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# The Doctrine of Patent Exhaustion: Not Exhausted by the Supreme Court in *Quanta Computer v. LG Electronics* in 2008

*Sue Ann Mota\**

## I. INTRODUCTION

Article I, section 8 of the United States Constitution provides that “Congress shall have the power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”<sup>1</sup> Under this clause in the Constitution, Congress has granted inventors the exclusive right to their discoveries through patent law.<sup>2</sup> In 2008, the U.S. Supreme Court in *Quanta Computer, Inc. v. LG Electronics, Inc.*<sup>3</sup> had an opportunity to decide how far these exclusive rights extend after the first sale of a patented item. Applying the doctrine of patent exhaustion, the Court unanimously held that, under patent law, an inventor’s exclusive rights are limited after the first sale of a patented item.<sup>4</sup> The Court thus reaffirmed the boundaries of the doctrine of patent exhaustion, which has been in existence for over 150 years,<sup>5</sup> finding no exception even for method patents. Consequently, an inventor cannot circumvent the doctrine of patent exhaustion and retain control of an invention after the first sale by characterizing the claims as method claims.

In *Quanta*, the Court unanimously restricted LG Electronics’ (“LGE”) attempt to control, by license, the use of the patented item down the supply chain.<sup>6</sup> *Quanta* also involved two other issues: 1) patent exhaustion in the context of a patented item that is sold and later combined with additional components, and 2) whether patent exhaustion is applicable to the resale of

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1. U.S. CONST. art. I, § 8, cl. 8.
2. No one else may make, use, or sell the patented invention. 35 U.S.C. § 154(a)(1) (2006).
3. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2117 (2008).
4. *Id.* at 2118.
5. *Id.* at 2113.
6. *Id.* at 2122. Tension exists between the doctrine of patent exhaustion and the ability to control, by license, downstream uses of the patented item. See generally Robert W. Morris, Note, “Another Pound of Flesh”: Is There a Conflict between the Patent Exhaustion Doctrine and Licensing Agreements?, 47 RUTGERS L. REV. 1557, 1557 (1995).

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an existing patented item “as is.”<sup>7</sup> The doctrine of patent exhaustion applies down the supply chain, limiting the right of an initial patent holder to control the use of a patented item, once sold, even if the patented item is embodied in other items.<sup>8</sup> This article examines *Quanta Computer, Inc. v. LG Electronics, Inc.* and its implications.

With its ruling in *Quanta*, the Supreme Court continued a pattern of reversing patent-related decisions from the Court of Appeals for the Federal Circuit.<sup>9</sup> In the 2006 term, the Supreme Court decided three patent cases and reversed the Federal Circuit in each.<sup>10</sup>

In January of 2007, the Supreme Court reversed the Federal Circuit in *MedImmune, Inc. v. Genentech, Inc.*,<sup>11</sup> holding that a patent licensee does not have to breach the license agreement before challenging the validity of the patent. A few months later, in April of 2007, the Court reversed the Federal Circuit in *Microsoft Corp. v. AT&T Corp.*,<sup>12</sup> ruling that Microsoft did not infringe AT&T’s patent claims when Microsoft supplied a master software disk from the United States that was later used to install software onto computers outside the United States. Additionally, on the same day as the *Microsoft* decision, the Court unanimously held in *KSR International Co. v. Teleflex Inc.*<sup>13</sup> that the Federal Circuit had improperly applied a rigid and narrow approach to determining the requirement of non-obviousness under the Patent Act<sup>14</sup> and that the courts should instead use a flexible test.

Other cases from the Federal Circuit Court of Appeals have fared similarly. In 2006, the Supreme Court unanimously vacated the holding of the Federal Circuit in *eBay Inc. v. MercExchange, L.L.C.*<sup>15</sup> The Court held that the traditional four-factor test that courts in equity use to decide whether to issue an injunction should also be used in patent cases, rather than the test the Federal Circuit formerly adopted.<sup>16</sup> In 2005, the Court also unanimously va-

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7. *Quanta*, 128 S. Ct at 2120-21.

8. *Id.* at 2122.

9. *Id.*

10. See Sue Ann Mota, *MedImmune, Microsoft, and KSR: The United States Supreme Court in 2007 Tips the Balance in Favor of Innovation in Patent Cases, and Thrice Reverses the Federal Circuit*, 12 MARQ. INTELL. PROP. L. REV. 89, 92 (2008).

11. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 124 (2007).

12. *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746, 1750-51 (2007).

13. *KSR Int’l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727, 1746 (2007).

14. 35 U.S.C. § 103 (2006). Patentable subject matter must also be novel, 35 U.S.C. § 102 (2006), and useful, 35 U.S.C. § 101 (2006).

15. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 389-90 (2006).

16. *Id.* See generally Sue Ann Mota, *eBay v. MercExchange: Traditional Four-Factor Test for Injunctive Relief Applies to Patent Cases, According to the Supreme Court*, 40 AKRON L. REV. 529 (2007). Also in 2006, the Court unani-

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cated the decision of the Federal Circuit in *Merck KGaA v. Integra LifeSciences I, Ltd.*<sup>17</sup> The Court held that a Patent Act exemption from infringement protects<sup>18</sup> the use of patented compounds in preclinical studies.<sup>19</sup>

The next section of this article briefly discusses the history of patent exhaustion, including a non-exhaustive survey of Supreme Court jurisprudence on the issue, as compared to recent select jurisprudence from the Federal Circuit on this issue. The article concludes with an analysis of the implications of *Quanta* and recommendations for patent holders.<sup>20</sup>

## II. PATENT EXHAUSTION

The owner of a patent has exclusive rights for a term of twenty years.<sup>21</sup> The owner forfeits the exclusive right, or limited monopoly, and exhausts his patent rights through the unconditional sale of an article that embodies the patented invention.<sup>22</sup> In other words, under the “First Sale doctrine,”<sup>23</sup> “the initial authorized sale of a patented item terminates all patent rights to that item.”<sup>24</sup>

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mously vacated the Federal Circuit in an antitrust tying case that started out as a patent case. *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 46 (2006). See generally Sue Ann Mota, *The Untwining of Patent Law and Antitrust: No Presumption of Market Power in Patent Tying Cases According to the Supreme Court* in *Illinois Tool Works v. Independent Ink*, 40 SUFFOLK U. L. REV. 57 (2006).

17. *Merck KGaA v. Integra LifeSciences I, Ltd.*, 545 U.S. 193, 206 (2005).
18. 35 U.S.C. § 271(e)(1) (2006).
19. *Merck*, 545 U.S. at 207. See generally Sue Ann Mota, *Merck v. Integra LifeSciences: The Supreme Court Protects the Use of Patented Compounds in Preclinical Studies*, 29 HAMLINE L.REV. 53 (2006).
20. See generally Donald Steinberg & David Chavous, *Supreme Court Review of Patent Cases: What Will Follow eBay, MedImmune, and KSR?*, 8 J. HIGH TECH. L. 185 (2008).
21. 35 U.S.C. § 154(a)(1)-(2) (2006).
22. *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942) (citing *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549-50 (1853)). Broadly defined, patent exhaustion deprives the patent holder of the exclusive rights to a product once the patent owner has sold an article, without restriction, that fully embodies a patented invention. Amber Hatfield Rovner, *Practical Guide to Application of (or Defense Against) Product-Based Infringement Immunities Under the Doctrines of Patent Exhaustion and Implied License*, 12 TEX. INTELL. PROP. L.J. 227, 229 (2004).
23. *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1369 (Fed. Cir. 2006).
24. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2115 (2008).

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The Supreme Court applied the patent exhaustion doctrine in the 1853 case of *Bloomer v. McQuewan*.<sup>25</sup> The plaintiff in *McQuewan* was an assignee of a patent on a planing machine. The plaintiff sought to prevent the defendants, who had purchased rights to construct and use a certain number of these machines, from continuing to use the machines after an extension of the patent term.<sup>26</sup> The Court held that the defendants were entitled to continue to use the machines embodying the patent even after the extension.<sup>27</sup> According to the Court, once the patent holder sells the patented machine to a purchaser, "it is no longer within the limits of the monopoly," but instead the patented "implement or machine becomes [the purchaser's] private, individual property."<sup>28</sup> Thus, once the patent owner sells the patented item, his rights to that item are exhausted.

