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Article

THE STATE OF THE PATENT EXHAUSTION DOCTRINE, POST-QUANTA V. LG ELECTRONICS

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In *Quanta Computer, Inc. v. LG Electronics, Inc.*, the United States Supreme Court instituted further limits on patent protection,<sup>1</sup> in the context of the patent exhaustion doctrine.<sup>2</sup> The patent exhaustion doctrine has traditionally been understood as the exhaustion of the patentee's rights to control an article following the article's authorized sale.<sup>3</sup> As a result, the patented article's purchaser "may use or resell the product free of control or conditions imposed by the patent owner."<sup>4</sup> Of significance in *Quanta* is the Court's unprecedented application of the exhaustion doctrine to method patent claims,<sup>5</sup> a format previously granted exemption from the exhaustion doctrine.<sup>6</sup> While the Court's holding can be generally categorized as anti-patentee, the judgment should not be read as a broad reversal of the Federal Circuit's established patent exhaustion case law. Contractual use restrictions on the sale of a patented article, which are reasonably related to the scope of the patent, can still be enforced through the patentee's infringement action against a breaching purchaser.

Though the current patent exhaustion doctrine has been created through a lengthy and complex body of case law, nuanced variations of two competing policies dominate the discussion. Proponents of the exhaustion doctrine find support in the fundamental policies of patent law and argue that a patent acts like a legalized \*239 monopoly.<sup>7</sup> Accordingly, sale of a patented article terminates the monopoly.<sup>8</sup> Critics of this view often cite the fundamental right of freedom to contract to justify the sale of a patented article while retaining underlying patent rights.<sup>9</sup>

While the Court's conclusion in *Quanta* comes as little surprise,<sup>10</sup> questions remain concerning the interpretation and effects of its holding on the status of the exhaustion doctrine. These questions are particularly pertinent given the Federal Circuit's contrasting disposition in a prior case, *Mallinckrodt, Inc. v. Medipart, Inc.*<sup>11</sup> While *Quanta* can be read to embody the stance of patent exhaustion proponents,<sup>12</sup> *Mallinckrodt* favored contractual rights and a limited application of the patent exhaustion doctrine. The contrasting holdings in these cases effectively illustrate the ongoing debate over patent exhaustion, yet fail to offer a comprehensive resolution.

With such a limited number of patent cases reaching the Supreme Court,<sup>13</sup> the larger implications of *Quanta* will probably be realized through the case's interpretation and application in the lower courts, particularly the Federal Circuit. Because of distinct differences between *Quanta* and *Mallinckrodt*, it is likely that the Federal Circuit will not have to abandon its pro-patentee stance on the exhaustion doctrine.<sup>14</sup> Such differences include the contract language at issue in each case. In \*240 *Quanta*, the Supreme Court placed much importance on the unrestrictive language of LG's license to Intel,<sup>15</sup> as opposed to the label license that was upheld in *Mallinckrodt*.<sup>16</sup> Additionally, *Quanta* can be differentiated through the significant policy issues surrounding the categorical exception of method claims from the patent exhaustion decision.<sup>17</sup> Furthermore, the current trend in patent reform, as expressed both politically and judicially, may have offered a motivation for further restricting the rights of the patentee.<sup>18</sup> Finally, the Supreme Court had the opportunity in *Quanta* to clearly overrule the Federal Circuit's *Mallinckrodt* approach to patent exhaustion.<sup>19</sup> Rather, the Court, by deciding *Quanta* without citing Federal Circuit case law, demonstrated its desire to temporarily preserve the case law established by the Federal Circuit.<sup>20</sup>

As a result of the means by which *Quanta* can be reconciled with *Mallinckrodt*, lingering questions regarding patent exhaustion persist. As licensing parties fear the unintended effects of an overreaching exhaustion doctrine,<sup>21</sup> a resolution that maintains the pro-patentee stance of *Mallinckrodt* while incorporating the latest *Quanta* restrictions is paramount. This Comment argues that because of the Court's narrow decision and the substantial difference between *Quanta* and *Mallinckrodt*, there still exists the opportunity to bring a patent infringement cause of action against one who violates a use restriction for a patented article, as long as the \*241 patentee's restriction is reasonably within the scope of the patent grant and the purchaser had reasonable notice of the use restriction.

Part II of this Comment provides a background of the Supreme Court's establishment of the patent exhaustion doctrine and the manufacturing license exception, as well as the Federal Circuit's attempt to unify the inconsistency through the introduction of conditional sale theory. Part III describes the Supreme Court's response to the current status of patent exhaustion, through the *Quanta* decision. Part IV explores the Court's proper resolution of the debate surrounding method claims' categorical susceptibility to patent exhaustion. Part V analyzes the intersection of contract and patent law, arguing that the patent exhaustion exception created in *Mallinckrodt*'s conditional sale theory is a logical result of the Supreme Court's decision in *General Talking Pictures*<sup>22</sup> and that the Court deliberately avoided resolving the growing schism of patent exhaustion when deciding *Quanta*. Part VI concludes that when the Court is ready to confront this issue, a reversal of both *General Talking Pictures* and *Mallinckrodt* will be required to resurrect the patent exhaustion doctrine. Until the Court adopts such sweeping changes, the Federal Circuit's pro-patentee conditional sale theory will effectively relegate patent exhaustion to an easily bypassed default rule.

## II. Background I: Establishing The Patent Exhaustion Doctrine

The patent exhaustion doctrine has evolved significantly since the mid-nineteenth century. Beginning with its early cases, the Supreme Court created the fundamentals of the patent exhaustion doctrine. Subsequent advancements in patented technology, increasing market sophistication, and conflicting court applications have contributed to a complex body of case law and an increasing tension with the Supreme Court's early decisions.<sup>23</sup>

### A. The Supreme Court Approach

Even within the Supreme Court, patent exhaustion has seen significant changes. From its infancy, the Court laid the foundation of the doctrine through cases in which patent owners applied time and location restrictions to the subsequent \*242 use of their patented articles.<sup>24</sup> In *Bloomer v. McQuewan*, the Court confronted a patent owner attempting to restrict a purchaser from using the patented article during a subsequent patent extension period.<sup>25</sup> The Court held that the sale had removed the article from the protection of patent law.<sup>26</sup> This exhaustion of patent rights was justified on the understanding that the purchaser's benefit arrived through the use of the article, a right unaffected by the patent's duration.<sup>27</sup>

The Court reached a similar conclusion with respect to a location restriction in *Adams v. Burke*.<sup>28</sup> Adams was assigned the patent rights to an improved coffin lid for all locations but the area within ten miles of Boston, was assigned to Lockhart & Seelye.<sup>29</sup> The Court raised no objection to the location restriction on the patent assignment.<sup>30</sup> However, the Court held that Adams was unable to enjoin the use of the patented coffin lid which had been legally purchased from Lockhart & Seelye within their assigned territory, yet used within Adam's assigned territory.<sup>31</sup> Relying on reasoning similar to *McQuewan*, the Court's ruling protects the patented \*243 article purchaser from additional restriction by exhausting the patent holder's right to limit the location of usage.<sup>32</sup>

While these early cases helped to define the fundamental aspects of patent exhaustion, the greater technological and transactional complexity of subsequent cases forced the Court to adjust accordingly. In *General Talking Pictures Corp. v. Western Electric Co.*, the Court introduced the element of patent licensing to the exhaustion discussion.<sup>33</sup> The patents at issue in this case were for vacuum tube amplifiers, which had applications in both the radio and motion picture industries.<sup>34</sup> Accordingly, AT&T, the patents' owner, granted exclusive licenses to its subsidiaries regarding the manufacturing and sale of amplifiers to the motion picture industry.<sup>35</sup> The American Transformer Company, a non-subsidiary manufacturing company, was granted a nonexclusive license to manufacture and sell amplifiers only for use in the radio industry.<sup>36</sup> When the American Transformer Co. was found to have knowingly sold amplifiers for use in the motion picture industry,<sup>37</sup> the Court held that patent infringement had occurred.<sup>38</sup> This holding effectively created the first exception to the patent exhaustion doctrine: demonstrating that the terms of a contract to license patent rights to a manufacturer can successfully prevent patent exhaustion when those terms are not inconsistent with the scope of the patent.<sup>39</sup>

The Court's concern regarding appropriate licensing terms was further analyzed in light of an antitrust violation in *United States v. Univis Lens Co.*<sup>40</sup> As the \*244 owner of various patents pertaining to multifocal lenses,<sup>41</sup> Univis Lens established an intricate licensing system for the manufacture and sale of corrective eye lenses.<sup>42</sup> One component of this licensing system was the sale of lens blanks to various licensees, at which point the licensees would grind and polish the lens blanks according to the ultimate customer's prescription requirements.<sup>43</sup> The licensees were further required to sell the completed lenses at the prices specified by Univis Lens.<sup>44</sup> The Court found that while the lens blanks sold by Univis Lens did not fully practice the patents at issue until ground by the licensee, the patent exhaustion doctrine was nonetheless applicable.<sup>45</sup> The Court concluded that the sale of each blank was sufficient to end Univis Lens' subsequent patent rights, because "each [lens] blank . . . embodies essential features of the patented device and is without utility until it is ground and polished as the finished lens of the patent."<sup>46</sup> This holding demonstrated the Court's desire to remain faithful to protecting purchasers of patented articles from broad usage restrictions where the patent defines the limits of a patent owner's ability to restrict post-sale use of the article.<sup>47</sup>

