

### The Global Impact of Recent Developments in the U.S. Law of Patent Exhaustion Since *Quanta*, Particularly on Japanese Corporations

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### Patent Exhaustion or "First Sale Doctrine"

Under U.S. law, once an unrestricted, authorized sale of a patented article occurs, a patent holder cannot assert a claim for patent infringement based on the subsequent use or sale of that article.

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 post-sale use of the article."

Quanta Computer, Inc. v. LG Electronics, Inc., 553 U.S. 617, 638 (2008)



### Implications of Patent Exhaustion

#### A few of the questions today's presentation will address:

- When can patent exhaustion be raised as a defense when a product or component is purchased from a patent owner or licensee?
- If you are a patent owner or licensee selling a component of a patented system, when can a downstream purchaser be liable for infringement when assembling the completed system?
- What conditions can be placed on the use of a product following its purchase from a patent holder or licensee?
- How can the language of a license agreement be restricted to limit the application of patent exhaustion to downstream purchasers or users?
- Can the purchase of a product or component from a patent licensee outside the U.S. give rise to patent exhaustion and operate as a defense to infringement when resold within the U.S.?



### Topics to be discussed

- 1. The doctrine of patent exhaustion or first sale doctrine
- 2. Quanta v. LGE clarified the rules of patent exhaustion
- 3. Discussion of recent court decisions applying patent exhaustion after *Quanta* 
  - a. Sale of incomplete articles
  - b. What constitutes an "authorized sale"
  - c. Conditioned sales and license restrictions
  - d. Sales outside the United States
- 4. Practical implications



### Patent Exhaustion: Quanta Computer

#### **Factual Background: License Agreement**

- LG licensed its patents to Intel as part of a cross-license
- The License Agreement granted Intel an unrestricted license
  - » The license broadly permitted Intel to "make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of" its own products practicing LG's patents.
- The license did <u>not</u> extend to customers who combined Intel products with non-Intel products
  - » No license "is granted by either party ... to any third party for the combination by a third party of Licensed products of either party with items, components, or the like acquired ... from sources other than a party hereto, or for the use, import, offer for sale or sale of such combination."



#### **Factual Background: Master Agreement**

- In a separate Master Agreement, Intel agreed to provide a written notice to its customers that its products were licensed by LG, but that the license "does not extend, expressly or by implication, to any product that you make by combining an Intel product with any non-Intel product."
- The Master Agreement further provided that a breach would not be grounds for termination of the license.



### Factual Background: Use by Intel's Customers

- Intel sold microprocessors to computer manufacturers and provided the required notice that LG's license did not cover combining Intel's microprocessors with non-Intel components.
- Intel's customers (including Quanta and Compal) purchased the microprocessors, but then manufactured computers that combined the Intel processors with non-Intel memory and buses in ways that practiced the LG patents.
- LG sued Intel's customers for patent infringement, alleging that the combination of Intel Products with non-Intel memory and buses infringed the LG patents.



### **Holding: No Infringement Due To Patent Exhaustion**

 No claim for infringement could be brought against Intel's customers, because LG's patents were exhausted by the sale of Intel's microprocessors to its customers, pursuant to the license from LG.

#### Issues

- Does patent exhaustion apply to method claims?
- When does patent exhaustion apply to the sale of an incomplete item, i.e., a product that only infringes when used in combination with other components?
- When is a sale "authorized" by the patent holder, so that the patentee's rights are "exhausted" by that sale?
- Can patent exhaustion be precluded by a condition placed on the sale, i.e., can a
  patentee or licensee restrict a purchaser's subsequent use?



#### **Method Claims**

Patent exhaustion applies to method claims, as well as apparatus claims. *Quanta*, 553 U.S. at 628-29.

- "It is true that a patented method may not be sold in the same way as an article or device, but methods nonetheless may be 'embodied' in a product, the sale of which exhausts patent rights."
- Court was concerned that patentees seeking to avoid patent exhaustion could simply draft their claims to describe a method rather than an apparatus.
- A method may be "embodied" in a product where the product is produced using a patented method <u>or</u> the product practices the patented method.
- Patent may be exhausted even though the method is only performed by the purchaser, not the patentee or licensee.



#### **Incomplete Articles**

To what extent must a product embody a patent in order to trigger patent exhaustion?

