.<sup>66</sup> *Quanta* clearly and unambiguously holds that

<sup>61</sup> Brief of Respondent, *supra* note 9, at 17–46, 51–52.

<sup>62</sup> *Id.* at 45 n.15.

<sup>63</sup> Transcript of Oral Argument, *supra* note 10, at 34.

<sup>64</sup> *Id.*; *see id.* at 54–55 ("[A]s far as [the Federal Circuit is] concerned, all kinds of conditions are permissible. And we don't need that in order to win this case. I'm not asking the Court to embrace that particular approach.").

<sup>65</sup> *Mallinckrodt, Inc., v. Medipart, Inc.*, 976 F.2d 700, 702 (Fed. Cir. 1992).

<sup>66</sup> *See Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2121 (2008) ("Exhaustion is triggered only by a sale *authorized by the patent holder*." (emphasis added)). Plainly, a sale by the patent holder is "authorized by the patent holder." *Id.*

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patent exhaustion follows as a matter of law from any “authorized” (*i.e.*, non-infringing) sale; indeed, the Court restates that holding at least seven times in the course of its opinion, leaving no room for doubt about the governing criterion.<sup>67</sup> *Mallinckrodt*'s actual holding—that a patent holder's authorized sale of its patented products does not necessarily result in exhaustion<sup>68</sup>—is necessarily overturned by the *Quanta* Court's enunciation of the governing test for exhaustion.

*Mallinckrodt*'s broader reasoning is similarly unsupportable in light of *Quanta*. In *Mallinckrodt*, the crucial question was whether the patent holder's “single use only” restriction was rendered unenforceable by *Univis*, *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*<sup>69</sup> and similar cases holding that the patent-exhaustion doctrine precludes patent-law enforcement of various post-sale restrictions.<sup>70</sup> The *Mallinckrodt* court held that those precedents were not necessarily applicable to the post-sale restriction at issue, because those cases involved antitrust challenges to the underlying restrictions, whereas “this is not a price-fixing or tying case.”<sup>71</sup> The court therefore decided that the patent-exhaustion rule enunciated in *Univis* and similar precedents was controlling only when the restrictions at issue also violated some other legal rule: “Unless the [post-sale] condition violates some other law or policy (in the patent field, notably the misuse or antitrust law . . .), private parties retain the freedom to contract concerning conditions of sale.”<sup>72</sup> In addition, the court made clear that such “conditions of sale”—post-sale use restrictions—may be enforced by means of patent infringement suits.<sup>73</sup>

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<sup>67</sup> See *supra* text accompanying notes 42, 66; *Quanta*, 128 S. Ct. at 2119 (“*Univis* held that ‘the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold.’” (quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942) (emphasis added))); *id.* at 2122 (“Because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products.” (emphasis added)); *id.* (“The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article. . . . Intel's authorized sale to Quanta thus took its products outside the scope of the patent monopoly, and as a result, LGE can no longer assert its patent rights against Quanta.” (emphasis added)).

<sup>68</sup> *Mallinckrodt*, 976 F.2d at 703–09.

<sup>69</sup> 243 U.S. 502 (1917).

<sup>70</sup> See *supra* Part II.A.1.

<sup>71</sup> *Mallinckrodt*, 976 F.2d at 708.

<sup>72</sup> *Id.* (citing *Univis*, 316 U.S.).

<sup>73</sup> *Id.* at 707 n.6, 708.

*Quanta* eliminates the crucial lynchpin of *Mallinckrodt*'s analysis, because *Quanta* unambiguously holds that *Univis*—albeit an antitrust case—governs the scope of patent exhaustion in a patent infringement case, without regard to whether the restrictions at issue violate some other source of law.<sup>74</sup> The Court held explicitly that “*Univis* governs this case,”<sup>75</sup> and it did so without considering—let alone resolving—any antitrust or other challenge to the validity of LGE’s license restrictions. Thus, it is no longer relevant or appropriate to conduct the *Mallinckrodt*-mandated inquiry into “whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason” in order to ascertain whether patent exhaustion has been triggered.<sup>76</sup>

*Mallinckrodt* also reasoned that “conditional sales”—which it defined to include authorized sales subject to post-sale restrictions on use or resale—are not subject to exhaustion, relying on the Court’s dictum in *Mitchell v. Hawley*<sup>77</sup> to the effect that exhaustion applies to sales “without any conditions.”<sup>78</sup> As the government explained in its brief, however, *Mallinckrodt*’s reasoning reflected a misunderstanding of *Mitchell*, because at the time the latter case was decided, “a ‘conditional’ sale would have been understood as an agreement to sell where title would not convey until performance of a condition precedent.”<sup>79</sup> By contrast, the Court’s exhaustion cases make clear that passage of title automatically triggers exhaustion, unless the seller lacked authority to sell.<sup>80</sup> And that understanding is necessarily reflected in the *Quanta* decision as well, because the

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<sup>74</sup> *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2119 (2008).

<sup>75</sup> *Id.*

<sup>76</sup> *Mallinckrodt*, 976 F.2d at 708. Interestingly, some critics of the Supreme Court’s *Quanta* decision continue to rely on the same erroneous reading of *Univis* that was reflected in *Mallinckrodt* and rejected in *Quanta*. See, e.g., Kieff, *supra* note 2, at 324; Schlicher, *supra* note 2, at 810.

<sup>77</sup> 83 U.S. (16 Wall.) 544 (1872).

<sup>78</sup> *Mallinckrodt*, 976 F.2d at 707 (quoting *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 663 (1895)).

