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# Quanta v. LG Electronics *and the Doctrine of Patent Exhaustion—What Every Litigator Needs to Know*

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On June 9, 2008, the Supreme Court issued a unanimous opinion in *Quanta v. LG Electronics*.<sup>1</sup> This is the Supreme Court's first ruling in 66 years addressing the doctrine of patent exhaustion. It also is one in a series of cases since 2005 in which the Supreme Court has reversed the Federal Circuit and scaled back the power of patent holders.<sup>2</sup> The thinking of the Supreme Court on the doctrine is perhaps best summed up by a line of questions posed by Justice Breyer at oral argument that went something like this: "if I buy a pedal for my bike, what can I do with that pedal if I can not use it on a bike?"<sup>3</sup> Questions like this and others raised at oral arguments previewed the outcome that Quanta should be allowed to use purchased Intel microprocessors with non-Intel memory chips. The *stare decisis* challenge was reconciling this outcome with numerous decisions, including Federal Circuit decisions to the contrary.

This article explores the Supreme Court's decision on the law of patent exhaustion and the Court's clarification of the standard set forth in *Univis*<sup>4</sup> that defines the extent of exhaustion by a first sale. The *Quanta* decision has turned established jurisprudence on the doctrine of patent exhaustion on its head. This article explores what every litigator needs to know about the *Quanta* decision in order to deal with the fallout.

## Facts in the Case

In *Quanta*, the plaintiff-appellee, LG Electronics licensed certain patents to Intel including the three patents in suit relating to computers. Under the terms of the

license, Intel was granted the right to make and sell Intel microprocessors and chipsets.

The license expressly recited that no license is granted to Intel customers to use the products with non-Intel memory devices. The license also expressly recited that the license does not alter the effect of patent exhaustion that would otherwise apply. Under a separate Master Agreement, Intel was required to give its customers notice that the Intel microprocessors sold were licensed only for use with Intel components. The Master Agreement provided that a breach of the Master Agreement would not affect the License Agreement.

Intel sold Intel microprocessors to third parties including Quanta and provided the customers with the written notice required under the Master Agreement. Quanta combined the Intel microprocessors with non-Intel components in ways that infringed the LG combination and method patents. Quanta did not modify the Intel components and followed Intel's specifications to incorporate the parts into their own systems. Quanta refused to license the LG combination and method patents and LG sued Quanta for infringement. Quanta countered that the LGE patents were not infringed because, for among other reasons, Intel's sale of the microprocessor exhausted the LGE patents.

The District Court held that Intel's sale exhausted LG's combination patents because the Intel products had no reasonable non-infringing uses except in the patented combination. The District Court however held that no method claims were exhausted following a line of Federal Circuit decisions that held that patent exhaustion does not apply to method patents.

The Federal Circuit affirmed with respect to the method patent but reversed with respect to the combination patents. The Federal Circuit ruled that the LG combination patents were not exhausted because LG did not license Intel to sell Intel microprocessors to Quanta for use with non-Intel components.

The Supreme Court granted certiorari.

The case attracted wide-spread attention because of the implications the decision could have on the ability of patent owners to vertically license their patents across

multiple levels of the supply chain. In a unanimous decision rendered on June 9, 2008, the Supreme Court held that the sale of Intel microprocessors and chipsets exhausted all combination and method patents of LG in which the essential feature of the combination patents or essential steps in the method patents reside or take place in the microprocessor and chipsets sold.

## Patent Exhaustion

### What is Patent Exhaustion?

It is well settled that an authorized sale of a patented product places that product beyond the reach of the patent. Once the patentee gives away his right to exclusivity through an unconditional sale of a patented device, the patentee's right to control the purchaser's use of the device is exhausted. For exhaustion to apply: (a) the product must be covered by the patent and (b) the sale of the product must be authorized by the patent holder.<sup>5</sup>

Patent exhaustion derives from principles of law.<sup>6</sup> As explained by Judge Rader in *Cornell University v. Hewlett-Packard Co.*:<sup>7</sup>

In other words, when the patentee has given up his right to exclude, there is no longer a statutory basis for the patentee to impose restrictions on the subsequent sale or use of the article. Given this statutory framework, it follows that patent exhaustion is a legal doctrine, rather than an equitable one.<sup>8</sup>