#### U.S. v. Univis Lens Co., 316 U.S. 241 (1942)

- Licensee sold "lens blanks" to wholesalers and retailers who ground the blanks into lenses.
- Court held that the sale of the lens blanks exhausted patent claims that covered the finished lenses.
- The only and intended use of the lens blanks was to be finished under the terms of the patent.
- The inventive feature was fusing together different lens segments, which was embodied in the blanks; the finishing process was not unique.



#### **Incomplete Articles**

Under *Quanta*, a product "substantially embodies a patent" where:

- 1. The component's *only reasonable and intended use* is to practice the patent; and
- 2. The component *embodies essential features* of the patented invention.

Quanta, 553 U.S. at 638 ("Intel's microprocessors ...had no reasonable non-infringing use and included all the inventive aspects of the patented methods").

Note: Subsequent court decisions have expressed uncertainty as to whether *both* (1) and (2) must be satisfied for patent exhaustion to apply, or if patent exhaustion applies if either of the two tests are satisfied.



#### **Incomplete Articles**

#### "Only reasonable and intended use"

- No "reasonable use" for the Intel microprocessors other than incorporating them into computer systems that practice the patents.
- The Intel microprocessors cannot function unless connected to buses and memory.
- The only apparent object of Intel's sales was to permit customers to incorporate the Intel microprocessors into computers that would practice the patents.
- Test is whether the product is "capable of use only in practicing the patent" not whether those uses are infringing. Quanta, 553 U.S. at 632, n. 6 ("Whether outside the country or functioning as replacement parts, the Intel Products would still be practicing the patent, even if not infringing it").



#### **Incomplete Articles**

#### "Embodies essential features" of the patented invention

- The Intel Products "constitute a material part of the patented invention and all but completely practice the patent."
- "Everything inventive about each patent is embodied in the Intel Products."
- Intel Products were "specifically designed" to function only when combined with memory and buses.
- Incomplete article "substantially embodies the patent" where the only step necessary to practice the patent is the "application of common processes or the addition of standard parts." Quanta, 553 U.S. at 633-34 (addition of memory or buses were "standard components").



#### "Authorized Sale"

- Nothing in the License Agreement restricted Intel's right to sell microprocessors to purchasers who intend to combine them with non-Intel parts.
- The license grant broadly permitted Intel to "make, use or sell" products. No conditions limited Intel's authority to sell products embodying the patents.
- Intel's authority to sell products was <u>not</u> conditioned on providing customers with the required notice (prohibiting combinations with non-Intel parts) or on the customers abiding by those directions.
- Accordingly, Intel's sales were "authorized" under the license from LG.
- Whether Intel's customers were licensed to combine licensed products with other components was a separate issue. Quanta did not base its defense on implied license but on patent exhaustion. These are discrete defenses.



#### "Conditioned Sale"

A <u>properly conditioned</u> sale may preclude patent exhaustion. In *Quanta*, however, Intel's right to sell products was <u>not</u> conditional or restricted.

- Intel's license did not restrict its <u>right to sell</u> products to purchasers who intended to combine them with non-Intel parts.
- Court distinguished General Talking Pictures
  - » License limited licensee to selling products for private and home use
  - » Licensee sold products for commercial use
  - » Patent exhaustion did not apply
- Scope of license to licensee determines whether sale to purchaser was "authorized sale" within scope of license.
- A "conditioned sale" is one where purchaser's right to sell or use is limited, so that a violation of the condition results in an "unauthorized" sale or use.

# The Doctrine of Patent Exhaustion and Developments After *Quanta*

Incomplete Articles

## Patent Exhaustion: *Incomplete Articles* (cont'd)



### Keurig, Inc. v. Sturm Foods, Inc., 2012 WL 4049799 (D.Del. 2012)

- Plaintiff (Keurig) and its licensees sold single-serve beverage brewers together with beverage cartridges ("K-Cups")
- Defendant sold beverage cartridges for use in brewers sold by Keurig; Keurig sued Defendant for patent infringement.
- Plaintiff sold its brewers in a "completed form."
- Court found that both apparatus and method claims of patent were exhausted.
- Method claims were exhausted even though different types of cartridges could be used in the Keurig brewers, so the brewer had "reasonable non-infringing uses" – some cartridges were infringing (practicing the method claims) and others were not infringing (did not practice the method claims).
- The fact that there were reasonable non-infringing uses for the product did not defeat exhaustion, because the product was sold in "completed form."