### B. The Federal Circuit Approach

Following its inception in 1982,<sup>48</sup> the Court of Appeals for the Federal Circuit was given significant freedom to reconsider the principles of patent law, including \*245 the exhaustion doctrine.<sup>49</sup> *Mallinckrodt, Inc. v. Medipart, Inc.* is the most notable Federal Circuit case to address the patent exhaustion issue.<sup>50</sup> In this case, Mallinckrodt held a patent on a device that delivered therapeutic agents in aerosol form to patients' lungs.<sup>51</sup> Mallinckrodt, the manufacturer, sold its product to hospitals in the

form of a single-use device.<sup>52</sup> Each device and package were inscribed with the statement “Single Use Only.”<sup>53</sup> Despite these claimed restrictions, hospital purchasers employed Medipart to recondition used devices, allowing multiple usages from a single device.<sup>54</sup> The Federal Circuit held that the use restriction was enforceable as a matter of patent law as long as the restriction was reasonably within the patent granted monopoly.<sup>55</sup>

In arriving at its conclusion in *Mallinckrodt*, the Federal Circuit relied in part on Supreme Court precedent<sup>56</sup> and patent policy concerns. The Federal Circuit interpreted the early cases of *McQuewan*<sup>57</sup> and *Adams*<sup>58</sup> as demonstrating that an unconditional sale of a patented device exhausts the patent owner’s right to restrict the article’s use,<sup>59</sup> in contrast to the district court’s interpretation, which prohibited \*246 conditional sales of patented articles.<sup>60</sup> Additionally, the Federal Circuit cited *General Talking Pictures*<sup>61</sup> to show that conditional sales of patented articles are feasible.<sup>62</sup> Furthermore, *Univis Lens*<sup>63</sup> was cited as an example of potential limitations on conditions of sale, defined by policy concerns such as antitrust violations.<sup>64</sup> *Mallinckrodt* demonstrates the Federal Circuit’s attempt to create a current and cohesive patent exhaustion doctrine.

### III. Background II: *Quanta Computers v. LG Electronics*

In light of the inception of the patent exhaustion doctrine and the exceptions to it, it appears that pre-*Quanta*, a patentee could successfully assert patent rights against the purchaser of a patented article who knowingly violated a patent article’s reasonable contractual use restriction. This section will introduce the Supreme Court’s decision in *Quanta* as a basis for understanding both the immediate and long-term changes to patent exhaustion.

*Quanta* presents a challenging fact pattern that further muddles an already murky body of case law. In *Quanta*, LG Electronics licensed various patented computer processing methods to Intel Corporation.<sup>65</sup> Intel integrated the patented technology into microprocessors and chipsets that were then produced and sold to computer manufacturers.<sup>66</sup> However, the license disclaimed Intel’s customers from combining Intel products that incorporated LG Electronics’ patents with non-Intel components.<sup>67</sup> A separate Master Agreement between LG Electronics and Intel \*247 further required Intel to give customers written notice that the purchased product did not infringe LG Electronics’ patents as long as their microprocessors and chipsets were not combined with any non-Intel products.<sup>68</sup>

Various computer manufacturers, including *Quanta Computer*, violated the licensing restrictions by combining non-Intel products with Intel microprocessors and chipsets built upon LG Electronics’ patented technology.<sup>69</sup> LG Electronics brought a patent infringement suit against these computer manufacturers to enforce the Master Agreement.<sup>70</sup> In its defense, *Quanta* argued that LG Electronics’ patent rights had been exhausted through the initial authorized sale of the chipsets by Intel.<sup>71</sup> LG Electronics responded by claiming in part that its patent rights could not be exhausted because LG had not sold the patented method to *Quanta*; rather, *Quanta* had simply bought Intel’s chipset, which embodied a portion of the patented method.<sup>72</sup>

\*248 The United States District Court for the Northern District of California granted partial summary judgment for *Quanta*<sup>73</sup> based on the doctrines of patent exhaustion and non-infringing use.<sup>74</sup> Specifically, the court held that while the Intel computer chips were not patented, the “patent exhaustion doctrine applies to the sale of unpatented items that have no other function but as components in a finished, patented device.”<sup>75</sup> Furthermore, the court was satisfied with *Quanta*’s showing that “potential non-infringing uses [of the Intel computer chips] would be ‘unwise from a business standpoint.’”<sup>76</sup> Additionally, the court considered applying the implied license doctrine<sup>77</sup> as a defense for *Quanta* but found that the patent exhaustion case law nullified the issue.<sup>78</sup>

On appeal, the Federal Circuit affirmed, reversed, and vacated portions of the two district court rulings.<sup>79</sup> Most notably, the court concluded that the sale of microprocessors and chipsets from Intel to *Quanta* “involved a component of the asserted patented invention, not the entire patented system.”<sup>80</sup> Moreover, contrary to the trial court’s ruling, the Federal Circuit found the sale to be a conditional sale.<sup>81</sup> Therefore, the court decided that LG Electronics’ patent rights had not been exhausted. \*249<sup>82</sup> Despite issues of material fact requiring the case to be remanded for further proceedings, the United States Supreme Court granted certiorari.<sup>83</sup>

The Court reversed the Federal Circuit, holding that method patent claims, as a category, are susceptible to the exhaustion doctrine.<sup>84</sup> Reverting to the trial court’s reasoning, the Supreme Court held 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.”<sup>85</sup> The Court found that LG Electronics’ patent rights had been exhausted because the Intel microprocessors and chipsets had substantially embodied the LG Electronics patents.<sup>86</sup> Furthermore, through its reading of the contract terms,<sup>87</sup> the

Court found that LG Electronics had authorized the sale of the microprocessors and chipsets,<sup>88</sup> and therefore the company was prevented from bringing a patent infringement suit against companies that purchased Intel articles that substantially embody LG Electronics' patents.<sup>89</sup>

#### **\*250 IV. Analysis: Method Claims' Applicability to Patent Exhaustion**

Drawing from the Court's decision in Quanta, this section addresses method claims and their unprecedented definitive susceptibility to patent exhaustion. Thus, method claims are subject to the same patent exhaustion exceptions as other forms of patent claims and can be the basis for a successful patent infringement suit against one who violates the use restrictions of an article incorporating method patent claims.

##### **A. Categorical Exclusion**

Of those issues presented in Quanta, the most superficial, yet unresolved, was the susceptibility of method claims to the patent exhaustion doctrine. This issue had remained undecided because of the inconsistency between the common understanding of patent exhaustion and the nature of a method claim. Method claims may refer to a process or activity, often independent of a physical article.<sup>90</sup> In contrast, patent exhaustion has been traditionally discussed in relation to the movement of physical articles throughout commerce.<sup>91</sup> Therefore, method claims are seemingly ill-suited for the patent exhaustion discourse because of the lack of a tangible embodiment requirement.<sup>92</sup>

In deciding Quanta, the Federal Circuit applied this traditional view to categorically conclude that the sale of an article can never exhaust a method claim embodied within the article sold.<sup>93</sup> The Federal Circuit relied on a prior decision, which stated:

The doctrine that the first sale by a patentee of an article embodying his invention exhausts his patent rights in that article is inapplicable here, because the claims of \*251 the . . . patent are directed to a 'method of retreading' and cannot read on the equipment . . . used in its cold process recapping.<sup>94</sup>

Other interested parties have voiced considerable opposition to the Federal Circuit's categorical exclusion approach, fearing its ultimate effect on the patent exhaustion doctrine.<sup>95</sup> If method claims were inherently isolated from patent exhaustion, skillful patent prosecutors would draft their claims to transform an apparatus into a method.<sup>96</sup> Such a general means of avoidance would render the patent exhaustion doctrine ultimately ineffective.<sup>97</sup> This would potentially allow the patentee to obtain a duplicate royalty payment through the sale of the article as well as a subsequent license to use the article.<sup>98</sup> Aware of such harmful ramifications, the Supreme Court reversed the Federal Circuit's approach in Quanta.<sup>99</sup> The Court explicitly \*252 noted that "[e]liminating exhaustion for method patents would seriously undermine the exhaustion doctrine."<sup>100</sup>

##### **B. Tangible Article's Embodiment of a Method Patent**

Having decided that method claims are subject to exhaustion, the Court further specified a test for determining the existence of such exhaustion.<sup>101</sup> The Court analogized the situation in Quanta to the sale of corrective eye lenses in Univis.<sup>102</sup> Accordingly, the Court applied a two-step test derived from Univis to determine if a physical article adequately embodies a method claim and thus triggers the patent exhaustion doctrine.

First, the Court analyzed the intended use of the article sold and its relation to the patented process.<sup>103</sup> The Court concluded that the Intel microprocessors and chipsets lacked a reasonable use "other than incorporating them into computer systems that practice[d] LGE Patents."<sup>104</sup> Furthermore, the Court concluded that the addition of standard computer parts, such as buses and memory, was akin to grinding blank corrective lenses in Univis, and therefore did not bar the exhaustion doctrine.<sup>105</sup>

Second, the Court analyzed whether the Intel microprocessors and chipsets embodied critical elements of the patented invention.<sup>106</sup> The Court found that, like the lens blanks in Univis, "the Intel Products constitute a material part of the patented invention and all but completely practice the patent."<sup>107</sup> Despite being incomplete due to the lack of additional standard computer parts, the microprocessors and chipsets were sufficient to "substantially embod[y] the patent."<sup>108</sup>

Applying this two-prong test, the Court determined that the LG Electronics patents were susceptible to patent exhaustion through the sale of Intel microprocessors \*253 and chipsets.<sup>109</sup> That determination effectively settles the debate over method

claims' categorical applicability to the patent exhaustion doctrine and resolves the significant policy concerns raised by the Federal Circuit's approach.<sup>110</sup>

## **V. Analysis: The Intersection of Contract and Patent Law**

As a result of the Supreme Court's resolution of the method claim susceptibility issue, all forms of patent claims are now subject to the exhaustion doctrine. This section addresses the contractual limitations of the patent exhaustion doctrine that now affect all forms of patent claims. This development is critical because, as a result of the increasing sophistication of both patented articles and business transactions, patent transactions have evolved to increasingly rely on contract law to define the scope of patent law.