In 1863, the same patented planing machines at issue in *McQuewan* were once again before the Supreme Court in *Bloomer v. Millinger*.<sup>29</sup> The Court again ruled that, while patent holders have the exclusive right to make, use, and vend their patented inventions, once patent holders sell a patented item, "they have parted with their exclusive right . . . [and] parted with [their] monopoly, and ceased to have any interest whatever in the machine so sold or so authorized to be constructed and operated."<sup>30</sup> The effect of a sale is that "the patented machine becomes the private individual property of the purchaser."<sup>31</sup>

The Supreme Court briefly acknowledged a post-sale restriction in *Henry v. A.B. Dick Co.*<sup>32</sup> in 1912, but that holding was distinguished in 1913 in *Bauer & Cie. v. O'Donnell*<sup>33</sup> and finally overruled in 1917 with *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*<sup>34</sup> In the *Bauer & Cie.* case, Bauer & Cie. was the assignee of a patent on a water soluble

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25. *McQuewan*, 55 U.S. (14 How.) at 543.

26. *Id.* at 547.

27. *Id.* at 550-51.

28. *Id.* at 549-50.

29. *Bloomer v. Millinger*, 68 U.S. 340, 350 (1863).

30. *Id.* at 350.

31. *Id.* at 351.

32. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 24-25 (1912). A.B. Dick sold a patented mimeograph machine at or below cost that bore a notice that the machine could only be used with stencil, ink, or other supplies also manufactured by the A.B. Dick Company. A.B. Dick relied on the profits from the non-patented supplies to generate revenue, instead of from the limited monopoly granted to the patented machine. *Id.* at 11.

33. *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 16 (1913).

34. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517 (1917).

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protein and the process of manufacturing it.<sup>35</sup> When the patented item was licensed to retailers, a notice on the package prohibited the retailer from selling the product for less than one dollar and asserted that doing so was patent infringement.<sup>36</sup><sup>38</sup> O'Donnell, a drug-store retailer, intentionally did not comply with the notice by buying the product and reselling it for less than a dollar.<sup>37</sup><sup>39</sup> However, the Supreme Court held that O'Donnell's action did not constitute patent infringement<sup>38</sup> because once sold, a patented item is beyond the limited monopoly granted by the Patent Act.<sup>39</sup>

In *Motion Pictures Patents Co.*, the Supreme Court faced a similar situation to that in *Bauer & Cie.*, involving restrictions imposed by license. The Court held that patent law also did not support a license that required a movie projector to show only films on reels containing the patent owned by the licensor.<sup>40</sup> According to the Court:

A restriction which would give to the plaintiff such a potential power for evil over an industry which must be recognized as an important element in the amusement life of the nation . . . is plainly void . . . [and] it would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.<sup>41</sup>

The 1940 case of *Ethyl Gasoline Corp. v. United States*<sup>42</sup> also involved a restrictive license. Here, the United States sued under antitrust law to prevent Ethyl Gasoline Corp. from granting licenses to purchasers that restricted their resale of patented lead-treated motor oil.<sup>43</sup> According to the Supreme Court, "if appellant's comprehensive control of the market in the distribution of the lead-treated gasoline . . . had been acquired without aid of the patents, but wholly by contracts with refiners and jobbers, such control would involve a violation of the Sherman Act."<sup>44</sup> But the Court had to decide whether the patent allowed the control over the marketing of the motor fuel.<sup>45</sup> The Court held that once the motor fuel is sold, the seller "relinquishes its exclusive

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35. *Bauer & Cie.*, 224 U.S. at 8.

36. *Id.*

37. *Id.* at 9.

38. *Id.* at 18.

39. *Id.* at 17.

40. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 509 (1917).

41. *Id.* at 519.

42. *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 445-46 (1940).

43. *Id.*

44. *Id.* at 455.

45. *Id.* at 456.

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right to use the patented fluid,”<sup>46</sup> and the seller may not, by virtue of a patent, use a license to restrict the use of a patented item in other devices or processes in order to control the conduct of the licensee beyond the patent monopoly.<sup>47</sup>

The Supreme Court once again applied the patent exhaustion doctrine in the 1942 case of *United States v. Univis Lens Co.*<sup>48</sup> Univis Lens had licensed patented ocular lens blanks that the licensees ground into patients’ vision prescriptions.<sup>49</sup> The license agreement set minimum prices for selling the ground lenses.<sup>50</sup> As indicated by the Court, the sale of the lens blank legally transferred ownership of the blank. Univis Lens’ attempt to control the patented article post-sale,<sup>51</sup> however, was not legal.<sup>52</sup> The Court asserted that it had “uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article” by the reward from the article’s sale, but that “patent law affords no basis for restraining the use and enjoyment of the thing sold.”<sup>53</sup>

More recently, the Federal Circuit has taken a different view of the doctrine of patent exhaustion.<sup>54</sup> For example, in *Mallinckrodt, Inc. v. Medipart, Inc.*, the Federal Circuit found that prohibiting reuse of a one-use patented medical device may be enforceable under patent law.<sup>55</sup> More specifically, the Court stated “if the restriction on reuse was within the scope of the patent grant or otherwise justified, then violation of the restriction may be remedied by action for patent infringement.”<sup>56</sup>

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46. *Id.* at 457.