<sup>79</sup> U.S. Merits Brief, *supra* note 11, at 20–21; see, e.g., *William W. Bierce, Ltd. v. Hutchins*, 205 U.S. 340, 345, 347 (1907) (stating that a sale is conditional where the terms governing a sale of property purported to make “the passing of title . . . subject to a condition precedent”); *Harkness v. Russell & Co.*, 118 U.S. 663, 666 (1886) (describing a “conditional sale” as a “mere agreement to sell upon a condition to be performed” in which title does not pass until the condition precedent is performed).

<sup>80</sup> See *supra* note 34; U.S. Merits Brief, *supra* note 11, at 21; see also *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 515–16 (1917) (making clear that a first, unconditional sale exhausts the right of the patent owner to make sales subject to explicit post-sale restrictions).



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Court declined to give effect to the post-sale use restrictions reflected in the notice that Intel, pursuant to its agreement with LGE, delivered to its customers. In the Court's view, those purported use restrictions were simply irrelevant and unenforceable because "Intel's *authority to sell* its products embodying the LGE Patents was not conditioned."<sup>81</sup>

Thus, *Mallinckrodt's* "conditional sale" rationale is no longer good law.<sup>82</sup> Once a patented article is sold or title passes by means of an authorized sale—*i.e.*, a sale that did not constitute patent infringement by the seller, because it was authorized under the patent—patent exhaustion results, and any purported restrictions on the purchaser's use or resale of the patented article are categorically unenforceable in an infringement suit.<sup>83</sup>

***C. Restrictions on Use or Resale After an Authorized Sale Are Potentially Enforceable Only Under Contract Law***

**1. The Solicitor General's Brief**

As a corollary to the mandatory nature of patent exhaustion after an authorized sale, the Solicitor General also asserted that contract law, not patent law, provides the only potential avenue by which patent holders can seek to restrict use or resale by purchasers after an authorized sale.<sup>84</sup> The government's brief explained that "the enforceability of downstream restrictions after an authorized sale arises only 'as a question of contract, and not as one under the inherent meaning and effect of the patent laws.'"<sup>85</sup> The Solicitor General also

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<sup>81</sup> *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2122 (2008) (emphasis added).

<sup>82</sup> *Accord* *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, Nos. 5:02-571, 5:04-84, 2009 WL 891811, at \*9 (E.D. Ky. Mar. 31, 2009) ("[T]his Court is persuaded that *Quanta* overruled *Mallinckrodt sub silentio*.").

<sup>83</sup> It seems reasonable to predict that some patent holders may attempt to avoid the impact of *Quanta* by restructuring sales transactions as licenses, leases, consignments or bailments in which title does not pass to the consumer. The effectiveness of such schemes will likely depend on the extent to which the substance of the transaction is consistent with its form. There is precedent for judicial reexamination of such transactions to determine whether they are, in substance, sales and should thus be treated accordingly. *See* *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500–01 (1917) ("Courts would be perversely blind if they failed to look through such an attempt as this 'License Notice' thus plainly is to sell property for a full price," and accordingly the purported licensing scheme at issue "falls within the [patent-exhaustion] principles of *Adams v. Burke* . . .").

<sup>84</sup> U.S. Merits Brief, *supra* note 11, at 11, 29.

<sup>85</sup> *Id.* (quoting *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666 (1895)); *see Motion Picture Patents Co.*, 243 U.S. at 509 ("[T]he extent to which the use of the patented machine

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noted that “[s]ome of the same restrictions that the first-sale doctrine renders ineffective in a patent-infringement suit could be validly imposed as a matter of state contract law,” but emphasized that “even otherwise valid contract provisions would not provide a defense to a federal antitrust action, and mere unilateral notice to downstream purchasers will not generally give rise to enforceable contractual restrictions.”<sup>86</sup>

## 2. The Supreme Court’s Opinion

The Court reached essentially the same conclusion, as reflected in footnote 7 of its opinion.<sup>87</sup> The Court “note[d] that the authorized nature of the sale to Quanta does not necessarily limit LGE’s other contract rights,” and “express[ed] no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.”<sup>88</sup> Thus, *Quanta* leaves patent holders free to rely on state-law contractual mechanisms for imposing and enforcing restrictions on the post-sale use or resale of patented articles, subject to the constraints imposed by federal antitrust law and by the common law’s traditional hostility to restraints on alienation and equitable servitudes running with personal property.<sup>89</sup> But as the Court made clear in *Quanta*, those contractual restrictions will not be enforceable by means of patent-infringement suits, and will not result in patent law remedies such as “patent damages” and injunctions.<sup>90</sup>

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may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser . . . is a question outside the patent law.”); *Bloomer v. McQuewan*, 55 U.S. 539, 549–50 (1852) (after an authorized sale, the patented article “is no longer under the protection of the act of Congress,” and thus “[c]ontracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction”).

<sup>86</sup> U.S. Merits Brief, *supra* note 11, at 29.

<sup>87</sup> *Quanta*, 128 S. Ct. at 2122 n.7.

<sup>88</sup> *Id.*

<sup>89</sup> See U.S. Merits Brief, *supra* note 11, at 11, 29–30; Brief of Petitioner at 46–48, *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937).

<sup>90</sup> *Quanta*, 128 S. Ct. at 2122 & n.7.