### **A. Patentee Limitations Do Not Restrict Purchasers**

The Supreme Court's early decisions distinguished between conditional and unconditional sales of patented articles sold directly by those with patent rights.<sup>111</sup> The Court's examination of the following unconditional sales and the justifications for their holdings illustrate the potential importance of contractual limitations on the patent infringement analysis.

In *Bloomer v. McQuewan*, the Court relied upon the patent assignee's sale of a patented article to define the rights of the purchaser.<sup>112</sup> The Court's reference in a later case to "a valid sale and purchase of the patented machine"<sup>113</sup> is used to illustrate a legally binding sale, which contains all the necessary requirements of such a transactional exchange.<sup>114</sup> Furthermore, the Court stated that following a valid unrestricted \*254 sale of the article,<sup>115</sup> the rights of the patented article's purchaser were independent and unaffected by the patent-specified temporal limit on the patent assignee's rights.<sup>116</sup>

In *Adams*, the Court further elaborated upon the McQuewan unconditional sales concept.<sup>117</sup> The defendant, who purchased the patented coffin lid from a nonexclusive patent assignee, explicitly stated that his purchase had been made "without condition or restriction."<sup>118</sup> The Court held that once such patented articles are sold, "there is no restriction on their use to be implied for the benefit of the patentee or his assignees or licensees."<sup>119</sup> The Court justified this application of the patent exhaustion doctrine on its finding of a fulfilled contract for the unconditional sale of the coffin lid.<sup>120</sup> In the Court's opinion, McQuewan placed specific emphasis on "the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention . . . [made it] open to the use of the purchaser without further restriction on account of the monopoly of the patentees."<sup>121</sup>

The Court's contract-based reasoning in both McQuewan and Adams demonstrates the ability of a patentee to place contractual limitations on patent assignment, without limiting the rights of those who ultimately purchase the patented articles. In both McQuewan and Adams, the rights granted by the original patent had been subdivided among multiple assignees.<sup>122</sup> Because assignments transfer patent \*255 rights from the patent owner to the assignee, these transactions are subject to the limitations of the patent document as well as the negotiated contract terms.<sup>123</sup> Accordingly, the assignee's practice of using patent rights beyond those received through assignment would infringe either the rights retained by the initial patentee or those assigned to an alternate assignee.<sup>124</sup> As such, the conditions of patent assignment are critical in determining the scope of an assignee's rights and the potential for patent infringement liability.

However, in each case, the Court determined that limitations on the assignee did not flow to the purchaser of the patented article.<sup>125</sup> Because of the patent exhaustion doctrine, the conditional limitations of the assignee were not valid bases for patent infringement if invoked against the purchaser of the patented article.<sup>126</sup> Once a patented article is sold and "the patentee [has] received his consideration . . . it [is] no longer within the monopoly of the patent."<sup>127</sup>

Yet some confusion has arisen from the Court's repeated use of the term "unconditional sale"<sup>128</sup> as an event sufficient to trigger the patent exhaustion doctrine's \*256 application.<sup>129</sup> Some courts and scholars have interpreted this statement as a means to extract the contrary inference--namely, that the patent holder may avoid patent exhaustion through a conditional sale of a patented article.<sup>130</sup> That interpretation would suggest that a patent holder may, through a conditional sale, reserve rights for which he or she will receive a decreased royalty or consideration relative to the full consideration possible in an unconditioned sale.<sup>131</sup> This reduction in payment would ensure that the patentee would not receive excessive consideration for the sale of only limited patent rights, as may occur if use restrictions were imposed following an unconditional sale.<sup>132</sup>

## B. Exceptions to Patent Exhaustion: Enforcing Restrictions on The Purchaser

### 1. Supreme Court's Manufacturing Licensee Exception

In *General Talking Pictures*, the Supreme Court chose to pass a manufacturing licensee's contract restrictions onto the patented article purchaser, declining to apply the patent exhaustion doctrine.<sup>133</sup> Through a contract with the patentee, the manufacturing licensee had purchased the rights to produce and sell the patented article in a limited market.<sup>134</sup> The Supreme Court affirmed a finding that both the \*257 manufacturing licensee and the purchaser of the patented articles infringed the patent when the products were explicitly sold for a use beyond those enumerated in the nonexclusive license.<sup>135</sup> In so deciding, the Court loosely treated the manufacturing licensee as it would the patentee, had the patentee individually manufactured and sold the patented article, as opposed to licensing these activities to a third party.<sup>136</sup>

When compared with the Court's prior holdings, *General Talking Pictures* creates an exception to the application of the patent exhaustion doctrine in the context of manufacturing licensees. Factually, the case differs from *Adams*, where the assignee, who sold the patented coffin lid, was contractually limited to where he could practice his patent rights but was entitled to practice all rights granted by the patent.<sup>137</sup> The manufacturing licensee in *General Talking Pictures*, however, was limited to practicing only a specific portion of the patent granted rights,<sup>138</sup> a limitation that could have been enforced against the purchaser of the patented article had the purchaser knowingly violated the limitation.<sup>139</sup>

The Court's use of license restrictions to define the scope of patent infringement further demonstrates the intersection between contract and patent law, and indicates the Court's approval of this technique to circumvent the application of patent exhaustion in the limited context of manufacturing licensees. However, while the *General Talking Pictures* ruling deviates from the prior patent exhaustion law, its practical effects have been limited because of the parallel between the Court's \*258 reasoning in *General Talking Pictures* and *Adams*, the limited scope of the exception, and its infrequent application.<sup>140</sup>

### 2. Federal Circuit's Conditional Sale Theory Exception

Unlike the Supreme Court's limited use of the restrictive contract to circumvent patent exhaustion, the Federal Circuit vastly expanded the concept through the introduction of the conditional sale theory.<sup>141</sup> In *Mallinckrodt*, the Federal Circuit held that the purchaser's violation of the single-use restriction on the patented medical devices, purchased directly from the patentee, was sufficient to find patent infringement.<sup>142</sup> In its decision, the court placed significant emphasis on refuting the district court's conclusion that all post-sale restrictions on the use of a patented article are categorically unenforceable under patent law.<sup>143</sup> Rather, the Federal Circuit held that "[t]he enforceability of restrictions on the use of patented goods derives from the patent grant, which is in classical terms of property: the right to exclude."<sup>144</sup> Through this reasoning, the Federal Circuit derived the conditional sale theory, which states that the patent "exhaustion doctrine . . . does not apply to an expressly conditional sale or license."<sup>145</sup>

In arriving at its conditional sale theory, the Federal Circuit broadly interpreted the holding in *Adams*.<sup>146</sup> The court concluded that "Adams v. Burke and its kindred cases do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article."<sup>147</sup> Rather, the Federal Circuit interpreted *Adams* to suggest that in a conditional sale, "it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld."<sup>148</sup> While this reading demonstrates the intersection between contract and patent law, it appears to contradict the \*259 Supreme Court's statement in *Adams* that "when the patentee . . . sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the rights to restrict that use."<sup>149</sup> This statement specifies that the sale of a patent article is composed of a title to the object and an implied license to use the object, without which the article would have no value.<sup>150</sup> The right to use, incorporated into the same consideration offered for the purchase of the patented article, lays the foundation for the patent exhaustion doctrine and is at odds with the *Mallinckrodt* interpretation.

More important, however, the Federal Circuit relies upon the inconsistency resulting from the Supreme Court's manufacturing licensee exception in *General Talking Pictures* to justify its general expansion of the patent exhaustion exception.<sup>151</sup> *Mallinckrodt* held that the purchaser of a patented article who violates a known use restriction is guilty of patent infringement, regardless of whether the article was purchased from the manufacturing licensee or directly from the patentee.<sup>152</sup> This interpretation brings to light the most significant inconsistency resulting from the Supreme Court's reasoning in *General Talking Pictures*:<sup>153</sup> the Court's willingness to find patent infringement against a purchaser who knowingly violates a manufacturing licensee's conditional use restriction, but not a patentee's conditional use restriction. After the Court's

holding in General Talking Pictures, a patentee wishing to circumvent patent exhaustion and preserve the right to patent infringement as a means to restrict the purchaser's use would simply need the services of a manufacturing licensee.<sup>154</sup> Through the manufacturing licensee's contract terms, the patentee could enforce restrictions that could not be imposed, had the patentee attempted to individually manufacture and sell the patented article with \*260 restrictions directly to the purchaser, because of patent exhaustion. The Federal Circuit responds to this inconsistency by treating all restrictions on use similarly, regardless of whether they were imposed directly by the patentee or via the manufacturing licensee.<sup>155</sup> Because of this critical inconsistency, the Mallinckrodt decision remains relevant, despite significant disapproval of its broad interpretation of Supreme Court precedent.<sup>156</sup>