47. *Id.* at 456.

48. *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942).

49. *Id.* at 243-44.

50. *Id.* at 244.

51. *Id.* at 249-50.

52. *Id.* at 250.

53. *Id.* at 251. By selling an incomplete article that embodies a patented invention, the patent holder has exhausted the right to the patent concerning that article. *Id.*

54. According to one author, the patent exhaustion doctrine has experienced a resurgence as an affirmative defense in patent licensing and litigation. John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 643, 646 (2004).

55. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992).

56. *Id.* The grant of summary judgment for Medipart, a company that serviced the medical devices for reuse, was reversed, and the case was remanded. *Id.* See generally Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 WM. & MARY L. REV. 157 (2007).

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In the 2006 case of *Monsanto Co. v. Scruggs*,<sup>57</sup> the Federal Circuit upheld the right of a patent owner to restrict farmers from reusing its licensed, patented Round Up Ready® soybean and cotton seed. However, according to the Federal Circuit, *Scruggs* was not a patent exhaustion case because there was not an unrestricted sale of the patented item.<sup>58</sup> Instead, the patent owner required that the farmers purchasing his seed not save and replant the seed. Citing *Mallinckrodt*, the Federal Circuit restricted the patent exhaustion doctrine to an unrestricted first sale.<sup>59</sup>

This non-exhaustive overview of patent exhaustion jurisprudence by the Court and the Federal Circuit, and the perceived conflict between the courts, sets the stage for *Quanta Computer, Inc. v. LG Elecs., Inc.* in 2008.<sup>60</sup>

### III. *Quanta Computer v. LG Electronics*

Before discussing the Supreme Court's ruling in *Quanta*, a brief background of the parties and procedural history of the case is necessary. LGE, a South Korean public corporation, acquired a patent portfolio in 1999.<sup>61</sup> In 2000, LGE entered into a licensing agreement with Intel, which gave Intel the right to manufacture products which would otherwise infringe on LGE's

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57. *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1342 (Fed. Cir. 2006), *cert. denied*, *Monsanto v. Scruggs*, 127 S. Ct. 2062 (2007).
58. *Id.* at 1335-36.
59. *Id.* According to the Federal Circuit, "applying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder." *Id.* See generally Jason Savich, *Monsanto v. Scruggs: The Negative Impact of Patent Exhaustion on Self-Replicating Technology*, 22 BERKELEY TECH. L.J. 115 (2007). The Court of Appeals for the Federal Circuit had previously affirmed liability of a farmer who saved and replanted Monsanto's patented soybean seeds. *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1352 (Fed. Cir. 2004), *cert. denied*, *McFarling v. Monsanto Co.*, 545 U.S. 1139 (2005). Summary judgment against the farmer was upheld on a breach of contract claim for liability. *Id.* at 1352. *McFarling* unsuccessfully argued that Monsanto had committed patent misuse by impermissibly tying an unpatented product, a soybean, to Monsanto's patents. *Id.* at 1341. See generally Marcella Downing-Howk, Comment, *The Horns of a Dilemma: The Application of the Doctrine of Patent Exhaustion and Licensing of Patented Seed*, 14 SAN JOAQUIN AGRIC. L. REV. 39 (2004).
60. See generally Timothy B. Dyk, *Does the Supreme Court Still Matter?*, 57 AM. U. L. REV. 763, 769-70 (2008). The Honorable Timothy B. Dyk, a judge on the Court of Appeals for the Federal Circuit, concluded, generally, that the Court *does* still matter. *Id.* at 763. Judge Dyk served on the Federal Circuit panel in *Scruggs*.
61. LG Electronics, Inc., Company Description, [http://www.hoovers.com/lg-electronics/—ID\\_55961—/free-co-profile.xhtml](http://www.hoovers.com/lg-electronics/—ID_55961—/free-co-profile.xhtml) (last visited Oct. 14, 2008). LGE owns Zenith Electronics. LGE established a North American headquarters in 2004, and, after Asia, LGE generates most of its revenue in North America. *Id.*

