

Litigation Alert: *Quanta v. LG Electronics* – The Supreme Court Revives the Patent Exhaustion Doctrine

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On June 9, the Supreme Court issued an important decision affecting the doctrine of exhaustion of patent rights through licensing of patented methods and components. In *Quanta v. LG Electronics*, the Court reversed the Federal Circuit in a 9-0 decision. It held that the doctrine of patent exhaustion applies to method claims and further that this doctrine is triggered by the authorized sale of products that “substantially embody” the patent, that is, products that have no reasonable non-infringing use and include all the inventive aspects of the patent. Once these products have been sold, the patentee’s rights are extinguished, and they cannot recover on further downstream sales.

Facts:

LG Electronics, Inc. (“LGE”) brought suit against a number of computer manufacturers, including Quanta Computer (collectively “Quanta”), alleging infringement of several of its patents relating to information management within personal computers. Prior to launching suit, LGE had granted Intel a license that covered its entire portfolio of patents on computer systems and components. The license covered Intel’s microprocessors and chipsets. The defendants purchased the microprocessors and chipsets from Intel or its authorized distributors and installed them in computers. The LGE-Intel license expressly disclaimed any implied license to Intel’s customers who combined the microprocessor or chipsets with non-Intel products. The license also required Intel to notify its customers that they were not licensed to combine the Intel products with non-Intel products.

LGE asserted that the combination of Intel manufactured microprocessors or chipsets with other computer components infringed its patents. In response, the defendants argued that LGE’s patent rights were exhausted by Intel’s licensed sale, barring its infringement claims. Under this doctrine, an unconditional sale of a patented device exhausts the patentee’s right to control a purchaser’s use of the device. Applying this doctrine, the District Court concluded that defendants’ purchase of the microprocessors and chipsets from Intel constituted an unconditional sale. The District Court found LGE’s patent rights exhausted because defendants’ purchases were in “no way conditioned” on their agreement not to combine the Intel products with other non-Intel parts. The court found

that, although the Intel Products do not fully practice any of the patents at issue, they have no reasonable noninfringing use and therefore their authorized sale exhausted patent rights in the completed computers under *United States v. Univis Lens Co.*, 316 U. S. 241 (1942) (holding that that patent exhaustion applies to the sale of a patented item even if it does not completely practice the patent if “its only and intended use is to be finished under the terms of the patent”). However, in a subsequent order limiting its summary judgment ruling, the District Court held that patent exhaustion does not apply to process or method claims, which were included in each of the LGE patents.

On appeal, the Federal Circuit agreed with the District Court that patent exhaustion does not apply to method claims. In addition, the Federal Circuit stated that the LGE license itself constitutes a sale for exhaustion purposes. It created a conditional sale by disclaiming a license to combinations of Intel and non-Intel components and requiring Intel to notify its customers of the limited scope of the license. The Federal Circuit concluded that therefore, LGE’s rights in asserting infringement of its system claims were not exhausted.

The Supreme Court disagreed holding that patent exhaustion applies to method claims substantially embodied by sold products. The Court noted that “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.” Otherwise, the patent exhaustion doctrine would be seriously undermined because patentees could simply draft their patent claims to describe a method rather than an apparatus.

The Court also considered the extent to which a product must embody a patent for exhaustion to apply. The Court found that, like in *Univis*, the patent rights were exhausted even though the product sold did not practice every element of the claim. It found exhaustion was triggered because the microprocessors and chipsets’ only reasonable and intended use was to practice LGE’s patents and they embodied the essential features of the patented inventions. The Intel Products had no reasonable use other than incorporating

them into systems such as those sold by defendants. Similarly, the additional parts defendants added to those sold by Intel were standard components required for the operation of the microprocessors and chipsets in accordance to the patents.

Finally, the Court agreed with LGE's argument that exhaustion does not apply across patents, that is, the sale of a device that practices patent A does not, by virtue of practicing patent A, exhaust patent B. However, irrespective to its relationship to other patents, the sale of a product that triggers exhaustion of a patent because it substantially embodies that patent is not altered by the fact that the product embodies other patents. The Court held that nothing in the License Agreement between LGE and Intel limited Intel's ability to sell its products practicing the patents. "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."

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