While the Federal Circuit has chosen to resolve the General Talking Pictures inconsistency by expanding the patent exhaustion exception, the court has specified some necessary restrictions to limit the harm of excessive downstream control.<sup>157</sup> The Mallinckrodt decision addresses concerns of anticompetitive behavior in its discussion of per se illegal activities.<sup>158</sup> Those activities, including antitrust violations and patent misuse, cannot form the grounds for a patentee to limit the rights of the patented article purchaser under the conditional sale theory.<sup>159</sup> This limitation is based on the reasoning that "restrictions on use are judged in terms of their relation to the patentee's right to exclude from all or part of the patent grant."<sup>160</sup> Therefore, use restrictions such as retail price control and tying restrictions are prohibited, as such rights are not derived from the patent-granted right of exclusion.<sup>161</sup>

Further unifying the patent exhaustion exceptions of both the Supreme Court and the Federal Circuit is the policy of freedom to contract, in the context of the patent granted monopoly rights. The Federal Circuit defined this limitation of the patent \*261 context as the "subject matter within the scope of the patent claims."<sup>162</sup> Accordingly, the patentee would be free to include contractual restrictions that reasonably relate to the patent claims' subject matter.<sup>163</sup> Applying this same principle in General Talking Pictures, the Supreme Court found the field-of-use restrictions in the nonexclusive license to be reasonably within the scope of the patent grant<sup>164</sup> and therefore enforceable under patent law. Likewise, in Mallinckrodt, the Federal Circuit determined that imposing a single-use restriction on the patented medical device was reasonably within the scope of the patent and similarly enforceable.<sup>165</sup> The similar policy justifications for General Talking Pictures and Mallinckrodt further demonstrate the parallels between these cases, notwithstanding the particular disapproval of the Federal Circuit's exception expansion.

### **C. Quanta v. LG Electronics: The Supreme Court's Limited Response to Patent Exhaustion Changes**

Following the Federal Circuit's decision in Mallinckrodt and its application of the conditional sale theory in subsequent cases, clarification of the patent exhaustion doctrine was necessary when the Supreme Court granted certiorari in Quanta.<sup>166</sup> While choosing to answer other concerns directly,<sup>167</sup> the Court broadly avoided confronting the Federal Circuit's conditional sale theory or the General Talking Pictures inconsistency.<sup>168</sup> As a result, the ruling in Quanta sustains the patentee's right to patent law-enforced post-sale restrictions, as expanded by the Federal Circuit.<sup>169</sup>

\*262 The Court was able to avoid resolving Mallinckrodt and the General Talking Pictures inconsistency upon which it is based by factually interpreting the applicable licensing terms as unconditional.<sup>170</sup> In its analysis, the Court determined that LG Electronics and Intel's licensing terms failed to specify a conditional restriction.<sup>171</sup> It concluded that LG Electronics had authorized Intel's sale of microprocessors and chipsets to Quanta as an unconditional sale.<sup>172</sup> The Court "reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law.'"<sup>173</sup> Applying the rule it had first articulated in Adams,<sup>174</sup> the Court found the patent exhaustion doctrine applicable, following the first unconditional sale.<sup>175</sup>

Conversely, had the Court determined LG Electronics licensing terms to be a conditional restriction on Intel, as the Federal Circuit had found,<sup>176</sup> the Court would have confronted a case analogous to General Talking Pictures.<sup>177</sup> Such a factual finding would have required the Court to either confirm its prior patent exhaustion exemption for manufacturing licensees, or decide differently, and in so doing address the foundation upon which Mallinckrodt introduced the conditional sale theory.

#### **1. External Concerns Confronting the Court in Quanta**

One rationale for the Court finding the specific license unconditional, and thereby delaying its review of the patent exhaustion doctrine, is found in the circumstances surrounding LG Electronics' license with Intel. As is common in the computer \*263 technology industry, a microprocessor or chipset may incorporate thousands of patented technologies, for

which it is exceedingly burdensome to discern all potential infringement concerns.<sup>178</sup> For example, in *Quanta*, Intel had invested significant resources into its microprocessor and chipset construction before a potential conflict with LG Electronics' patents was realized.<sup>179</sup> As a result, LG Electronics received a royalty from Intel in exchange for a nonexclusive license, allowing the continued development of their computer technology.<sup>180</sup> This bargain for a nonexclusive license with LG Electronics, under the specter of potential patent infringement, presents a far more complex situation than the traditional licensing scenario exemplified in *General Talking Pictures*.<sup>181</sup> Whatever the justification for its conclusion, the Court felt compelled to treat this licensing situation as substantially different from that of *General Talking Pictures* and therefore delayed review of the growing schism in patent exhaustion.

## 2. Policy Concerns Confronting the Court in *Quanta*

In addition to considering the complex licensing environment surrounding *Quanta*, the Court was confronted with multiple policy concerns. More than any alternative justification, the underlying policy considerations may have influenced the Court's decision to apply the patent exhaustion analysis to method claims.

The most significant policy consideration supporting the Court's decision is the one supporting the doctrine of patent exhaustion: the flow of commerce.<sup>182</sup> The exhaustion doctrine constructs the legal framework on which the transactions and markets for patented goods are built.<sup>183</sup> Without the doctrine, a patentee could impose restrictions on the subsequent use and sale of patented articles.<sup>184</sup> The aggregation \*264 of such restrictions, through multiple downstream transactions, would create vast uncertainty and greatly impede the flow of commerce. To avoid such chaotic results, particularly in an industry where myriad method patents may be embodied in a single physical article,<sup>185</sup> the Supreme Court chose to advance its prior policy in applying the patent exhaustion doctrine to method patents.<sup>186</sup>

In addition to this general policy concern, the current patent reform pressures may have also influenced the Court's decision in *Quanta*.<sup>187</sup> Whether through patent aggregators' conduct, lower court decisions, or increasing damage awards, patent law reform has become a political topic.<sup>188</sup> Paralleling this political trend, the Supreme Court has recently shown willingness to restrict what many consider to be disproportionately powerful patentee rights.<sup>189</sup> By categorically subjecting method claims to patent exhaustion analysis, the Court has further reduced the power of patentees over those who purchase patented technologies.

## VI. Analysis: The Future of Patent Exhaustion

In light of the Supreme Court's limited offering of clarification or guidance in *Quanta*, it appears that the issue of patent exhaustion remains destined for future review. The Court will be confronted with the doctrinal exceptions in both *General Talking Pictures* and *Mallinckrodt*, and the choice of reinstating a broadly applied patent exhaustion doctrine--affirming its relegation to an easily bypassed default rule or compromising between these two extremes.<sup>190</sup>

As a result of outdated holdings and vast divergence among district courts, the Federal Circuit's establishment was necessary to maintain a modern unified jurisprudence, to govern the highly volatile and commercially significant body of patent \*265 law. In the area of patent exhaustion, the Supreme Court's lengthy case history has established both the rule of law as well as a notable exception.<sup>191</sup> It was therefore the Federal Circuit's responsibility to reconsider and unify this doctrine in accordance with contextual changes of the modern era.<sup>192</sup> In fulfillment of this mandate, the Federal Circuit unified the nation's patent exhaustion doctrine by broadening the *General Talking Pictures* exception, thereby attempting to alleviate the existing inconsistency.<sup>193</sup>

After allowing the Federal Circuit time to establish its dispositions on various patent law doctrines, the Supreme Court began hearing patent law cases at an increasing frequency.<sup>194</sup> The Court's recent patent decisions indicate a trend of increased patentee restrictions, curtailing the wide net cast by the Federal Circuit.<sup>195</sup> While *Quanta* may be interpreted as continuation of this trend, its holding should not be read as a general reversal of the Federal Circuit's approach to patent exhaustion.

If *Quanta* is used to forecast the Court's future ruling on patent exhaustion, the decision's startling absence of Federal Circuit case law analysis speaks volumes. In granting certiorari in *Quanta*, the Court was invited to overturn the *Mallinckrodt* conditional sale theory and its subsequent cases.<sup>196</sup> Yet despite that pressure, \*266<sup>197</sup> the Court exercised restraint in remaining silent with regard to the Federal Circuit's established body of law. Rather than adopting any of the various rationales for overturning *Mallinckrodt* offered via amicus,<sup>198</sup> the Court adopted a narrow factual finding and merely recited

historical precedents.<sup>199</sup> Neither a hasty dismissal of Mallinckrodt nor a lengthy discussion of its merits was offered.<sup>200</sup> This decision demonstrates the Court's appreciation for delicate situations and its desire to avoid overturning the Federal Circuit's conditional sale theory without additional deliberations.

While the Court's avoidance of Federal Circuit case law may be roughly interpreted as the Court's general approval of the Mallinckrodt case line and the Federal Circuit's conditional sale theory, such an interpretation would be an overstatement. Rather, the Court's extensive use of cases such as Adams, McQuewan, and Univis supports a line of reasoning parallel to a traditional application of the patent exhaustion doctrine.<sup>201</sup> This reasoning illustrates the Court's general approval of the exhaustion doctrine as a means to limit the effects of contractual restrictions on the sale of patented articles, improving the flow of subsequent commercial transactions.<sup>202</sup>

If the Court's commitment to the traditional patent exhaustion doctrine application is as strong as it appears in *Quanta*, there appears to be little room for exceptions in the future. Both the Supreme Court's manufacturing licensee exception or the Federal Circuit's conditional license theory result in the patentee obtaining patent-law-enforced use restrictions against the purchaser of the patented article.<sup>203</sup> Allowing the continuation of these exceptions, obtainable through basic business transactions,<sup>204</sup> would relegate the patent exhaustion doctrine to an ineffective default \*267 rule.<sup>205</sup> Therefore, if the Court truly desires an effective patent exhaustion doctrine, it may have to reverse both *General Talking Pictures* and *Mallinckrodt*.