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patents. Additionally, the agreement specifically disclaimed the right of any of Intel's customers to combine products covered by the license with non-Intel products.<sup>62</sup> Intel sent letters to all its customers, including the defendants in this suit, stating that the license did not expressly or impliedly extend to any product the customers make by combining any Intel product with any non-Intel product. Under its license with LGE, Intel produced microprocessors and chipsets, which the defendants purchased and installed into computers they manufactured. LGE sued Quanta, Asustek, and other defendants for allegedly infringing its patents by combining the Intel products with non-Intel products.<sup>63</sup>

The defendants argued that the patent exhaustion doctrine, an implied license, or both, protected them from infringement.<sup>64</sup> The District Court for the Northern District of California examined the doctrine of patent exhaustion and held that LGE could not enforce its patents against the defendants, who purchased the Intel microprocessors and chipsets and used them for their intended and sole use under the doctrine of patent exhaustion.<sup>65</sup> Thus, the district court granted summary judgment for Quanta and Asustek, while denying LGE's motion for summary judgment.<sup>66</sup>

In 2003, the district court reaffirmed its summary judgment and extended it to other defendants on the issue of patent exhaustion.<sup>67</sup> The district court cited *Mallinckrodt*, wherein the Federal Circuit held that the patent ex-

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62. *LG Elecs., Inc. v. Asustek Computer, Inc.*, No. C 01-00326 CW, 2002 U.S. Dist. LEXIS 25956, at \*6 (N.D. Cal. Aug. 20, 2002). The license agreement itself stated that "the parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2114 (2008).
  63. *LG Elecs., Inc.*, 2002 U.S. Dist. LEXIS, at \*8. LGE alleged infringement of U.S. Patents 4,918,645, 4,939,641, 4,926,419, 5,077,733, and 5,379,379. *Id.* at \*7. According to Quanta, LGE contended that the patents were infringed "by every computer in the world." Petition for Writ of Certiorari at \*7, *Quanta*, 128 S. Ct. 2109 (No. 06-937), 2006 U.S. S. Ct. Briefs LEXIS 3187. Also according to Quanta, LGE contended that computers containing non-Intel chips also infringed, but these were not at issue in the litigation. Initial Brief: Appellant-Petitioner at \*12, *Quanta*, 128 S. Ct. 2109 (No. 06-937), 2007 U.S. S. Ct. Briefs LEXIS 1434. Other computer companies settled. *Id.* at \*21.
  64. *LG Elecs., Inc.*, 2002 U.S. Dist. LEXIS, at \*8. See generally Amber L. Hatfield, *Patent Exhaustion, Implied Licenses, and Have-Made Rights: Gold Mines or Mine Fields?* 2000 COMP. L. REV. & TECH. J. 1 (2000).
  65. *LG Elecs., Inc.*, 2002 U.S. Dist. LEXIS, at \*42. Consequently, the district court found that the implied license defense was moot. *Id.*
  66. *Id.*
  67. *LG Elecs., Inc. v. Asustek Computer, Inc.*, 248 F. Supp. 2d 912, 916 (N.D. Cal. 2003). The district court granted defendants First International Computer and Compal Electronics Inc.'s motions for summary judgment. *Id.* at 918.

haustion doctrine is only applicable when there is an unconditional sale.<sup>68</sup> The district court held that the defendants' purchase of microprocessors from Intel was an unconditional sale, and that Intel's notification to its customers did not make the sale conditional.<sup>69</sup> Despite the district court's finding, the court granted LGE summary judgment based on the argument that patent exhaustion was not a defense to an infringement claim concerning LGE's process or method patents.<sup>70</sup>

The parties were in district court again in 2004, this time disputing the remaining method claims.<sup>71</sup> The district court denied LGE's motion for summary judgment for infringement of method claims in three patents and granted the defendants' motion for summary judgment of non-infringement.<sup>72</sup> On appeal in 2006, the Federal Circuit reversed in part, holding that a patent holder's rights in method claims are not exhaustible and, even if they were, no unconditional sale triggered the doctrine of exhaustion.<sup>73</sup>