### Patent Exhaustion: Incomplete Articles

## Keurig, Inc. v. Sturm Foods, Inc., 2012 WL 4049799 (D.Del. 2012)

- Under Quanta, patent exhaustion arises from the sale of an "incomplete article"
  when the product has (1) no reasonable non-infringing uses; and (2) includes all
  inventive aspects of the patent.
- Defendant argued that this two-pronged test does <u>not</u> apply where the product sold by a patentee or its licensee is a "completed product."
- Court agreed that the test under *Quanta* only applies to the sale of "incomplete" items and does not apply to products sold in a "completed form" according to the patents.
- Thus, if a product sold by the patent holder completely embodies an apparatus claim, patent exhaustion applies to method claims of the same patent that are infringed through the use of the apparatus, even if the product has reasonable non-infringing uses.

## Patent Exhaustion: *Incomplete Articles* (cont'd)



- ❖ Licensing revenue can be maximized by obtaining different claims – or distinct patents – directed to different levels of assembly (e.g., component level and system level) or to different uses (where component has patentably distinct uses). As a consequence, some patent claims might be exhausted by a sale at one level of the supply chain, while other patent claims are exhausted at a different level.
- ❖ Case law unclear as to whether patent exhaustion is determined on a claim-by-claim basis – exhaustion of one claim may exhaust the patent.

# The Doctrine of Patent Exhaustion and Developments After *Quanta*

**Authorized Sales** 



### Patent Exhaustion: "Authorized Sale"

An initial "authorized sale" of a patented item (by the patentee or a licensee) terminates all patent rights to that item.

A covenant not to sue also results in patent exhaustion, so that a sale by the covenantee is an "authorized sale."

## TransCore, LP v. Electronic Transaction Consultants Corp., 563 F.3d 1271 (Fed. Cir. 2009)

- TransCore sold automated toll collection systems.
- TransCore sued a competitor, Mark IV, for patent infringement. The settlement agreement included an unconditional covenant not to sue and a release ("TCI hereby agrees and covenants not to bring any demand, claim, lawsuit, or action against Mark IV for future infringement").
- TransCore sued ETC for infringement of the same patents. ETC purchased the accused systems from Mark IV.



### Transcore, LP v. Electronic Transaction Consultants Corp., 563 F.3d 1271 (Fed. Cir. 2009)

- Federal Circuit agreed that TransCore could not sue ETC for infringement because its rights were exhausted by the covenant not to sue to Mark IV.
- "An unconditional <u>covenant not to sue</u> authorizes sales by the covenantee for purposes of patent exhaustion."
- There was no restriction on sales; authorization not limited to "making" or "using" and included all acts that would be infringing, including "selling." Id.
- License and covenant not to sue both convey "freedom of suit." Id.
- Evidence of the <u>parties' intent</u> not to provide downstream rights to licensee's customers was <u>irrelevant</u> to whether the sales were authorized. *Id.*
- Covenant not to sue will result in patent exhaustion for downstream purchasers unless covenant is restricted or limited in scope.



A sale must be "authorized" at the time of the sale.

## Honeywell Int'l, Inc. v. United States, 609 F.3d 1292 (Fed. Cir. 2010)

- Honeywell manufactured and sold avionics displays to the U.S. government.
- At the time of the sales, the '914 patent was owned by AlliedSignal.
- Honeywell merged with AlliedSignal and became the owner of the '914 patent.
- Honeywell sued the U.S. government for patent infringement based on the use of the avionics displays that were previously purchased from Honeywell.
- Court of Claims held that the first sale doctrine applied; Federal Circuit reversed.
- Seller must be "authorized" <u>at the time of the sale</u>. If seller subsequently obtains ownership of the patent, by merger or otherwise, the earlier sale is not "authorized," even though patent owner was the original seller and received the benefit of the earlier sale.



An "authorized sale" can result from a series of licenses and sublicenses.

## Rembrandt Data Technologies, LP v. AOL, LLC, 641 F.3d 1331 (Fed. Cir. 2011).

- AT&T licensed patents to "Old Rockwell"; "Old Rockwell" divested most of its businesses and assets, including licenses, to "New Rockwell"; New Rockwell divested its modem business to Conexant along with a sublicense; Defendants Canon and HP purchased the accused products from Conexant.
- Patent exhaustion applied because defendant's supplier of allegedly infringing modem chipsets held <u>valid sublicense</u>.
- Clauses in license that impact licensee's ability to sublicense or assign license in situations of merger, divestiture, spin-off and acquisition could have a farreaching impact on patent exhaustion. This is also a critical area to research when performing due diligence in the acquisition of patents.