*D. Sales in Violation of License Restrictions on the Right to Sell Do Not Give Rise to Exhaustion*

**1. The Solicitor General's Brief**

While acknowledging the far-reaching nature of the Supreme Court's patent-exhaustion jurisprudence, the Solicitor General also took the position that the patent-exhaustion doctrine, properly understood, leaves patent holders free to restrict their licensees' right to sell and permits patent holders to enforce those license restrictions by means of patent-infringement suits against licensees who make unauthorized sales and also against buyers who knowingly purchase by means of such unauthorized sales.<sup>91</sup> As the government observed, the Court "has repeatedly held that a patentee may require licensees to comply with any lawful restriction to which the parties may agree—including field-of-use restrictions and even minimum-price restrictions—on pain of liability for patent infringement for both the licensee and purchasers with knowledge of the restriction."<sup>92</sup> The Court has justified this result by explaining that "licensees 'stand[] on different ground' from purchasers in authorized sales," in that "a licensee holds a portion of the patentee's exclusive rights under the patent statute, whereas an article validly sold to a purchaser is 'no longer within the limits of the monopoly.'"<sup>93</sup> The licensee "stands in the shoes of the patentee," and accordingly the Court "has allowed the patentee to restrict its licensees as if the patentee itself were exercising the exclusive patent rights, as long as the restrictions 'are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly.'"<sup>94</sup>

Thus, the Solicitor General explained that *General Talking Pictures Corp. v. Western Elec. Co.*<sup>95</sup> stands for the proposition that "when a licensee sells a patented article in violation of the field-of-use terms of its license, 'the effect is precisely the same as if no license whatsoever had been granted,' and the patentee could sue both the licensee and the purchaser (who was on notice of the restriction) for infringement of the patent."<sup>96</sup> The licensee's decision to sell

<sup>91</sup> See U.S. Merits Brief, *supra* note 11, at 15–18.

<sup>92</sup> *Id.* at 15–16 (citing *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127 (1938)); see *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489–90 (1926).

<sup>93</sup> U.S. Merits Brief, *supra* note 11, at 16 (quoting *Bloomer v. McQuewan*, 55 U.S. 539, 49–50 (1852)).

<sup>94</sup> *Id.* (quoting *Gen. Elec. Co.*, 272 U.S. at 490).

<sup>95</sup> 305 U.S. 124 (1938).

<sup>96</sup> U.S. Merits Brief, *supra* note 11, at 17 (quoting *Gen. Talking Pictures Corp.*, 305 U.S. at 127).

outside the terms of the license rendered the sale unauthorized, and thus neither the licensee nor the purchaser could benefit from the patent-exhaustion doctrine. By contrast, the Solicitor General observed, the Court's decision in *Univis* illustrates the very different consequences that ensue when a patent holder authorizes a sale by its licensee but seeks to impose restrictions on the purchaser's use or resale of the article: "[W]here the sale of the [article] was authorized (albeit expressly subject to limitations on resale), the patent-exhaustion doctrine applied, because 'the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold.'"<sup>97</sup> The government concluded that "[t]he distinction between the rights of licensees and of authorized purchasers is thus a necessary and explicable result of the differences in their respective positions."<sup>98</sup>

## 2. The Supreme Court's Opinion

In its opinion, the Supreme Court did not explicitly address the continued viability of the *General Talking Pictures* line of cases, but the Court assumed the validity of those cases in its analysis. The logic of its reaffirmation of the patent-exhaustion doctrine directly supports the longstanding distinction between the inability of patent holders to restrict the rights enjoyed by buyers after an authorized sale, on the one hand, and the ability of patent holders to restrict the rights of licensees to sell patented articles and enforce those restrictions by way of patent infringement suits against both licensees and buyers, on the other.<sup>99</sup> First, in rejecting LGE's attempt to justify its infringement suit by reference to *General Talking Pictures*, the Court reasoned that the holding in that case provided no support to LGE, without casting any doubt on its continued vitality.<sup>100</sup> The Court explained that the manufacturing licensee's sale of amplifiers in *General Talking Pictures* breached the license agreement and was therefore not an authorized sale, so patent exhaustion simply did not arise: "[E]xhaustion did not apply because the manufacturer had no authority to sell the amplifiers for commercial use, and the manufacturer 'could not convey to petitioner what both knew it was not authorized to sell.'"<sup>101</sup> By contrast, while

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<sup>97</sup> *Id.* at 17–18 (quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942)).

<sup>98</sup> *Id.* at 18.

<sup>99</sup> *See Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2121–22 (2008).

<sup>100</sup> *Id.* at 2121.

<sup>101</sup> *Id.*

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LGE had imposed certain restrictions on its license to Intel, “[n]o conditions limited Intel’s authority to sell products substantially embodying the patents.”<sup>102</sup>

Second, the Court’s consistent focus on an “authorized sale” as the crucial trigger for application of patent exhaustion necessarily implies that there can be no exhaustion when the licensee lacked the requisite authority from the patent holder to make the sale at issue.<sup>103</sup> As the Court succinctly put it, “[e]xhaustion is triggered *only* by a sale authorized by the patent holder.”<sup>104</sup> A licensee will lack authority to make a sale only when the licensee has been granted a limited, or no, right to sell, but proceeds to make a sale that exceeds the scope of its limited grant and therefore constitutes infringement of the patent holder’s statutory right to sell.<sup>105</sup> Thus, under the Court’s reasoning, a licensee who does not commit patent infringement in selling a patented article has made an authorized sale, and hence patent exhaustion results; a licensee who commits patent infringement by selling a patented article has not made an authorized sale, and hence no exhaustion occurs.<sup>106</sup> That is precisely the holding of *General Talking Pictures*, as the government explained in its brief.<sup>107</sup> Accordingly, it appears that patent holders retain the ability to limit the applicability of patent exhaustion by restricting their licensees’ rights to sell.<sup>108</sup>

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<sup>102</sup> *Id.* at 2122.