Until the Supreme Court fully reinstates the traditional patent exhaustion doctrine--without exception--the current pro-patentee environment will remain. While *Quanta* clarified the specific issue of method claims' susceptibility to patent exhaustion,<sup>206</sup> it left the majority of the Federal Circuit's conditional sale theory unaltered.<sup>207</sup> In the context of the conditional sale theory, the Supreme Court's decision contributed to the Federal Circuit's approach by defining what contract terms are insufficient to obtain the conditional sale status.<sup>208</sup> Therefore, it remains possible to successfully bring a patent infringement cause of action against the purchaser of a patented article who violates a use restriction, as long as the patentee's restriction is reasonably within the scope of the patent grant<sup>209</sup> and the purchaser had sufficient prior notice of the use restriction.<sup>210</sup>

## VII. Conclusion

While *Quanta* was successful at restricting patentee rights by subjecting method claims to patent exhaustion, the case should be read as the Supreme Court's temporary willingness to allow conditional sales of patented articles, as seen in *Mallinckrodt*. Furthermore, the contractual use restrictions on the sale of a patented article, reasonably related to the scope of the patent, can still be enforced through the patentee's infringement action against a breaching purchaser.

### Footnotes

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<sup>1</sup> In recent sessions the Supreme Court has decided multiple patent law cases that have restricted the rights of patentees. See *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007); see also *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007); *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>2</sup> *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2111 (2008).

<sup>3</sup> See *id.* at 2115 ("The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item."); see also *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852) ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly.").

<sup>4</sup> Donald S. Chisum, *Chisum on Patents* §16.03[2][a] (2005). As the patent exhaustion doctrine often manifests itself in the form of the patented article's first sale, the term "first sale doctrine" is typically used interchangeably. *Id.*

<sup>5</sup> See *infra* text accompanying notes 84-85; *Quanta*, 128 S. Ct. at 2113 ("[P]atent [No. 5,379,379] discloses an efficient method of

organizing read and write requests while maintaining accuracy.”); Quanta, 128 S. Ct. at 2113-14 (“[P]atent [No. 5,077,733] describes methods that establish a rotating priority system”).

<sup>6</sup> Previously there was significant debate as to the applicability of method patent claims to the exhaustion doctrine, primarily because of their independence from the physical article that would travel through the stream of commerce. See *infra* Part IV.A.

<sup>7</sup> See, e.g., *McQuewan*, 55 U.S. at 549 (1852) (explaining that when a patented article is sold to the purchaser, it passes out of the congressionally protected monopoly rights of the patent).

<sup>8</sup> *Id.*

<sup>9</sup> See, e.g., *Mitchell v. Hawley*, 83 U.S. 544, 548 (1872) (“Sales of the kind may be made by the patentee with or without conditions, as in other cases.”).

<sup>10</sup> See *supra* note 6 and accompanying text.

<sup>11</sup> *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992) (upholding the patent owner’s right to bring a patent infringement claim to enforce a single use restriction on a patented device post-sale, thereby solidifying the patentee’s right to a conditional sale); see *infra* Part II.B.

<sup>12</sup> See *supra* text accompanying notes 7-8.

<sup>13</sup> The Supreme Court decided only twenty patent cases during the Federal Circuit’s first twenty years of existence. However, the Court has decided ten cases in just the last four years. The Invent Blog, SCOTUS Patent Cases, <http://inventblog.com/supreme-court-patent-cases> (last visited Oct. 27, 2009) (listing Supreme Court patent cases current through the *Quanta* decision).

<sup>14</sup> Prior to *Quanta*, legal scholars acknowledged the broad implications of the Federal Circuit’s pro-patentee approach to patent exhaustion. See, e.g., Elizabeth I. Winston, *Why Sell What You Can License? Contracting Around Statutory Protection of Intellectual Property*, 14 Geo. Mason L. Rev. 93, 108 (2006) (“Courts have allowed restrictions on the future rights of the purchaser of a chattel that embodies patented ideas even when the chattel is sold if notice is given of the restrictions, such restrictions are within the scope of the patent grant, and the patent rights have not yet been exhausted.”). Because this interpretation is potentially inconsistent with the Supreme Court’s patent exhaustion precedent, *Quanta* offered an opportunity for the Court to reassess the current trend in patent exhaustion. See *infra* Part II. Instead, the Court’s decision in *Quanta* failed to effectively narrow the Federal Circuit’s approach to patent exhaustion, while simultaneously assuring similar treatment for patent method claims. See discussion *infra* Parts III, IV.

<sup>15</sup> *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2121 (2008).

<sup>16</sup> *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708-09 (Fed. Cir. 1992).

<sup>17</sup> *Quanta*, 128 S. Ct. at 2117-18; see also *infra* Part IV.B.

<sup>18</sup> See *infra* notes 188-190 and accompanying text.

<sup>19</sup> See, e.g., William P. Skladony, *Quanta Computer v. LG Electronics: The US Supreme Court May Consider the Doctrine of Patent Exhaustion*, *Intell. Prop. & Tech. L.J.* July 2007, at 1; Charles R. Macedo et al., *Quanta v. LG: Will the Supreme Court Clarify the Exhaustion Doctrine?*, *Patently-O.com*, Jan. 7, 2008, <http://www.patentlyo.com/patent/2008/01/quanta-v-lg-wil.html> (last visited

Nov. 5, 2009). However, at least one court has recognized the implied overruling of *Mallinckrodt* in the Court's decision in *Quanta*. See *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575, 585 (E.D. Ky. 2009) ("After reviewing *Quanta*, *Mallinckrodt*, and the parties' arguments, this Court is persuaded that *Quanta* overruled *Mallinckrodt* sub silentio.").

<sup>20</sup> See generally *infra* Part V.C.

<sup>21</sup> Maureen S. Dorney, Key Contractual Provisions for Patents, in *Patent Basics for the Non-Specialist* 2008, at 193, 201 (Practicing Law Institute, 2008) ("There is an increasing trend to refuse to grant patent license and only give limited covenant not to assert because of the concerns over the First Sale Doctrine.").

<sup>22</sup> See *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175 (1938).

<sup>23</sup> See, e.g., *United States v. Univis Lens Co.*, 316 U.S. 241, 250-52 (1942) (establishing a response to increased market sophistication: that once a product is sold, it may be resold, modified, or destroyed for any reason and without compensation to the patent owner); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992) (demonstrating the existence of conflicting court applications of the patent exhaustion doctrine).

<sup>24</sup> See, e.g., *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852); *Adams v. Burke*, 84 U.S. 453, 456 (1873).

<sup>25</sup> *McQuewan*, 55 U.S. at 548.

<sup>26</sup> *Id.* at 549 ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress.").

<sup>27</sup> *Id.* at 550.

<sup>28</sup> See *Adams*, 84 U.S. at 456-57.

<sup>29</sup> *Id.* at 454.

<sup>30</sup> *Id.* at 456 ("The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee."); see also *McQuewan*, 55 U.S. at 549 ("And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the franchise which the patent confers. He obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States.... But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way.").

<sup>31</sup> *Adams*, 84 U.S. at 456-57 ("[A]lthough the right of Lockhart & Seelye to manufacture, to sell, and to use these coffin-lids was limited to the circle of ten miles around Boston, that a purchaser from them of a single coffin acquired the right to use that coffin for the purpose for which all coffins are used.... [W]hen they are once lawfully made and sold, there is no restriction on their use to be implied for the benefit of the patentee or his assignees or licensees.").

<sup>32</sup> *Id.* at 456 (emphasizing that the sale of a patented article, by the patentee or assignee, constitutes the receipt of full consideration in exchange for the patented article. Included in the full consideration is compensation for the title of the article as well as the right to use the article. As such the purchaser is free to use the article "without further restriction on account of the monopoly of the patentees.").

<sup>33</sup> See *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 180-81 (1938).

<sup>34</sup> *Id.* at 176.

<sup>35</sup> *Id.* at 179.

<sup>36</sup> *Id.* at 180 (“The Transformer Company’s license was expressly confined to the right to manufacture and sell the patented amplifiers for radio amateur reception, radio experimental reception, and home broadcast reception. It had no right to sell the amplifiers for use in theaters as part of talking picture equipment.”).

<sup>37</sup> The purchaser of the amplifiers confirmed that the Transformer Company had notice of their intended use in the motion picture industry. *Id.*

<sup>38</sup> *Id.* at 181-82.

<sup>39</sup> See *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. at 181.

<sup>40</sup> See *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).

<sup>41</sup> *Id.* at 243.

<sup>42</sup> *Id.* at 243-46. The licensing scheme utilized by Univis Lens Co. consisted of various wholesalers, finishing retailers, and prescription retailers licensees. Each class of licensee was required to sign a unique license, specifying both their obligations and the required retail price of completed lenses. *Id.*

<sup>43</sup> *Id.* at 244.

<sup>44</sup> *Id.* at 244-45

<sup>45</sup> *Id.* at 250-51 (“[W]here 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. The reward he has demanded and received is for the article and the invention which it embodies and which his vendee is to practice upon it. He has thus parted with his right to assert the patent monopoly with respect to it and is no longer free to control the price at which it may be sold either in its unfinished or finished form.”).