In 2008, however, the United States Supreme Court unanimously disagreed on both counts.<sup>74</sup> In justifying its decision in *Quanta*, the Court reviewed its jurisprudence on patent exhaustion, examining *Bloomer v. McQuewan*, *Bloomer v. Millinger*, *Motion Picture Patents Co. v. Universal Film Mfg., Co.*, and *United States v. Univis Lens Co.*, among other cases.<sup>75</sup>

On the issue of method claims, the court concluded that method claims – though a process rather than a tangible item – were, in fact, also covered by the doctrine of patent exhaustion.<sup>76</sup> Justice Thomas reasoned that

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68. *Id.* at 916 (citing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706-08 (Fed. Cir. 1992)).

69. *LG Elecs., Inc.*, 248 F. Supp. 2d at 917.

70. *Id.*

71. *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, No. C 01-1375 CW, 2004 U.S. Dist. LEXIS 29906, at \*9 (N.D. Cal. Nov. 30, 2004).

72. *Id.* at \*33. The patents in question are 4,918,645, 5,077,733, and 5,379, 379.

73. *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006). Intel's customers, including the defendants, were expressly prohibited from infringing LGE's patent claims by combining the Intel products with non-Intel products. *Id.* See generally Medhi Ansari, *LG Electronics v. Bizcom Electronics, Inc.: Solving the Foundry Problem in the Semiconductor Industry*, 22 BERKELEY TECH. L.J. 137 (2007); Dan Callaway, *Patent Incentives in the Semiconductor Industry*, 4 HASTINGS BUS. L.J. 135 (2008); John W. Osborne, *Justice Breyer's Bicycle and the Ignored Elephant of Patent Exhaustion: An Avoidable Collision in Quanta v. LGE*, 7 J. MARSHALL REV. INTELL. PROP. L. 245 (2008); William P. Skladony, *Commentary on Select Patent Exhaustion Principles in Light of the LG Electronics Cases*, 47 IDEA 235 (2007).

74. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2113 (2008).

75. *Quanta*, 128 S. Ct. at 2115-17.

76. *Id.* at 2117. The U.S. Supreme Court has never differentiated between method and other patent claims and in fact has held that method patent claims could be

“[e]liminating exhaustion for method patents would seriously undermine the exhaustion doctrine,” and inventors would only have to draft patent claims as methods, rather than as apparatuses, in order to avoid the doctrine of exhaustion.<sup>77</sup>

The Court next discussed the extent to which the product must embody the patent in order for the doctrine of patent exhaustion to apply. Under the relevant precedent in *Univis Lens Co.*, the *Quanta* Court found that Intel’s products embodied the patents in question, and that the products “all but completely practice the patent.”<sup>78</sup> The Court did not necessarily agree with LGE’s argument that patent exhaustion applies across patents, instead stating the general principle that a device which practices one patent does not necessarily exhaust another patent.<sup>79</sup> Here, the first element of exhaustion was satisfied since the Intel products partially practiced the patents and embodied the essential features.<sup>80</sup>

In addition, the exhaustion doctrine only applies where an authorized sale by the patent holder has occurred.<sup>81</sup> The Court found here that “[t]he License Agreement authorized Intel to sell products that practiced the LGE Patents,” and that “[n]o conditions limited Intel’s authority to sell products substantially embodying the patents.”<sup>82</sup> Noting that the complaint did not include a breach of contract claim, the Court did not express an opinion on “whether contract damages might be available even though exhaustion operates to eliminate patent damages.”<sup>83</sup> Thus, in holding that LGE could no

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exhausted. See *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456-58 (1940). The patents at issue include number 5097409 for a multi-processing computer system “wherein at least two CPU’s, a main memory means and a bus means are provided.” U.S. Patent No. 5,097,409 (filed June 18, 1991). The second invention was “an object to provide an improved digital computer system,” and “concerns a dynamic circular bus priority apparatus in which the nodes connected to the bus has a present priority.” U.S. Patent No. 5,077,733 (filed Sept. 11, 1989). The third invention “relates generally to an information processing system and, in particular, to a memory control unit for coupling a system memory to a high speed, non-interlocked system bus.” U.S. Patent No. 5,379,379 (filed Sept. 6, 1990).