<sup>103</sup> *Id.* at 2113, 2115, 2119, 2122.

<sup>104</sup> *Id.* at 2121 (emphasis added).

<sup>105</sup> *Id.* at 2121–22; see U.S. Merits Brief, *supra* note 11, at 16–17.

<sup>106</sup> See *Quanta*, 128 S. Ct. at 2121–22.

<sup>107</sup> U.S. Merits Brief, *supra* note 11, at 17 (“[W]hen a licensee sells a patented article in violation of the field-of-use terms of its license, ‘the effect is precisely the same as if no license whatsoever had been granted,’ and the patentee could sue both the licensee and the purchaser (who was on notice of the restriction) for infringement of the patent.” (quoting *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127 (1938))).

<sup>108</sup> Some commentators have criticized the rule that patent holders can limit their licensees’ right to sell and enforce that limitation by means of patent infringement suits, viewing that result as anomalous in light of patent holders’ inability to restrict the post-sale rights of purchasers. See, e.g., Holman’s Biotech IP Blog, *supra* note 2 (“This is clearly an anomalous outcome, and seems to make little economic sense.”). But that seeming anomaly is in fact no anomaly at all, when one understands the principle underlying the patent-exhaustion doctrine. The doctrine is based on the proposition that, by its very nature, exercise of the statutory right to *sell* a patented article removes that article from the scope of the patent laws. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (plurality opinion) (Court views patent-exhaustion doctrine as “delimiting the scope of the patent grant”); *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 455 (1873) (patent-exhaustion doctrine rests on the principle that “the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used”); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1853) (explaining that the pur-

For example, LGE could have licensed Intel to sell licensed products only to manufacturers that signed a contract promising not to combine Intel products with non-Intel components.<sup>109</sup> In those circumstances, any sales to manufacturers that did not sign such a contract would be unauthorized and

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chaser of a patented article “for the purpose of using it in the ordinary pursuits of life . . . exercises no rights created by the act of Congress, nor does he derive title to [the article] by virtue of the franchise or exclusive privilege granted to the patentee,” because “when the [patented] machine passes to the hands of the purchaser . . . [i]t passes outside [the scope of the patentee’s statutory monopoly], and is no longer under the protection of the act of Congress”).

A mere license is not the sale of a patented article, and thus a mere licensee has no basis on which to claim exhaustion; its rights are limited to the scope of the license. See *Bloomer*, 55 U.S. (14 How.) at 549 (unlike a purchaser in an authorized sale, an assignee or licensee “obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States,” and is therefore limited by the scope of the patent grant); *Static Control Components, Inc. v. Lexmark Int’l, Inc.*, Nos. 5:02-571, 5:04-84, 2009 WL 891811, at \*3 (E.D. Ky. Mar. 31, 2009) (“[F]rom the beginning the Supreme Court has recognized a difference between end users of patented articles and licensees of the right to make and/or sell those articles.”). Because exhaustion is triggered only by an authorized sale, licensee sales that are not authorized by the license do not give rise to exhaustion but instead constitute patent infringement. 35 U.S.C. § 271(a) (2006) (sale of patented item “without authority” constitutes patent infringement); see *supra* note 66 and accompanying text. Finally, to the extent the charge of “anomaly” rests on the assumption that the Supreme Court’s patent-exhaustion doctrine permits patent holders to impose post-sale restrictions through licensees that they could not impose directly, that underlying assumption is incorrect. Patent holders are free to decide when and on what terms they will sell their patented products and thus could enforce directly, by simple refusals to sell, the same sorts of restrictions that they can require their licensees to follow on pain of patent infringement. For example, as in *General Talking Pictures*, a patent holder could authorize its licensee to sell only to certain types of customers, or alternatively the patent holder could achieve the same result by selling its patented products directly and choosing to limit the customers to whom it sells or the circumstances in which it will sell to different classes of customers. See *General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124, 126–27 (1938). The exhaustion doctrine operates the same way in either instance: once an authorized sale occurs, whether by the patent holder or the licensee, exhaustion follows. See *supra* note 66 and accompanying text. To be sure, the patent holder by definition cannot make an unauthorized sale, absent extraordinary circumstances such as plainly *ultra vires* actions by corporate employees, but it can exercise its patent right to refuse to make undesired sales or alternatively can employ its patent right to prevent its licensees from making such sales. *General Talking Pictures*, 305 U.S. at 126–27; cf. *Continental Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 429–30 (1908) (holding that even complete nonuse of patent does not deprive patent holder of right to enjoin infringement, “as it is the privilege of any owner of property to use or not use it, without question of motive”).

<sup>109</sup> Cf. Brief Amicus Curiae of the Am. Seed Trade Ass’n in Support of Neither Party at 14, *Quanta Computer, Inc., v. LG Elecs.*, 128 S. Ct. 2109 (2008) (No. 06-937) (describing a somewhat analogous licensing scheme).