<sup>46</sup> *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942).

<sup>47</sup> See *supra* text accompanying notes 24-32 (discussing the Supreme Court’s decisions in *McQuewan* and *Adams*).

<sup>48</sup> United States Court of Appeals for the Federal Circuit: About the Court, <http://www.cafc.uscourts.gov/about.html> (last visited Oct. 24, 2009).

<sup>49</sup> Harold C. Wegner, Post-Quanta, Post-Sale Patentee Controls, 7 J. Marshall Rev. Intell. Prop. L. 682, 686-87 (2008) (discussing the Federal Circuit's apparent mandate to unify patent law and redraft outdated philosophies of patent law).

<sup>50</sup> Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 706-08 (Fed. Cir. 1992).

<sup>51</sup> *Id.* at 701-02.

<sup>52</sup> *Id.* at 702.

<sup>53</sup> *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 708-09 ("Should the restriction be found to be reasonably within the patent grant, i.e., that it relates to subject matter within the scope of the patent claims, that ends the inquiry. However, should such inquiry lead to the conclusion that there are anticompetitive effects extending beyond the patentee's statutory right to exclude, these effects do not automatically impeach the restriction. Anticompetitive effects that are not *per se* violations of law are reviewed in accordance with the rule of reason .... If the sale of the UltraVent was validly conditioned under the applicable law such as the law governing sales and licenses, and 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.") (emphasis in original).

<sup>56</sup> See *supra* Part II.A.

<sup>57</sup> Bloomer v. McQuewan, 55 U.S. 539 (1852).

<sup>58</sup> Adams v. Burke, 84 U.S. 453 (1873).

<sup>59</sup> Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 706-08 (Fed. Cir. 1992).

<sup>60</sup> *Id.* at 708 ("Adams v. Burke and its kindred cases do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article. It was error for the district court to derive that proposition from the precedent. Unless the 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.") (citation omitted).

<sup>61</sup> Gen. Talking Pictures Corp. v. W. Elec. Co., 304 U.S. 175 (1938).

<sup>62</sup> Mallinckrodt, 976 F.2d at 704-05.

<sup>63</sup> United States v. Univis Lens Co., 316 U.S. 241 (1942).

<sup>64</sup> Parties retain the right to negotiate the contractual terms for the sale of a patented article, unless the terms would be in violation of a legal or policy concern, such as patent misuse or an antitrust violation. *Mallinckrodt*, 976 F.2d at 708.

<sup>65</sup> *Quanta Computer, Inc. v. LG Elecs.*, 128 S. Ct. 2109, 2113-14 (2008); see U.S. Patent No. 4,939,641 (filed June 30, 1988); U.S. Patent No. 5,379,379 (filed Sept. 6 1990); U.S. Patent No. 5,077,733 (filed Sept. 11, 1989).

<sup>66</sup> See *Quanta*, 128 S. Ct. at 2114.

<sup>67</sup> Id. (“[N]o license ‘is granted by either party hereto … 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.’”) (citation omitted).

<sup>68</sup> Id. (“In a separate agreement (Master Agreement), Intel agreed to give written notice to its own customers informing them that, while it had obtained a broad license … 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.’”).

<sup>69</sup> Quanta manufactured computers using non-Intel components in conjunction with Intel microprocessors and chipsets, which had been obtained with the required notice of the Master Agreement. *Id.*

<sup>70</sup> LG Electronics’ complaint asserted that Quanta’s use of Intel microprocessors and chipsets in conjunction with non-Intel memory and buses constituted infringement of LG Electronics’ Patents. *Id.*

<sup>71</sup> See *id.* at 2117; *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d (BNA) 1589, 1592 (N.D. Cal. 2002) (“Defendants here move for partial summary judgment of non-infringement with respect to five of the six patents. Defendants argue that one or both of the related doctrines of patent exhaustion and implied license apply to the five patents.”).

<sup>72</sup> See *Quanta*, 128 S. Ct. at 2117 (“LGE argues that the exhaustion doctrine is inapplicable here because it does not apply to method claims, which are contained in each of the LGE Patents. LGE reasons that, because method patents are linked not to a tangible article but to a process, they can never be exhausted through a sale.”); see also *Brief of Respondent at 51*, *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937), 2007 WL 4244683 [hereinafter LG Electronics Brief] (“The unconditional sale of the manufactured article thus exhausts all remaining value in the patent with respect to that article and eliminates the patent holder’s rights to restrict use or sale of the article. The same cannot be said of a process patent. Rights in a process patent are not linked to a tangible article but, rather, represent the means by which a particular task is accomplished or item is produced. The sole economic value in the process patent lies in the ‘use’ of the process. A process patent can thus never be ‘exhausted’ through a sale; rather, the patent holder’s rights will be transferred to the extent stated in the assignment contract (or license).”) (citations omitted).

<sup>73</sup> See *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d (BNA) 1589, 1590 (N.D. Cal. 2002); see also *LG Elecs., Inc. v. Asustek Computer, Inc.*, 248 F. Supp. 2d 912, 914 (N.D. Cal. 2002) (clarifying prior order granting summary judgment for Quanta and Asustek Computer).

<sup>74</sup> *LG Elecs.*, 248 F. Supp. 2d at 918 (“[T]he Court reaffirms its Order of August 20, 2002, granting Defendants Asustek and Quanta’s motion for summary adjudication of their claim that the patent exhaustion doctrine precludes them from being liable for infringement of LGE’s device patents.... Finally, the Court grants LGE’s motion for summary adjudication of its claim that neither the patent exhaustion doctrine nor the implied license doctrine provides Defendants with a defense to LGE’s claim that they infringed LGE’s method patents.”).

<sup>75</sup> *LG Elecs.*, 65 U.S.P.Q.2d at 1598.

<sup>76</sup> *Id.* at 1600 (citation omitted).

<sup>77</sup> See *id.* at 1592.

<sup>78</sup> *Id.* at 1600.

79       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 (2008).

80       Id. at 1370.

81       Id. (“In finding the unconditional sale requirement satisfied, the court concluded that although ‘LGE is entitled to impose conditions on the sale of the essential components of its patented products does not mean that it actually did so here. To the contrary, defendants’ purchase of the microprocessors and chipsets from Intel was unconditional, in that defendants’ purchase of the microprocessors and chipsets from Intel was in no way conditioned on their agreement not to combine the Intel microprocessors and chipsets with other non-Intel parts and then sell the resultant products.’ We disagree.”) (citation omitted).

82       Id. (holding that LG Electronics’ patent rights were not exhausted because the patent exhaustion doctrine is inapplicable in the context of a conditional sale or license).

83       Quanta Computer, Inc. v. LG Elecs., Inc., 551 U.S. 1187 (2007). The United States District Court for Northern District of California granted a stay of decision while the case was on appeal to the Supreme Court. LG Elecs., Inc. v. Q-Lity Computer, Inc., 2007 WL 2904057, at \*1 (N.D. Cal. Oct. 1, 2007).

84       Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2117-18 (2008).

85       Id. at 2117.

86       Id. at 2120. An article that does not completely practice the patent is deemed to substantially embody the patent when it is necessary to add only a common process or standard parts to complete the practice of the patent. Id.

87       Id. at 2121-22 (“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.... LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents.... 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.”) (citation omitted).

88       The Court found that the License Agreement authorized Intel to sell articles that practiced LG Electronics’ patents without preventing Intel from selling products that substantially embodied the patents. Id. at 2122.

89       Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2122 (2008) (“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.”).

90       Black’s Law Dictionary 1161 (8th ed. 2004) (defining method claim as a “patent claim that describes what is done to a workpiece in order to achieve the useful result claimed. A method claim is the same thing as a process claim, but ‘method’ is used more often in applications for mechanical and electrical devices.”).

91       Brief for Amicus Curiae American Antitrust Institute in Support of Petitioners at 1, 3, Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109 (2008), 2007 WL 3407023 [hereinafter Antitrust Institute Brief] (“[The patent exhaustion doctrine] allows for active and vibrant markets for works of art, for novels, for movies, for innovative gadgets containing patented inventions, and for technology itself.”).

92       See, e.g., LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 1370 (Fed. Cir. 2006) (“[T]he trial court declined to find LGE’s asserted method claims exhausted. Several defendants contest this ruling on cross-appeal, and we reject their challenge....[T]he sale of a device does not exhaust a patentee’s rights in its method claims. The court was correct.” (citing Glass Equip. Dev., Inc. v.

Besten, Inc., 174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999))).

93 Id.

94 Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903, 924 (Fed. Cir. 1984) (involving the owner of a method patent for retreading tires bringing an infringement suit against an owner of the equipment which recapped tires) (citation omitted).

95 See, e.g., Brief for the United States as Amicus Curiae Supporting Petitioners at 20, Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109 (2008), 2007 WL 3353102 [hereinafter United States Brief] (“The precedents of this Court 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.”); Brief for Dell Inc. et al. as Amici Curiae in Support of Petitioners at 12-13, Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109 (2008), 2007 WL 3407021 [hereinafter Dell Brief] (“The regime envisaged by the Federal Circuit, where patent owners can partition their rights in a patented article and sell those rights piecemeal, obtaining a portion of the total royalty from each entity that purchases or uses the article (presumably according to the proportional value derived from the invention by each entity), is economically and practically unrealistic.”); Antitrust Institute Brief, *supra* note 91, at 20-21 (“[U]nder this Court’s precedents, the patent owner cannot ‘engraft’ rights onto the scope of its patent grant through reasonable contract terms. While some of the Court’s precedents do speak in terms of unconditional sales, there is no suggestion that a conditional sale would abrogate the first sale doctrine.”).