77. *Quanta*, 128 S. Ct. at 2117-18. By using entirely method claims, a “patent drafter could shield practically any patented item from exhaustion.” *Id.*
78. *Id.* at 2120. Additionally, the Supreme Court noted that “[e]verything inventive about each patent is embodied in the Intel products.” *Id.*
79. *Id.* at 2121.
80. *Id.*
81. *Id.*
82. *Id.* at 2122.
83. *Id.* LGE’s other contract rights are not necessarily limited. *Id.* See generally Elizabeth I. Winston, *Why Sell What You Can License? Contracting Around*

longer assert patent rights against Quanta, the Court left the door open to contract or other claims.<sup>84</sup>

Ultimately, the Court held, “[t]he 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.”<sup>85</sup> Once again the Federal Circuit was reversed, and as a result, the Supreme Court precluded LGE from asserting its patent rights against Quanta.<sup>86</sup>

#### IV. CONCLUSION

With its decision in *Quanta*, the Supreme Court clarified that the doctrine of patent exhaustion does apply to method patents in addition to downstream products that substantially embody a patented item.<sup>87</sup> The “substantially embodied” requirement limits the patent holder’s ability to control the use of the patented item down the supply chain. The Court treats all types of patent claims the same, thereby eliminating the strategy of characterizing the claims in such a way as to avoid the doctrine of patent exhaustion.

Additionally, a patent holder cannot leverage the limited monopoly granted under patent law down the supply chain when the patented item is substantially embedded in another product.<sup>88</sup> Consequently, a patent holder may not sue an authorized, legitimate, downstream user for treble damages,

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*Statutory Protection of Intellectual Property*, 14 GEO. MASON L. REV. 93 (2006).

84. *Quanta*, 128 S. Ct. at 2122.

85. *Id.*

86. *Id.* LGE may not be able to assert its patent rights concerning the three patents in question, but the Court left open contract rights. *Id.* LGE and Quanta are, at the time of this writing, also engaged in other patent litigation. *LG Elecs., Inc. v. Quanta Computer Inc.*, 520 F. Supp. 2d 1061 (W.D. Wis. 2007); *LG Elecs., Inc. v. Quanta Computer Inc.*, No. 07-CV-361-BBC, 2008 U.S. Dist. LEXIS 16669 (W.D. Wis. July 15, 2008). LGE has alleged that Quanta has infringed patents numbered 7,088,655 and 6,782,488, which relate to DVD drives. *LG Elecs.*, 520 F. Supp. 2d at 1064; *LG Elecs.*, 2008 U.S. Dist. LEXIS 16669, at \*1. LGE has sued Quanta Computer, Inc., Quanta Computer Inc., and Quanta Storage Inc. *LG Elecs.*, 520 F. Supp. 2d at 1063; *LG Elecs.*, 2008 U.S. Dist. LEXIS 16669, at \*1. Quanta Storage, a Taiwanese firm, had its motion to dismiss granted for lack of personal jurisdiction. *LG Elecs.*, 520 F. Supp. 2d at 1061, 1064, 1072. The district court construed terms in the patent dispute between LGE and the remaining defendants. *LG Elecs.*, 2008 U.S. Dist. LEXIS 16669, at \*30-31.

87. *Quanta*, 128 S. Ct. at 2117, 2122.

88. *Id.* at 2122.

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which are available under patent law.<sup>89</sup> However, the Court left the door open for potential contract claims or other suits involving downstream uses. If Congress deems that freedom of contract outweighs the policy of unencumbered sale of patented items, then Congress could amend the Patent Act to limit the doctrine of patent exhaustion.

The Supreme Court's decision in *Quanta* was yet another instance of the Court reversing the Federal Circuit on a patent case. The Supreme Court clarified a doctrine that the Court had not previously examined in over half a century. In examining the patent exhaustion doctrine, the Court removed any incentive for a patent holder to recharacterize an apparatus claim as a method claim, holding that the doctrine applies to both types of patents. By holding that the patent exhaustion doctrine applies to a downstream product that substantially embodies a patented item, the Court limited a patent holder's ability to control use of that item post-sale.

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89. 35 U.S.C. § 284 (2006). According to *Quanta*, LGE was "holding the entire computer industry hostage for billions of dollars in duplicative royalties, on patents . . . ." Petition for Writ of Certiorari at \*9, *Quanta*, 128 S. Ct. 2109 (No. 06-937), 2006 U.S. S. Ct. Briefs LEXIS 3187.