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would constitute patent infringement by both Intel and its customers who purchased with knowledge of the restriction.<sup>110</sup> On the other hand, if a customer did sign the requisite contract but then proceeded to breach the post-sale use restriction, LGE's remedy would be limited to its contract rights, because Intel's compliance with the license requirement would have rendered the sale authorized and hence LGE's patent rights would be exhausted.<sup>111</sup>

Similarly, LGE could have licensed Intel to sell only to customers who had already entered into separate license agreements—incorporating the desired use restrictions—with LGE.<sup>112</sup> Under those circumstances, a sale by Intel to an unlicensed customer would constitute patent infringement and would not result in exhaustion.<sup>113</sup> Alternatively, if a properly licensed customer purchased patented articles from Intel and then used them in a manner that violated the customer's license agreement with LGE, the logic of the Court's holding in *Quanta* compels the conclusion that LGE's remedies would arise solely under contract law.<sup>114</sup> The sale by Intel would have been “authorized” in the relevant sense, because it complied with the restrictions on Intel's right to sell—in that the customer possessed the requisite license from LGE—and accordingly Intel's authorized sale of the patented article would have exhausted LGE's patent rights with respect to that article.<sup>115</sup> As a result, breach of the license agreement would give rise only to state-law remedies and could not be remedied by means of a patent infringement suit.

Patent holders could conceivably attempt to avoid the effect of the *Quanta* Court's holding by following one of the foregoing approaches but recasting the post-sale use restrictions so that they also purport to be restrictions on the right to sell itself. For example, a patent holder might insert a provision in its manufacturing licenses to the effect that sales by licensees are authorized only to the extent that (1) the purchaser contractually promises to adhere to specified post-sale use restrictions and (2) the purchaser does in fact use the patented articles in accordance with their contractual promises (in the LGE example, by combining the articles only with Intel components). Assuming that li-

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<sup>110</sup> *Cf. id.*

<sup>111</sup> *Cf.* Transcript of Oral Argument, *supra* note 10, at 25–26 (government counsel's statement of this position in response to a question from Justice Stevens).

<sup>112</sup> *See, e.g.*, Brief of Qualcomm Inc. as Amicus Curiae in Support of Respondent at 7–9, *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937) (describing such a licensing scheme).

<sup>113</sup> *See General Talking Pictures*, 305 U.S. at 126–27.

<sup>114</sup> *See Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2121–22 & n.7 (2008).

<sup>115</sup> *See id.* at 2121–22.

licensees would actually agree to such restrictions, which may be unlikely in many circumstances given that such provisions would effectively transform licensees into insurers of their customers' good conduct, the question arises whether such provisions would preserve patent law remedies against purchasers that fail to comply with the post-sale use restrictions to which they have agreed.

The Supreme Court did not address that question in *Quanta* but appeared to leave open the possibility that such a provision might be effective. In rejecting LGE's argument that the post-sale use restrictions specified in the Intel-LGE agreement rendered the sales to Quanta unauthorized, the Court explained that "LGE overlooks important aspects of the structure of the Intel-LGE transaction. Nothing in the License Agreement restricts Intel's *right to sell* its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts."<sup>116</sup> As the Court acknowledged, "LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents. But neither party contends that Intel breached the agreement in that respect."<sup>117</sup>

That analysis seems sufficient in itself to explain why Intel's sales to Quanta were authorized. The Court did not stop there, however, and instead went on to note that, "[i]n any event, the provision requiring notice to Quanta appeared only in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement."<sup>118</sup> The Court then concluded with this intriguing statement: "Hence, Intel's authority to sell its products embodying the LGE Patents was not conditioned on the notice or on *Quanta's decision to abide by LGE's directions in that notice.*"<sup>119</sup>

That statement raises, but does not resolve, the following question: What would have been the result if LGE had purported to condition Intel's right to sell on Quanta's post-sale compliance with the use restrictions set forth in the license? Did the Court mean to suggest that such a restriction would be enforceable at patent law or was it merely stating the obvious—namely, that no such provision was included in the license agreement at issue—without intending to imply anything about the legal consequences of counterfactual hypotheticals? It remains to be seen whether, and how, the Court will resolve that question. The logic of the Court's decision suggests, however, that patent holders will not be able to avoid the effects of patent exhaustion by means of such stratagems.<sup>120</sup>

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<sup>116</sup> *Id.* at 2121 (emphasis added).

<sup>117</sup> *Id.*

<sup>118</sup> *Id.* at 2121–22.

<sup>119</sup> *Id.* (emphasis added).

<sup>120</sup> *Id.*



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Recall that under the analysis employed in *Quanta*, the entire focus of the inquiry is on the point of sale, as follows: Was the sale authorized at the moment it occurred, or did the act of selling the patented article instead infringe the patent holder's right to sell?<sup>121</sup> If the sale complies with all restrictions applicable at the point of sale, including the receipt of any promises required of the purchaser as a condition of the sale, it is an authorized sale, and it cannot somehow be transformed, *nunc pro tunc*, into an unauthorized sale at some later time if the purchaser subsequently violates the post-sale use restrictions.<sup>122</sup>

A contrary result would threaten to eviscerate the patent-exhaustion doctrine, a result that the Court has already made clear it will not countenance.<sup>123</sup> Moreover, a holding that such provisions are enforceable in patent-infringement suits would eliminate the certainty and clarity provided by the patent-exhaustion doctrine's focus on authorization at the time of sale. It would become impossible to know whether a sale actually resulted in exhaustion, because the answer could change depending on the purchaser's post-sale conduct. And a necessary corollary of deeming such provisions enforceable at patent law against purchasers who violate post-sale restrictions would be that the sale by the licensee would itself necessarily constitute patent infringement, because only if the sale were retroactively deemed "unauthorized," and hence infringing, could the conclusion be reached that the sale did not exhaust the patent.<sup>124</sup> Accordingly, such provisions would place licensees in the untenable position of not being able to ascertain in advance whether their sales were infringing or not. Even assuming that there are licensees who would agree to such provisions—presumably on the basis of strong trust in, and strong indemnification agreements with, their customers—there is little to recommend such a rule as a policy matter. For all those reasons, it seems unlikely that patent holders will be able to contract around *Quanta* in this fashion.