A release as to past sales constitutes an "authorized sale".

## PSN Illinois, LLC v. Abbott Laboratories, 2011 WL 4442825 (N.D.III. 2011)

- PSN settled claims against DiscoveRx and entered into a settlement agreement.
- The settlement included an <u>unrestricted release for prior use</u> of PSN's patents.
- Agreement contained a limit on the licensed use of the patented technology.
- Court held that limitation in license only applied to future sales, and that all past use was covered by the release. Patent exhaustion therefore applied to past purchases of the patented technologies by DiscoveRx's customers.
- Patent exhaustion did <u>not</u> apply to cloned S1P2 receptors, but only to the S1P2 receptors actually purchased from the licensee.
- Avoid general release of past liability if there is a desire to preserve a claim against downstream customers of releasee – release may need to be tailored to preserve claims.



Patent exhaustion can also apply upstream, *e.g.*, where a downstream customer is licensed under the patent.

Moreover, if downstream purchaser is a licensee and assembles or uses purchased component in a claimed system, license will also result in no direct infringement, so supplier cannot be liable for indirect infringement.

# The Doctrine of Patent Exhaustion and Developments After *Quanta*

**Conditioned Sales** 



### Patent Exhaustion: Conditioned Sales

Restrictions on use are valid and enforceable.

## Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992)

- Patentee sold patented devices to hospitals with the notice "single use only."
   After initial use, hospitals sent devices to defendant for reconditioning so they could be reused. Patentee claimed inducement against defendant.
- Federal Circuit held that restriction on use was valid and enforceable, as long as it does not violate patent misuse or antitrust laws (tying or price fixing).
- "Unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device; and that the sale of patented goods, like other goods, can be conditioned. The principle of exhaustion of the patent right did not turn a conditional sale into an unconditional one."
- Remanded for determination of whether single-use notice was an enforceable contractual restriction



### Kendall Co. v. Progressive Medical Technology, 85 F.3d 1570 (Fed. Cir. 1996)

- Patent covered medical device including pressure sleeves to wrap patient's limbs. Device was sold with notice, "For single patient use only. Do not reuse." Purchasers from patentee replaced the sleeves after a single use to reduce the risk of contamination.
- Federal Circuit held that patentee *intended* for purchasers to replace the sleeves after each use; customers *followed* rather than *disregarded* the single-use notice, and conduct fell within permissible "repair."
- Distinguished *Mallinckrodt* as referring to reuse of entire patented device, which purchasers disregarded.
- ❖ General Talking Pictures, Mallinckrodt, Kendall, and Quanta can be reconciled as allowing a patentee to grant a license of restricted scope, or condition a sale, so that a licensee's sale outside the scope of the license or a purchaser's use outside the scope of a valid contractual restriction does <u>not</u> exhaust the patent.



#### **Additional Recent Cases**

## Static Control Components, Inc. v. Lexmark Int'l, Inc., 615 F.Supp.2d 575 (E.D.Ky. 2009)

- Toner cartridges could be purchased from patentee or retail stores at a discount in exchange for agreement to use cartridges only once (restrictions presented as typical shrink-wrap license agreement).
- Court held that sale was "authorized and unconditional," thus patentee could not control post-sale use of the cartridges through patent law; holder did not impose any restrictions on the sale of its patented products.
- Decision turned on court's (arguably erroneous) view that:
  - » Quanta overruled Mallinckrodt, even though it was not referenced.
  - » Sale was "unconditional" because "no potential buyer was required to agree to abide by the Prebate terms before purchasing a cartridge."



- In *Princo Corp. v. International Trade Comm'n*, 616 F.3d 1318 (Fed. Cir. 2010), the Federal Circuit affirmed that its precedent in *Mallinckrodt* remains good law.
  - "As a general matter, the unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter, on the theory that the patentee has bargained for, and received, the full value of the goods. That 'exhaustion' doctrine does not apply, however, to a conditional sale or license, where it is more reasonable to infer that a negotiated price reflects only the value of the 'use' rights conferred by the patentee. Thus, express conditions accompanying the sale or license of a patented product, such as field of use limitations, are generally upheld."
  - "When those contractual conditions violate public policy, however, as in the case of price-fixing conditions and tying restraints, the underlying patents become unenforceable, and the patentee loses its right to sue for infringement or breach of contract."