On the other hand, an implied license derives from principles of equity.<sup>9</sup> For a license to be implied, there must be: (a) an authorized sale of a product, (b) the sale was made under circumstances that indicate a license should be implied (e.g., no restrictions placed on use of the product or the customer believes he has the right to use the product); and (c) the product has no substantial non-infringing use.<sup>10</sup>

The doctrine of patent exhaustion goes to what rights pass to the buyer with the purchase of a product *as a matter of law*.<sup>11</sup> The doctrine of implied license goes to what rights a buyer may have as the result of purchasing a product *as a matter of equity*.<sup>12</sup>

### How Does It Arise?—License Grants and Covenants Not to Sue

Patent exhaustion is triggered by an authorized sale. A license grant that authorizes the licensee to sell products under the patent is an authorized sale for purposes of triggering exhaustion. Thus, for example, patent exhaustion may arise when the asserted patent has been licensed and the licensor later tries to assert the patent against a customer of the licensee.<sup>13</sup> Exhaustion occurs

here because the licensee was licensed to sell the product under the license. Patent exhaustion also may arise when the patent holder asserts the patent against a customer who is purchasing from the patent holder the products giving rise to the exhaustion.<sup>14</sup>

It is less clear whether a covenant not to sue also will trigger exhaustion because the body of law of patent exhaustion has evolved largely in connection with license grants. A prevailing view on this subject is that a covenant not to sue does not trigger exhaustion because it is a contractual right as opposed to a property right granted by a license. This view has been shared by many including some companies that follow a policy of licensing their patents without ever using the term "license" and many litigators who often settle a lawsuit using a covenant not to sue as a way to ensure peace under the patent after the settlement—often for the sole purpose of avoiding the first sale doctrine.

While it may seem less clear whether a covenant not to sue also triggers exhaustion, the emerging precedent suggests that a covenant not to sue also likely will trigger exhaustion.

A license is an agreement by the patentee, usually for a consideration, not to sue the licensee of the patent for infringement of the patent.<sup>15</sup> As the Federal Circuit has held, a license may amount to no more than a covenant by the patentee not to sue the licensee for making, using or selling the patented invention, the patentee reserving the right to grant others the same right.<sup>16</sup>

In its simplest form, a license means only leave to do a thing which the licensor would otherwise have a right to prevent. Such a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly. . . . *Western Elec. Co. v. Pacent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir.), cert. denied, 282 U.S. 873, 75 L. Ed. 771, 51 S. Ct. 78 (1930). A covenant not to sue would certainly seem to meet this criteria of a license.

Recent decisions have deemed a covenant not to sue to be a license. In *Jac United States v. Precision Coated Products*,<sup>17</sup> after determining a covenant not to sue in a Settlement Agreement to in effect be a license, the Court went on to decide the next issue of whether PCP is bound by that license. In *TransCore, LP v. Elec. Transaction Consultants Corp.*,<sup>18</sup> after finding the covenant not to sue to be a license, the Court went on to determine whether, under applicable contract interpretation principles, it is a conditional license that precludes patent exhaustion. In *Shell Oil Co. v. Schering AG*<sup>19</sup> the Court explained that a **covenant not to sue can be a "bare-bones, non-exclusive patent license."** (emphasis added)

Even older decisions suggest that a covenant not to sue is in effect a license. For example, in *Duplan Corp. v. Deering Milliken, Inc.*,<sup>20</sup> the Court held a settlement agreement, itself with its cross-covenants not to sue, amounted in effect to the cross-licensing of the Chavanoz and Leesona patents. In *Hazeltine Research, Inc. v. Zenith Radio Corp.*,<sup>21</sup> licenses for a five-year period granting freedom from any charge of infringement under all present as well as future Hazeltine patents issuing during the term of the agreement in exchange for royalty payment were deemed by the court to in effect be a covenant not to sue the licensee.