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<sup>121</sup> *Id.* (holding that "[e]xhaustion is triggered only by a sale authorized by the patent holder" and that "exhaustion did not apply [in *General Talking Pictures*] because the manufacturer had no authority to sell the [patented articles] for commercial use," and thus "exhaustion turns only on Intel's own license to sell products practicing the LGE Patents").

<sup>122</sup> *Id.*

<sup>123</sup> *See id.* at 2117 (declining to exempt method patents from exhaustion in part because "[e]liminating exhaustion for method patents would seriously undermine the exhaustion doctrine"). *See generally infra* Part II.F.

<sup>124</sup> *See supra* notes 42, 66–67, 121–122 and accompanying text.

*E. The Authorized Sale of a Component of a Patented Invention May Result in Exhaustion*

**1. The Solicitor General's Brief**

Although the Federal Circuit's decision rejecting patent exhaustion in this case did not rest on the fact that the items sold by Intel were merely components of the patented systems and methods at issue, the Solicitor General's brief also addressed that potential alternative ground for the judgment below. Relying on the Supreme Court's decision in *Univis*, the government argued that

if the article sold by or with authorization from the patentee is especially made or adapted for infringing the patentee's patent(s), constitutes a material part of the invention, and has no substantial noninfringing use—in short, if the unauthorized sale of the article would constitute contributory infringement, as the Court assumed was true in *Univis*—an authorized sale should exhaust the patentee's ability to assert infringement of such patent(s) against the purchaser.<sup>125</sup>

Use of the contributory-infringement standard as the test for patent exhaustion in this context obviously provides a relatively clear and well-understood test for determining whether the sale of a component results in patent exhaustion, but more importantly, use of that standard follows directly from the logic underlying the patent-exhaustion doctrine: when the sale of an article is valid only by virtue of the seller's rights under the patent, that is, because the seller is either the patent holder or a licensee authorized to make the particular sale at issue, the patent-exhaustion doctrine provides that, for patent law purposes, the sale necessarily carries with it the right freely to use or resell that article without further restrictions derived from the patent.<sup>126</sup> That logic obviously applies when the article sold is patented; it is equally applicable, however, when the article sold does not meet all of the limitations of the patent claim at issue, but its sale would constitute contributory infringement absent the seller's authorization to sell under the patent.<sup>127</sup> Put another way, when the sale necessarily

<sup>125</sup> U.S. Merits Brief, *supra* note 11, at 31 (citation omitted).

<sup>126</sup> See *Quanta*, 128 S. Ct. at 2115–17, 2121–22; *supra* notes 42, 66–67, 121–122, 124 and accompanying text.

<sup>127</sup> See *United States v. Univis Lens Co.*, 316 U.S. 241, 249, 250–51 (1942) (“[T]he authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold,” and “where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article.”); *id.* at 249 (assuming for purposes of decision that an unauthorized sale of

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constitutes and entails an exercise of the exclusive right to sell under the patent, exhaustion logically and inexorably follows from an authorized sale.<sup>128</sup>

The Solicitor General did not ask the Court to apply the contributory-infringement standard to the particular facts of this case, suggesting instead that “a remand for consideration of that issue would be appropriate,” because the

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the components “would constitute contributory infringement [of the patents at issue] by the seller”).

<sup>128</sup> For this reason, the overseas sale of an article or component that is the subject of a U.S. patent cannot exhaust the U.S. patent holder’s rights, because no authorization under the U.S. patent would have been required or exercised in that overseas sale, given that U.S. patent rights generally do not apply extraterritorially. *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007). It makes no sense to speak of a foreign sale being “authorized” under a U.S. patent, because there is no sense in which a foreign sale constitutes the exercise of any rights under a U.S. patent. Thus, even if the overseas seller possessed the right to sell the item in the United States as well, the foreign sale would not be an “authorized sale” within the meaning of the patent-exhaustion doctrine. *See Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005); *see also* U.S. Merits Brief, *supra* note 11, at 10 (underlying rationale of patent-exhaustion doctrine is that “once the patentee or authorized licensee validly parts with title to a machine embodying the patented invention, that sale, *which could not lawfully be made without the patentee’s authority*, places that particular machine outside the exclusivity granted by the patent” (emphasis added)). *But see* *LG Elecs., Inc. v. Hitachi, Ltd.*, No. C 07-6511 CW, 2009 WL 667232, at \*8–11 (N.D. Cal. Mar. 13, 2009) (concluding that, under *Quanta*, overseas sales by licensee with U.S. sale rights exhausted U.S. patent). Put another way, patent exhaustion is justified by the principle that “[a]n incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it.” *Univis*, 316 U.S. at 249. That principle explains why an authorized sale in the United States exhausts the U.S. patent rights that would have barred the sale absent authorization; it provides no basis for deeming a U.S. patent exhausted by an *overseas* sale, because in the latter circumstance the U.S. patent poses no obstacle to “the right to use and sell” the purchased item where it was purchased. A foreign purchaser has no right or reason to expect that it will be entitled to use and sell the purchased item in *another country* without regard to patent rights in that other country, and construing the exhaustion doctrine to lead to confer such rights extraterritorially would produce nonsensical results, because the rights conferred by a foreign sale would vary depending on the irrelevant happenstance of the scope of U.S. rights possessed by the seller. Unfortunately, the *Quanta* Court’s discussion of contributory infringement has created some confusion on this issue, because it could be read to suggest that the relevant question under *Univis* for exhaustion purposes is not whether the sale of the components would infringe (absent authorization), but rather whether they are “capable of use only in practicing the patent.” *Quanta*, 128 S. Ct. at 2119 & n.6 (quoting *Univis*, 316 U.S. at 249); *see Hitachi*, 2009 WL 667232, at \*8–9. That reading, however, would reflect a misunderstanding of the point made in *Univis*, because the description of the components as “capable of use only in practicing the patent” in *Univis* was plainly intended to show that the unauthorized sale of the components would constitute contributory infringement, as evidenced by the fact that the Court cited two cases involving claims of contributory infringement in support of its statement. *See Univis*, 316 U.S. at 249 (citing *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 460, 461 (1938); *B. B. Chem. Co. v. Ellis*, 314 U.S. 495 (1941)).