96 See, e.g., United States Brief, *supra* note 95, at 26 (“[I]f 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.”); see also Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2117 n.5 (2008) (“Eliminating exhaustion for method patents would seriously undermine the exhaustion doctrine. Patentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus.”).

97 See Quanta, 128 S. Ct. at 2117 & n.5; see also Dell Brief, *supra* note 95, at 25 (“Under the Federal Circuit’s rule, every patentee could entirely avoid the patent exhaustion doctrine simply by adding to the patent application a method claim describing the intended use of the article described in the apparatus claim.”).

98 See Dell Brief, *supra* note 95, at 25.

99 Quanta, 128 S. Ct. at 2122.

100 Id. at 2117.

101 Id. at 2117-21.

102 The Court determined that Quanta and Univis factually shared the elements of a single intended use of the patented product and that the products sold embodied the essential features of the patented invention. *Id.* at 2119 (“We agree with Quanta that Univis governs this case.”).

103 *Id.* at 2117-18.

104 *Id.* at 2119.

105 Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2119 (2008).

<sup>106</sup> Id. at 2118.

<sup>107</sup> Id. at 2120.

<sup>108</sup> Id.

<sup>109</sup> Id. at 2122.

<sup>110</sup> See *supra* Part IV.A.

<sup>111</sup> See discussion of *Bloomer v. McQuewan* and *Adams v. Burke* *supra* Part II.A; *Bloomer v. McQuewan*, 55 U.S. 539 (1852); *Adams v. Burke*, 84 U.S. 453 (1873)

<sup>112</sup> See *McQuewan*, 55 U.S. at 549 (“But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee.”); see also *Bloomer v. Millinger*, 68 U.S. 340, 351 (1863) (“By a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States, but by the laws of the State in which it is situated.”).

<sup>113</sup> *Bloomer v. Millinger*, 68 U.S. at 351.

<sup>114</sup> Black’s Law Dictionary 1108 (8th ed. 2004) (defining sale as “[t]he agreement by which such a transfer takes place. The four elements are (1) parties competent to contract, (2) mutual assent, (3) a thing capable of being transferred, and (4) a price in money paid or promised.”).

<sup>115</sup> Id.

<sup>116</sup> See *McQuewan*, 55 U.S. at 549 (“The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the franchise which the patent confers. He obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States....But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee.”).

<sup>117</sup> See *Adams v. Burke*, 84 U.S. 453, 455 (1873).

<sup>118</sup> Id.

<sup>119</sup> Id. at 457 (emphasis in original).

<sup>120</sup> Id. at 456-57.

<sup>121</sup> Id.

<sup>122</sup> *Id.* at 454 (dividing the patent rights between Adams and Lockhart & Seelye via assignment); *Bloomer v. McQuewan*, 55 U.S. 539, 548 (1852) (“William Woodworth, the administrator of the patentee, in whose name the certificate of extension was directed to be issued, assigned all his right to James G. Wilson, from whom the appellant purchased the exclusive right to construct and use this machine, and to vend to others the right to construct and use it, in a large district of country described in the grant. Pittsburg, in which the machines in question are used, is included within these limits.”).

<sup>123</sup> Patent owners cannot assign more patent rights than are granted in the initial patent. However, the patent owner may negotiate to transfer only some of his patent rights via assignment. See, e.g., *Adams*, 84 U.S. at 456. The territorial limitations in both *Adams* and *McQuewan* are examples of such contractually limited assignment. The original patent owner could have granted the right to practice the patent in all regions of the United States jurisdiction, but rather chose to negotiate multiple limited regional assignments. See *supra* note 122.

<sup>124</sup> *McQuewan*, 55 U.S. at 549 (“[T]he purchaser buys with reference to that period; the time for which exclusive privilege is to endure being one of the chief elements of its value. He therefore has no just claim to share in a further monopoly subsequently acquired by the patentee. He does not purchase or pay for it.”).

<sup>125</sup> *Adams*, 84 U.S. at 456 (holding that the rights to manufacture and sell a patented article are inherently different from the right to use such a product, after it has been legally purchased. The legal sale of a patented article contains no implied limitation on the usage of the article, even if limitations were imposed on the assignee who sold the article). See also *supra* notes 25-27, 31-32 and accompanying text.

<sup>126</sup> See *supra* notes 25-27 and 31-32 and accompanying text.

<sup>127</sup> *Adams*, 84 U.S. at 456. Consideration for the patented article refers to compensation for both the sale of the physical object and the license to use it. See *id.* at 455.

<sup>128</sup> See, e.g., *Mitchell v. Hawley*, 83 U.S. 544, 548 (1872) (“Sales of the kind may be made by the patentee with or without conditions, as in other cases, but where the sale is absolute, and without any conditions, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair it or improve upon it as he pleases, in same manner as if dealing with property of any other kind.”); see also *McQuewan*, 55 U.S. at 559 (McLean, J., dissenting) (“Congress have extended many patents; in some instances conditions have been imposed, in others, the franchise has been extended unconditionally. Now, where the patent is extended by act of Congress, without conditions, I am unable to perceive how the court can impose conditions. Such an act would be legislation, and not construction.”).

<sup>129</sup> See, e.g., *United States Brief*, *supra* note 95, at 20-21.

<sup>130</sup> See *infra* Part V.B.2; see also *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426-27 (Fed. Cir. 1997).

<sup>131</sup> See *B. Braun Med., Inc.*, 124 F.3d at 1426 (“This exhaustion doctrine, however, does not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the ‘use’ rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld.”).

<sup>132</sup> See, e.g., *Dell Brief*, *supra* note 95, at 11 (“[I]f the vendor has paid only a ‘partial royalty,’ the purchasing firm would need to discover the actual amounts paid by the vendor and every other prior owner of the patented article in order to estimate its own potential exposure to further royalty payments.”) (footnote omitted). If the patentee received full consideration for the unconditional sale of a patented article, any subsequent use restriction or limitation would violate the right of use that had been included in the value of the unconditional sale. See, e.g., *Adams v. Burke*, 84 U.S. 453, 455 (1873).

<sup>133</sup> *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 180-81 (1938); see also *supra* notes 33-39 and accompanying text.

<sup>134</sup> Gen. Talking Pictures, 304 U.S. at 179-80.

<sup>135</sup> Id. at 181-82. The American Transformer Company was contractually limited in the rights it could convey to purchasers. The Transformer Company could therefore not grant rights which it unauthorized to convey. Knowingly making a sale of rights beyond the scope of its authority constituted patent infringement on the part of the Transformer Company. Id.

<sup>136</sup> Mark R. Patterson, Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing, 49 Wm. & Mary L. Rev. 157, 164-65 (2007) (“Of course, a patentee is free to restrict its own use of its patent in whatever way it chooses, and there seems no reason why a patentee’s decision to license others to manufacture the patented product, rather than to manufacture the product itself should eliminate that freedom.... [I]mposing use restrictions on them [the manufacturing licensee] can reasonably be treated as economically equivalent to individual decisions by the patentee itself.”); see also Antitrust Institute Brief, *supra* note 91, at 11-12.

<sup>137</sup> Adams, 84 U.S. at 454 (“[B]y an assignment ... assigned to Lockhart & Seelye ... all the right, title, and interest which the said patentees had in the invention ... in a circle whose radius is ten miles, having the city of Boston as a center. They subsequently assigned the patent, or what right they retained in it, to one Adams.”).

<sup>138</sup> The American Transformer Company was one of many manufacturers who had obtained the nonexclusive rights to manufacture and sell amplifiers for private use, as opposed to commercial use. Gen. Talking Pictures, 304 U.S. at 179.

<sup>139</sup> Id. at 181-82.

<sup>140</sup> See Patterson, *supra* note 136, at 165-66; see also Antitrust Institute Brief, *supra* note 91, at 12.

<sup>141</sup> See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992); see also *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997).

<sup>142</sup> *Mallinckrodt*, 976 F.2d at 708-09.

<sup>143</sup> Id. at 703 (“[O]n the premises of this summary judgment motion the court erred in its analysis of the law, for not all restrictions on the use of patented goods are unenforceable.”).

<sup>144</sup> Id.

<sup>145</sup> *B. Braun Med., Inc.*, 124 F.3d at 1426.

<sup>146</sup> *Mallinckrodt*, 976 F.2d at 708.

<sup>147</sup> Id.

<sup>148</sup> *B. Braun Med., Inc.*, 124 F.3d at 1426.

<sup>149</sup> *Adams v. Burke*, 84 U.S. 453, 456 (1873).

<sup>150</sup> Id.

<sup>151</sup> Mallinckrodt, 976 F.2d at 705.

<sup>152</sup> *Id.* (“However, in General Talking Pictures the Court did not hold that there must be an intervening manufacturing licensee before the patent can be enforced against a purchaser with notice of the restriction. The Court did not decide the situation where the patentee was the manufacturer and the device reached a purchaser in ordinary channels of trade.”) (citation omitted).

<sup>153</sup> See, e.g., Brief for the United States as Amicus Curiae Supporting Petitioners at 14, *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008), 2007 WL 2425785 [hereinafter Original United States Brief] (“Although there is a seeming anomaly in allowing a patentee to achieve indirectly--through an enforceable condition on the licensee--a limitation on use or resale that the patentee could not itself impose on a direct purchaser, the distinction is a necessary and explicable result of the Court’s decision in General Talking Pictures.”). Neither this quotation nor the General Talking Pictures inconsistency argument appear in the later United States Brief. See generally United States Brief, *supra* note 95.