Some may argue that the *in rem* and *in personam* distinction between a patent property grant and a contractually granted covenant not to sue should cause a covenant not to sue granted under a patent license to be treated differently from a covenant granted under a contractual covenant not to sue grant. But this distinction may not apply when a license is a bare bones covenant. Moreover, it is now well settled that a licensee too has only a personal and not a property interest in the patent that is not transferable, unless the patent owner authorizes the assignment or the license itself permits assignment.”<sup>22</sup>

In any event, for purposes of patent exhaustion, the key inquiry appears to be whether there has been an authorized sale. Setting aside the form of the instrument that conveys the non-assert grant and looking at the substance of whether that instrument authorizes the sale of a product under the patent which is the touchstone for exhaustion to be triggered the precedent suggests that a covenant not to sue is an authorized sale. See, for example, *In re Yarn Processing Patent Validity Litigation*<sup>23</sup> which explains that:

Section 287 applies to all “persons” who make or sell “for or under” the authority of the patentee and thus applies to authorizations by patentee of other persons to make and sell patented articles regardless of the particular form these authorizations may take and regardless of whether the authorizations are “settlement agreements,” “covenants not to sue,” or “licenses.” *Gordon v. Easy Washing Machine Co.*, supra, at 203 (predecessor of § 287 held to apply where patentee’s authorization was manifested by settlement agreement); cf., *General Pictures Corp. v. Elec. Co.*, 304 U.S. 175, 181, 82 L. Ed. 1273, 58 S. Ct. 849 (1938) (nonexclusive patent license nothing more than “a mere waiver of the right to sue”). Regardless of form, the agreements executed by Lex Tex manifested Lex Tex’s authorization of other persons to make and sell articles allegedly covered by the ’912 patent; and Lex Tex acknowledged as much in advertisements it placed in the Daily News Record. Accordingly, § 287 is clearly applicable. (emphasis added)

## Why Patent Exhaustion Is Important?

Patent exhaustion is important because it defines what rights a purchaser gets as a matter of law when he buys a product. Conversely, patent exhaustion defines what patents a patent holder cannot assert against a buyer after an unrestricted authorized sale has been made.<sup>24</sup>

Once a patent has been exhausted, the patent holder can no longer invoke patent law to control post-sale use of an article.<sup>25</sup> At that point and as held by the Court in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*<sup>26</sup>, control of post-sale use of an article is governed by general law.<sup>27</sup>

In *Motion Picture Patents Co.*, the Supreme Court made it clear that once a patent is exhausted the post-sale control of that product falls outside the patent statutes. While before the sale, the control by the patent holder over a product is restricted to what is described in the claims of the patent, after the sale the control by the patent holder is governed by general laws and not by rights flowing from the patent. As held by the Court, after the sale, a patent holder cannot expand those patent rights by contract.

This decision [of the lower court] proceeds upon the argument that, since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it. The defect in this thinking springs from the substituting of inference and argument for the language of the statute, and from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract, which, however, are subject to the rules of general, as distinguished from those of the patent, law. While it is true that, under the statutes as they were (and now are), a patentee might withhold his patented machine from public use, yet, if he consented to use it himself or through others, such use immediately fell within the terms of the statute, and, as we have seen, he is thereby restricted to the use of the invention as it is described in the claims of his patent, and not as it may be expanded by limitations as to materials and supplies necessary to the operation of it, imposed by mere notice to the public. (emphasis added)<sup>28</sup>

## Pre- *Quanta* Precedent on Exhaustion of Combination Patents

In *Quanta*, the Court stated that “[t]he longstanding doctrine of patent exhaustion provides that the initial

authorized sale of a patent item terminates all patent rights to that item.”<sup>29</sup> However, until *Quanta*, the evolution of lower court precedence in a direction contrary to the holding in *Quanta* suggests that Supreme Court pre-*Quanta* precedence has been less than clear as to what patent rights—i.e., device, combination, or method patents—actually are exhausted by the sale of a product.

The Supreme Court precedence has been perfectly clear that when a product passes to the hands of a purchaser the product itself is beyond the patent monopoly.<sup>30</sup> For that reason, the Court in *Bloomer* held that a purchaser who had purchased the right to use a planing machine during the period to which the patent was first limited was entitled to continue to use it during the extension of the patent authorized by Congress.<sup>31</sup>

In deciding that combination patents are actually exhausted by a first sale, the *Quanta* Court relies largely on its precedent in *Adams v. Burke*, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, and *Univis*.<sup>32</sup> However, these precedents have been less than clear as to whether combination patents are actually exhausted by the authorized sale of a product.