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court of appeals had not found it necessary to address the question.<sup>129</sup> The government noted, however, that the district court had made findings of undisputed fact to the effect that “Intel’s chips and microprocessors were ““destined . . . to be finished by the purchaser in conformity”” to respondent’s system patents, and have ‘no reasonable non-infringing use.’”<sup>130</sup>

### 2. The Supreme Court’s Opinion

The Supreme Court agreed with the Solicitor General’s basic submission on this issue, holding that “*Univis* governs this case” because that decision “held that ‘the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold.’”<sup>131</sup> In the Court’s view, “exhaustion was triggered [in *Univis*] by the sale of the lens blanks because their only reasonable and intended use was to practice the patent and because they ‘embodie[d] essential features of [the] patented invention,’” attributes that were equally “shared by the microprocessors and chipsets Intel sold to Quanta.”<sup>132</sup> The Court thus went further than the Solicitor General had suggested, specifically addressing and resolving the record-intensive question whether the articles sold by Intel sufficiently embodied the patented inventions at issue such that their authorized sale resulted in exhaustion. Presumably, the Court addressed that question in order to provide further guidance to the lower courts regarding the proper application of *Univis*.

With respect to the applicable legal test for deciding when the authorized sale of a component exhausts a broader patent claim, it is not entirely clear whether the Court accepted the Solicitor General’s suggestion that the test for contributory infringement should govern that question. Under § 271(c), contributory infringement occurs when a party, without authorization, sells

a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use.<sup>133</sup>

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<sup>129</sup> U.S. Merits Brief, *supra* note 11, at 31.

<sup>130</sup> *Id.* (citation omitted).

<sup>131</sup> *Quanta*, 128 S. Ct. at 2119 (quoting *Univis*, 316 U.S. at 249).

<sup>132</sup> *Id.* (quoting *Univis*, 316 U.S. at 251).

<sup>133</sup> 35 U.S.C. § 271(c) (2006).

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Thus, the statutory elements for contributory infringement involving a sale of a component can be framed as follows: (1) the component is a material part of the invention; (2) especially made or adapted for use in practicing the patent; and (3) not a staple article of commerce, that is, no substantial noninfringing use.

The Court's formulation of the test at times uses some of that terminology,<sup>134</sup> but it remains to be seen whether its test will be altogether coextensive with the elements of contributory infringement. In one formulation of its test, the Court stated that exhaustion arises when (a) the "only reasonable and intended use [of the articles] was to practice the patent" and (b) the articles "'embodie[d] essential features of [the] patented invention.'"<sup>135</sup> Element (a) of that formulation essentially overlaps with elements (2) and (3) of the test prescribed by § 271(c). It could perhaps be argued, however, that "material part of the invention" is a broader and more easily satisfied standard than "embodie[d] essential features of [the] patented invention."<sup>136</sup>

Some of the Court's language in applying that "essential features" prong may lend support to that view, because the Court repeatedly equated "essential" with "inventive" and at some points seemed to suggest that *all* of the inventive aspects of the patented invention had to be embodied in the component at issue in order to give rise to patent exhaustion.<sup>137</sup> In restating its holding at the conclusion of the opinion, for example, the Court stated that "Intel's microprocessors and chipsets substantially embodied the LGE Patents because they had no reasonable noninfringing use and included *all the inventive aspects*

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<sup>134</sup> See, e.g., *Quanta*, 128 S. Ct. at 2120.

<sup>135</sup> *Id.* at 2119 (citation omitted).

<sup>136</sup> Compare 35 U.S.C. § 271(c), with *Quanta*, 128 S. Ct. at 2120 ("Like the Univis lens blanks, the Intel Products constitute *a material part of the patented invention* and all but completely practice the patent." (emphasis added)). Of course, the fact that a component satisfying the "essential features" prong also qualifies as "a material part" does not necessarily establish that every "material part" embodies "essential features." See *infra* note 139 and accompanying text.