- In *Tessera, Inc. v. Int'l Trade Comm'n*, 646 F.3d 1357 (Fed. Cir. 2011), Tessera licensed its patents to suppliers and charged an upfront licensing fee along with running royalties to be paid at the end of a reporting period.
  - o "Subject to the terms and conditions [of this agreement], Tessera hereby grants Licensee a ... license to the Tessera Patents ... and to sell ... and/or offer for sale such TCC Licensed Products."
  - "Licensee is licensed only to Licensed Products for which Licensee or third party has satisfied a royalty obligation of Tessera."
  - » Defendants purchased products from licensees that were behind on their royalty payments.
  - Sales were authorized because nothing in the licensing agreements limit the licensees' ability to sell the patented products. The royalties clause did not add a condition to the sale, thus that "some licensees subsequently renege or fall behind on their royalty payments does not covert a once authorized sale into a non-authorized sale."

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- Monsanto's patent covered genetically modified "Roundup Ready" soybeans.
- Monsanto's licensed producers sell Roundup Ready seeds to farmers for planting.
- All sales to farmers are subject to a limited use license, under which the farmer agrees (1) to use the seeds for planting "only in a single season," (2) not to supply the seed to other people for planting, (3) "to not save any crop produced from this seed for replanting," and (4) not to use the seed for crop breeding or seed production.
- Monstanto authorizes farmers to sell second-generation seed to local grain elevators as a commodity (a mixture of undifferentiated seeds harvested from various sources), without restrictions on the grain elevators' subsequent sales of the seed.



- Bowman purchased commodity seeds from a local grain elevator, used those "second-generation seeds" to plant "second-crops" each season, and saved seed harvested form the second-crop to plant second-crops in later years
- Federal Circuit held that patent exhaustion did <u>not</u> bar an infringement action against the farmer, Bowman.
  - Even if patent exhaustion applied to the commodity seeds purchased from the grain elevator, it did <u>not</u> apply to subsequent generations of seed.
  - » Each time the next generation of seed develops, the grower has created a newly infringing article.
  - "The fact that a patented technology can replicate itself does not give a purchaser the right to use replicated copies of the technology."



- The Federal Circuit distinguished Quanta:
  - » A seed does not "substantially embody" all later generation seeds.
  - The "only reasonable and intended use" of commodity seeds was not replanting them to create new seeds – they could also be used for other purposes, such as feed.
- The U.S. Supreme Court granted certiorari and recently heard oral arguments in this case.

- Court observers expect the Supreme Court to rule in favor of Monsanto, i.e., that
  patent exhaustion does not apply to seeds that were descended from seeds that
  were subject to an authorized sale.
- It is unclear if the Court will address the continued viability of the Conditional Sale Doctrine.
  - » Monsanto argued that restrictions on the use and resale of a patented item are valid.
  - The government argued that Quanta eliminated the conditioned sales doctrine and that restrictions on authorized purchasers of a patented item are unenforceable.



- ❖ To avoid patent exhaustion (and potentially obtain royalties or additional licenses from downstream purchasers):
  - Licensee's right to sell must be clearly restricted.
  - Restrictions should be very explicit and expressly stated.
  - ❖ The scope of the license grant should be restricted and tailored to the situation. Other contractual clauses may not be as effective in precluding patent exhaustion as to downstream purchasers if the sale falls within the scope of the license.
    - ❖ Examples of such restrictions might include field of use, single-use, "for the sole purpose of …," limited to certain downstream purchasers.
    - ❖ License grant could include a "carve out" provision.
    - Notice does not need to be provided to downstream purchaser to avoid patent exhaustion.



- ❖ Alternatively, if a restriction is not part of the actual license grant provision, the grant of rights under the patents should be expressly conditioned on compliance with the restriction.
- Restricting license scope at multiple levels of supply chain.
  - Supplier might only be licensed to manufacture and sell components only, and only to authorized purchasers.
  - Authorized purchasers might only be licensed to make, use and sell fullyassembled products, without have-made rights.
- License downstream purchasers or users rather than upstream supplier.
- ❖ Post-sale use restrictions other than license restrictions (remedy limited to breach of contract damages).
- Any restrictions must comply with applicable contract and antitrust laws.

# The Doctrine of Patent Exhaustion and Developments After *Quanta*

Sales Outside the United States



#### Patent Exhaustion: Sale Outside U.S.

The sale of a product outside the United States by the patent owner does <u>not</u> give rise to patent exhaustion.

### Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1369 (Fed. Cir. 2005)

- A "patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States."
- Only products "sold within the United States under a United States patent" could result in patent exhaustion. "Foreign sales can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect." *Id.* at 1366.
- Sales by Fuji, the patent owner, outside the United States "can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect." Accordingly, defendant's repair defense could not apply to products sold by Fuji outside the U.S.



#### Fujifilm Corp. v. Benun, 605 F.3d 1366 (Fed. Cir. 2010)

 Quanta only concerned "products manufactured and first sold in the U.S." and did not eliminate the territoriality requirement of the first sale doctrine.

## Ninestar Technology Co. v. International Trade Com'n, 667 F.3d 1373 (Fed. Cir. 2012)

- "Neither the facts nor the law in Quanta Computer concerned the issue of importation into the United States of a product not made or sold under a United States patent."
- "The patents, products, and methods in Quanta Computer all concerned products manufactured and first sold in the United States, and the Court held that method patents as well as product patents are subject to exhaustion upon sale of product or components in the United States."
- Where most of Epson's cartridges, remanufactured by Ninestar, were originally sold in Asia or Europe, patent exhaustion did not apply.



Some courts have found foreign sales made pursuant to a U.S. license to be "authorized sales," giving rise to patent exhaustion.

## LG Electronics v. Hitachi, Ltd., 655 F. Supp. 2d 1036 (N.D. Cal. 2009)

- Concluded that patent exhaustion under Quanta applies to "authorized foreign sales."
- Intel received a "fully paid-up, worldwide license" to the technology in LTE's
  patents, thus Intel's foreign sales to Hitachi were "authorized" by this worldwide
  license agreement and patent exhaustion protected downstream purchasers of
  Hitachi products from infringement.
- The district court reasoned that in *Quanta*, some of the sales under the license agreement were made overseas, but the Supreme Court did not limit its holding to sales in the United States; therefore, *Quanta* was meant to cover foreign sales as well. This is inconsistent with the Federal Circuit's subsequent application of *Quanta* in *Fujifilm Corp. v. Benun*.



#### Reconciling Fujifilm and Hitachi:

- Fujifilm involved foreign sales made directly by the patentee to a purchaser outside the United States, so there is no argument that those sales were "authorized" sales under a U.S. patent.
- Hitachi concerned a foreign sale between Intel and Hitachi
  pursuant to a worldwide licensing agreement between Intel
  and LG that authorized the foreign sales under LG's U.S.
  patents.
  - The Court in *Hitachi* alternatively held that a "sale" had "occurred" within the U.S. because the license transaction was itself an authorized sale of the patented method, and the licensing agreement was both executed in the U.S. and governed by U.S. law.



Recent case law continues to extend patent exhaustion to foreign sales made pursuant to a worldwide license of U.S. patents.

## Multimedia Patent Trust v. Apple Inc., 2012 WL 6863471 (S.D. Cal. Nov. 9, 2012)

- AT&T gave Fujitsu an unconditional, worldwide license under its U.S. patents.
  - AT&T grants to FUJITSU under AT&T's PATENTS nonexclusive and nontransferable licenses ... for SEMICONDUCTIVE DEVICES.
  - The licenses granted herein are licenses to (i) make, have made, use, lease, sell and import SEMICONDUCTIVE DEVICES....
- Pursuant to the license, Fujitsu sold the accused products to Canon. The sales between Fujitsu and Canon occurred in Japan.
- Court distinguished Fujifilm and Ninestar on the basis that those cases involved direct sales by a patentee and did not involve sales made by a licensee pursuant to an unconditional worldwide license.

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- ❖ Where a licensee is licensed to sell products outside the U.S., unauthorized importation to the U.S. can best be precluded by a territorial restriction in the license grant, to avoid patent exhaustion.
  - ❖ A separate clause providing that a licensee or purchaser is not permitted to import products into the U.S. may give rise to a breach of contract action against the licensee if violated, but may not avoid patent exhaustion as to downstream purchasers.
- ❖ When purchasing components outside the U.S., doing so pursuant to an unrestricted, worldwide license agreement for U.S. patents may result in patent exhaustion for downstream customers, whereas merely purchasing the components pursuant to a sales contract will not.
- Purchasing components outside the U.S., pursuant to an agreement executed in the U.S., may also result in patent exhaustion. This applies to both purchase agreements and license agreements.



### Thank you

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