In deciding that combination patents are actually exhausted by a first sale, the *Quanta* Court relies on the following language in *Adams*: “[w]here a person ha[s] purchased a patented machine of the patentee or his assignee this purchase carri[es] with it the right to the use of that machine so long as it [is] capable of use.”<sup>33</sup> *Adams* though involved a patent on an improved coffin lid and not any patented combination with which the improved coffin lid could be used. In *Adams*, an assignee held the patent rights within a 10 mile radius of Boston and there was no restriction by the assignor on the sale of products within the 10 mile radius. The assignee sold the coffin lid to the buyer within the 10 mile radius and the buyer used the coffin outside that radius. Because there was no restriction by the assignor on the products sold within that radius, *Adams* held that the authorized sale of the coffin lid sold inside the 10 mile radius of Boston exhausted the coffin patent. Because no combination patents were involved in this decision, *Adams* provides little guidance as to whether combination patents are exhausted by the authorized sale of the product.<sup>34</sup>

*Quanta* Court also relies on *Motion Picture Patents*.<sup>35</sup> *Motion Pictures*, in expressly overruling the Court’s earlier decision in *Henry v. A. B. Dick Co.*,<sup>36</sup> noted the increasing frequency with which patent holders were using *A.B. Dick*-style licenses to limit the use of their products and thereby using the patents to secure market control of related unpatented items.<sup>37</sup> In *A.B. Dick*, the patent holder was limiting its sale of its patented stencil duplicating machine to use with non-patented stencil paper, ink, and other supplies sold by the patent holder. Similarly, in *Motion Pictures*, the patent holder was using its patented

projector to control post sale use of the product sold in connection with non-patented film products.<sup>38</sup> As held in *Motion Picture Patents*, there is no purpose for the limited license [on the purchaser of the patented product] but to extend the projector monopoly over unpatented film components.<sup>39</sup> Because no combination patents were involved in *Motion Picture Patents* that case also provides little guidance as to whether combination patents are exhausted by the authorized sale of the product.

In deciding that combination patents are actually exhausted by a first sale, the *Quanta* Court relied perhaps most heavily on *Univis*. *Univis* involved the sale of an unfinished lens component that when finished provided a lens for an eye glass. Specifically, *Univis* involved lens blanks (i.e., an unfinished piece of optical material having optical characteristics providing one focal length embedded into another piece of optical material having optical material providing a different focal length that when finished provides a bifocal lens). What troubled the Court in *Univis* was that the product had no use but as a finished blank that could only be obtained by finishing the unfinished blank in accordance with the patented method. The object of the sale was a finished blank. Hence, the *Univis* Court found that, on sale of the unfinished product, the buyer had the right to practice all of the patent rights, including the method patents to finish the product. As stated by the *Univis* Court:

Sale of a lens blank by the patentee or by his licensee is thus, in itself, both a complete transfer of ownership of the blank, which is within the protection of the patent law, and a license to practice the final stage of the patent procedure. In the present case, the entire consideration and compensation for both is the purchase price. (emphasis added)<sup>40</sup>

In the foregoing passage taken from *Univis*, the *Univis* Court uses the conjunction “and” in describing the rights that the purchaser gets from the sale of a product. Specifically, the “sale of a lens blank by the patentee or by his licensee is thus, in itself both a “complete transfer of ownership of the blank, which is within the protection of the patent law,” and “a license to practice the final stage of the patent procedure.” The *Univis* Court’s use of the conjunction “and” language in describing what rights pass on the purchase of a product makes it clear that ownership of the article passes, and a license to practice the final stage of the procedure also passes.<sup>41</sup> Instead, the *Quanta* Court interpreted the conjunction in a way that all of the patent rights are exhausted by the sale (i.e., patents falling under both parts of the passage that are bridged by the conjunction “and” term are exhausted).

The *Univis* Court used the conjunction “and” language not once but twice in its decision:

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Where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, *and* has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article. (emphasis added)<sup>42</sup>

The foregoing passage is the very language seized on by the Supreme Court in deciding *Quanta*.<sup>43</sup>

Just as with the *Univis* Court's use of the conjunction "and" language in the first passage noted above, the *Univis* Court's use of the conjunction "and" language in the second passage found in *Univis* makes it clear that ownership of the article passes, and a license to practice the final stage of the procedure also passes. Instead, the *Quanta* Court interpreted the conjunction in a way that all of the patent rights are exhausted by the sale (*i.e.*, patents falling under both parts that are bridged by the conjunction "and" term of the passage are exhausted). While *Univis* has now been clarified by the Supreme Court in *Quanta*, the decision of the Court in *Univis* and the other precedent relied on by the Court in its *Quanta* decision did not keep lower court jurisprudence on the doctrine of patent exhaustion, including the jurisprudence of the Federal Circuit, from evolving in a direction that is contrary to the Court's *Quanta* decision.