<sup>137</sup> See, e.g., *Quanta*, 128 S. Ct. at 2120 ("Here, as in *Univis*, the incomplete article substantially embodies the patent because the only step necessary to practice the patent is the application of common processes or the addition of standard parts. *Everything inventive about each patent is embodied* in the Intel Products." (emphasis added)); *id.* ("The Intel Products embody the essential features of the LGE Patents *because* they carry out *all the inventive processes* when combined, according to their design, with standard components." (emphasis added)); *id.* at 2121 ("In this case, the *inventive* part of the patent . . . is included in the design of the Intel Products themselves and the way these products access the memory or bus." (emphasis added)).

of the patented methods.”<sup>138</sup> On the other hand, the Court may have used that terminology simply because, in the Court’s view, the terminology accurately described the facts of this particular case, without necessarily intending to announce the controlling standard for all such cases in the future. And of course, careful drafting of patent claims may eliminate the significance of any technical distinction that might be found to exist between the “material part” and “essential features” or “all the inventive aspects” prongs.<sup>139</sup>

### *F. Patent Exhaustion Applies to Method Claims*

#### **1. The Solicitor General’s Brief**

As a logical consequence of the general scope and import of the patent-exhaustion doctrine, the Solicitor General also argued that the court of appeals had erred in holding that method patent claims are exempt from exhaustion. The Solicitor General observed that “[s]cant rationale . . . has been offered for” that holding, and concluded that “[t]here is no evident reason why the patent-exhaustion doctrine should be deemed inapplicable to method patents.”<sup>140</sup> The government argued that the Supreme Court’s precedents provided no support for such an exemption and noted that “if method patents were never subject to exhaustion upon an authorized sale of an article whose only reasonable use is to practice the patented method, it would be easy in many circumstances to avoid the patent-exhaustion doctrine simply by applying for a method patent in conjunction with a machine, manufacture, or composition patent.”<sup>141</sup>

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<sup>138</sup> *Id.* at 2122 (emphasis added).

<sup>139</sup> The Supreme Court itself may be of the view that “a material part of the invention” does in fact mean “all the inventive aspects,” notwithstanding the textual difficulty entailed in concluding that “part” means “all.” In *Dawson Chemical Co. v. Rohm & Haas Co.*, the Court said that § 271(c) applies to “nonstaple goods that are capable only of infringing use in a patented invention, and that are *essential to that invention’s advance over prior art.*” 448 U.S. 176, 213 (1980) (emphasis added). That formulation at least approaches the “all the inventive aspects” standard. It is open to question, however, whether that is the general understanding of the test for contributory infringement. See, e.g., MODEL PATENT JURY INSTRUCTIONS FOR THE N. DIST. OF CAL. § 3.9(1) (2007) (contributory infringement requires a finding that the alleged infringer supplied “an important component of the infringing part of the” patented product or method), available at <http://www.cand.uscourts.gov> (follow “Newly Revised Model Patent Jury Instructions Dated November 29, 2007” hyperlink).

<sup>140</sup> U.S. Merits Brief, *supra* note 11, at 25–26.

<sup>141</sup> *Id.* at 26.

## 2. The Supreme Court's Opinion

The Supreme Court agreed, reasoning that “[n]othing in this Court’s approach to patent exhaustion supports LGE’s argument that method patents cannot be exhausted.”<sup>142</sup> While acknowledging that “a patented method may not be sold in the same way as an article or device,” the Court emphasized that “methods nonetheless may be ‘embodied’ in a product, the sale of which exhausts patent rights.”<sup>143</sup> And the Court reasoned that “[e]liminating exhaustion for method patents would seriously undermine the exhaustion doctrine,” because “[p]atentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus.”<sup>144</sup> Demonstrating a clear desire that the patent-exhaustion doctrine not be deprived of its full historic scope and effect, the Court also commented that “[t]his case illustrates the danger of allowing such an end-run around exhaustion,” because LGE’s theory could render downstream purchasers of a licensed Intel system “liable for patent infringement,” a result that would “violate the longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.’”<sup>145</sup>

### III. CONCLUSION

The foregoing analysis demonstrates that the Supreme Court’s decision in *Quanta* is almost entirely consistent with the arguments advanced by the Solicitor General in his briefs to the Court. Either expressly or by implication, the Court appears to have agreed with the Solicitor General regarding the continued vitality of the patent-exhaustion doctrine, the broad and mandatory scope of that doctrine (and thus the invalidity of the Federal Circuit’s “conditional sale” exception to patent exhaustion), the potential availability of contractual remedies for patent holders seeking to enforce post-sale restrictions, the continued ability of patent holders to limit the effects of exhaustion by imposing restrictions on licensees’ rights to sell, the application of exhaustion principles to the sale of components of patented inventions and the application of patent exhaustion to method claims. In adopting those positions as its own, the Court has swept aside a number of Federal Circuit precedents and reinvigorated the formerly moribund patent-exhaustion doctrine, a result that will undoubtedly continue to

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<sup>142</sup> *Quanta*, 128 S. Ct. at 2117.

<sup>143</sup> *Id.*

<sup>144</sup> *Id.*

<sup>145</sup> *Id.* at 2118 (quoting *Adams v. Burke*, 84 U.S. 453, 457 (1873)).

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have considerable impact on licensing practices and litigation in the years to come.

As suggested at the outset, the similarities between the views expressed in the Solicitor General's briefs and the reasoning and conclusions adopted by the Supreme Court suggest that *Quanta* also provides further support for the perception that the Court gives substantial weight to the Solicitor General's position in patent cases. Of course, alternative explanations can be posited as well, such as the possibility that the Solicitor General's office—which consists of generalist appellate lawyers who are intimately familiar with the workings of the Supreme Court and highly skilled at interpreting its precedents—is more likely than most to construe Supreme Court patent cases in the same manner as the Court, or the fact that the positions adopted by the Solicitor General often reflect a compromise among various interested agencies with different perspectives on the question at issue and, thus, can present a carefully balanced and nuanced position that the Court may find attractive. But whatever the explanation, it is fair to say that the Solicitor General's briefs will bear close reading when the Supreme Court once again delves into patent law.