<sup>154</sup> See *supra* Part V.B.1.

<sup>155</sup> Mallinckrodt, 976 F.2d at 708.

<sup>156</sup> See sources cited *supra* note 95.

<sup>157</sup> Mallinckrodt, 976 F.2d at 704-05.

<sup>158</sup> *Id.*

<sup>159</sup> *Id.* at 708 (“Should the restriction be found to be reasonably within the patent grant, i.e., that it relates to subject matter within the scope of the patent claims, that ends the inquiry. However, should such inquiry lead to the conclusion that there are anticompetitive effects extending beyond the patentee’s statutory right to exclude, these effects do not automatically impeach the restriction. Anticompetitive effects that are not *per se* violations of law are reviewed in accordance with the rule of reason.”).

<sup>160</sup> *Id.* at 706.

<sup>161</sup> *Id.* at 704 (“In Boston Store the Court again considered a minimum resale price condition imposed by the patentee.... [T]he Court held that the price condition was contrary to the general law, and also ‘not within the monopoly conferred by the patent law.’ In Motion Pictures Patents a license notice was attached to patented movie projectors, stating that the purchase has the right to use the machine only with motion picture films that were leased from that patentee.... The Court condemned the patentee’s tie-ins as illegal, since it extended the ‘scope of its monopoly’ to materials which were not part of the patented invention.”) (citation omitted).

<sup>162</sup> *Id.* at 708.

<sup>163</sup> *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).

<sup>164</sup> *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181 (1938) (explaining that the patentee is afforded the right to grant conditional licenses to manufacture, use or sell the patented technology, as long as the conditions are consistent with the scope of the patent granted monopoly).

<sup>165</sup> Mallinckrodt, 976 F.2d at 708-09.

<sup>166</sup> See, e.g., *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997); see also *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1366 (Fed. Cir. 2006).

<sup>167</sup> See *supra* Part IV (discussing the Court’s decision to revoke the method claims’ categorical immunity from patent exhaustion doctrine analysis).

<sup>168</sup> *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2121 (2008). The Court’s decision does not mention Mallinckrodt and quickly dismisses LG Electronics’ argument for a licensing scenario similar to that of General Talking Pictures. *Id.*

<sup>169</sup> *Id.* at 2109. The Quanta decision neither confronts nor explicitly reverses any prior Federal Circuit ruling regarding the conditional sale theory exception. *Id.*

<sup>170</sup> *Id.* at 2121.

<sup>171</sup> *Id.* at 2121-22.

<sup>172</sup> *Quanta*, 128 S. Ct. at 2121-22.

<sup>173</sup> *Id.* at 2116 (quoting *Motion Picture Patents Co. v. Universal Film Mfg.*, 243 U.S. 502, 516 (1917)).

<sup>174</sup> See *supra* note 30 and accompanying text.

<sup>175</sup> *Quanta*, 128 S. Ct. at 2122.

<sup>176</sup> *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (“The LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel’s licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did. Although Intel was free to sell its microprocessors and chipsets, those sales were conditional, and Intel’s customers were expressly prohibited from infringing LGE’s combination patents.”).

<sup>177</sup> Both Quanta and General Talking Pictures would have dealt with a patentee who granted a nonexclusive manufacturing licensee the rights for sale in a limited application had the Court found the LG Electronics and Intel license conditional. See *Quanta*, 128 S. Ct. 2109; *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175.

<sup>178</sup> Dell Brief, *supra* note 95, at 14-15.

<sup>179</sup> Dell Brief, *supra* note 95, at 16-17.

<sup>180</sup> Dell Brief, *supra* note 95, at 17.

<sup>181</sup> *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 179-80 (1938) (featuring no discussion of a patent infringement claim asserted by AT&T against American Transformer Company during the negotiation of American Transformer Company’s nonexclusive license).

<sup>182</sup> See, e.g., Antitrust Institute Brief, *supra* note 91, at 1-2.

<sup>183</sup> See, e.g., Antitrust Institute Brief, *supra* note 91, at 2-3; see also 17 U.S.C. §109 (2006).

<sup>184</sup> See, e.g., Antitrust Institute Brief, *supra* note 91, at 3 (“Absent the first sale doctrine, business people engaged in the buying and selling of works that are either directly protected by intellectual property or contain components protected by intellectual property may be required to compensate the original intellectual property owner whenever a transfer of interest in the work occurs. And purchasers of such works would always take title subject to the claims of the original intellectual property owner, perhaps unaware of such claims. Such actual or potential interference from the original creator would only serve to raise transaction costs and to create impediments to free and open markets.”).

<sup>185</sup> Dell Brief, *supra* note 95, at 15.

<sup>186</sup> Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2117-18 (2008); see also *supra* Part IV.

<sup>187</sup> See Patent Reform Act of 2007, S. 1145, 110th Cong. (2007); see also Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007).

<sup>188</sup> See *id.*

<sup>189</sup> See *supra* note 3 and accompanying text.

<sup>190</sup> See Dell Brief, *supra* note 95, at 4 (“The Federal Circuit in this case abandoned the doctrine of patent exhaustion as it has been defined by this Court for over a century. The lower court’s new regime is not necessary to enable patent owners to obtain full compensation for use of their invention [and] will create considerable confusion and uncertainty for downstream participants in the manufacturing process ... and opens the door to new, and very substantial, abusive patent infringement claims.”).

<sup>191</sup> See *supra* Part II.A.

<sup>192</sup> See Wegner, *supra* note 49, at 686-87.

<sup>193</sup> See *supra* Part V.B.2.

<sup>194</sup> WilmerHale.com, The Supreme Court Returns to the Patent Law: Why Now and What’s Next?, July 25, 2008, <http://www.wilmerhale.com/about/news/newsDetail.aspx?news=1198> (last visited Nov. 6, 2009) (“It’s hard to argue with the numbers. In the first two decades following the inception of the United States Court of Appeals for the Federal Circuit in 1982, the Supreme Court took and decided patent cases at a rate of roughly one case every two terms--largely leaving the Federal Circuit to shape patent doctrine. The last seven Terms have seen a marked increase in the level of Supreme Court interest in the patent law. Since 2001, the Court has decided eleven patent-related cases on the merits, and has requested the views of the Solicitor General on whether to review ten more.”).

<sup>195</sup> See *supra* note 1.

<sup>196</sup> See Patenthawk.com, The Patent Prospector: Panning the Patent Stream, Jan. 1, 2008, [http://www.patenthawk.com/blog/2008/01/on\\_the\\_docket\\_in\\_2008\\_1.html](http://www.patenthawk.com/blog/2008/01/on_the_docket_in_2008_1.html) (last visited Nov. 6, 2009) (“But the U.S. government has weighed in supporting patent exhaustion with first sale; the nut of the argument [is] that federal patent law trumps state

contract law. And LG has received next to no support in amicus briefs. Oral arguments before the Supreme Court are scheduled for January 16, with a decision expected in the March to May timeframe, but not later than June. The anti-patent mood and simplistic pro-business stance that SCOTUS has demonstrated augers ill that well established case law will withstand Supreme Court bludgeoning.”).

<sup>197</sup> See Dell Brief, *supra* note 95; Antitrust Institute Brief, *supra* note 91; United States Brief, *supra* note 95.

<sup>198</sup> See *supra* note 197.

<sup>199</sup> See *supra* Part V.C.

<sup>200</sup> See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (reflecting the Court’s failure to mention Mallinckrodt anywhere in the decision).

<sup>201</sup> See *supra* note 32 and accompanying text.

<sup>202</sup> Antitrust Institute Brief, *supra* note 91, at 23.

<sup>203</sup> See *supra* Part V.B.

<sup>204</sup> Obtaining a General Talking Pictures-based exception would only require obtaining the services of a manufacturing licensee via a conditional license. Obtaining a Mallinckrodt-based exception would only require a contractually binding conditional sale with the purchaser of the patented article.

<sup>205</sup> United States Brief, *supra* note 95, at 6 (“In recent years, the first-sale doctrine has evolved in the Federal Circuit in a manner that is at odds with this Court’s precedents. Under the Federal Circuit’s approach, the doctrine is merely a default rule that is overridden whenever a patentee chooses to impose explicit unilateral or bilateral restrictions on the rights of purchasers to use or to sell the patented article. Such restrictions (with certain limitations derived from antitrust or other law) are enforceable against all downstream users in a patent-infringement suit.”).

<sup>206</sup> See *supra* Part IV.

<sup>207</sup> Quanta failed to clarify whether a patentee could ever restrict a licensee sale, or define a purchaser’s restrictions imposed by the patentee or licensee. Richard P. Gilly & Mark S. Walker, Supreme Court’s Quanta Decision Clarifies the Reach of Patent Exhaustion, *Intell. Prop. & Tech. L.J.*, Sept. 2008, at 1, 3. (2008).

<sup>208</sup> The Court’s finding of an unconditional license can be interpreted to clarify the lower boundary of the conditional sale theory, by setting a standard for which licensing terms must surpass to qualify as conditional. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2121-22 (2008).

<sup>209</sup> See *supra* notes 55, 63-64 and accompanying text.

<sup>210</sup> See *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 182 (1938) (“Petitioner, having ... knowledge of the facts bought at sales constituting infringement, did itself infringe the patents embodied.”).