### **Pre- *Quanta* Precedent on Exhaustion of Method Patents**

In finding that the sale exhausted the method patents, the *Quanta* Court stated that "this Court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method" citing *Ethyl Gasoline Corp.* and *Univis*.<sup>44</sup> In *Ethyl Gasoline*, a patent holder held four patents directed to the use of lead additives to increase fuel efficiency.<sup>45</sup> The patent holder granted licenses under these patents to oil refineries to manufacture, sell, and distribute fuel to jobbers who were separately licensed by the patent holder. The refinery license contained covenants restricting the licensed refinery to sell only to licensed jobbers and setting resale price restrictions on jobbers.<sup>46</sup> In *Ethyl Gasoline* the Court found that the sale by the patent holder of the additive to refiners relinquished the patentee's exclusive rights to sell the treated fuel "by permitting the licensed refiners to manufacture and sell the fuel to the [jobbers]."<sup>47</sup> As stated by the *Ethyl Gasoline* Court, it is "by the authorized sales of the fuel by the refiner to jobbers [the sales being authorized by the patent holder] [that] the patent monopoly over it is exhausted, and after the sale, neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be sold."<sup>48</sup>

The exhausted patents to which the *Ethyl Gasoline* Court appears to speak to is the additive patent US Pat. Nos. 1,592,954 and 1,668,022 and the fuel mix of fuel and additive patent US Pat. No. 1,573,846. The refineries bought the additive from the patent holder and manufactured the fuel mix. All three of these composition patents were exhausted by the sale of the fuel mix to the jobber. The only method patent in the case is US Pat. No. 1,787,419 that recites a method of forming a fuel and air mix and burning the mix in the presence of a lead additive. However, this method is practiced at the consumer level by the operation of a motorized vehicle using the fuel mix and not at the level of jobbers who are buying and selling the mixed fuel for ultimate sale to consumers. Because there is no discussion of any indirect infringement of this patent by the jobber in the *Ethyl Gasoline* decision the method patent would not appear to be one of the exhausted patents discussed in *Ethyl Gasoline*. In the absence of indirect infringement and because no method patents were used by the jobbers in *Ethyl Gasoline*, the precedent of *Ethyl Gasoline* provides little guidance as to whether method patents are exhausted by the authorized sale of the product to the jobbers.

In deciding that method patents are actually exhausted by a first sale, the *Quanta* Court relied perhaps most heavily on *Univis*.<sup>49</sup> But as discussed above, the use by the *Univis* Court of the conjunction "and" language twice in its decision on what rights flow to a purchaser of the unfinished blanks makes it clear that the purchaser of the unfinished blanks obtained the rights under the method patents through an implied license.

### **The Federal Circuit Precedent**

The *Quanta* Court states that exhaustion of combination and method patents by a first sale is unequivocally grounded in its precedent, for example, "[n]othing in this Court's approach to patent exhaustion supports *Quanta*'s argument that method patents cannot be exhausted."<sup>50</sup> However, for the reasons discussed including the *Univis* Court's use of the conjunction "and" language twice in its decision, it is clear that the purchaser of the unfinished blanks obtained rights under the combination and method patents through an implied license.<sup>51</sup>

Indeed Federal Circuit law evolved to the contrary. Under Federal Circuit law, an authorized sale exhausted device patents embodied entirely in the product sold. Neither combination nor method patents are exhausted.<sup>52</sup> On the other hand, an implied license may arise if under the circumstances of an authorized sale the use of the product in patented combinations or methods was implied and there were no substantial noninfringing uses of the product but in the patented combination or method. In *Univis*,

the products sold were “destined” to be finished and so under the circumstances of the sale of unfinished blanks the method and combination patents were impliedly licensed. This is even though the licensor expressly restricted the rights flowing to the purchasers of the unfinished blanks by separate license with those purchasers.<sup>53</sup> Under the equities, the circumstances of the sale in *Univis* indicated that the purchasers of the unfinished blanks had the right to finish the blanks under an implied license. So evolved the law of patent exhaustion and implied license by the Federal Circuit.<sup>54</sup> And so have licensing programs governed by US law been structured.

## The Supreme Court Interprets the Law Based on How the Issues are Framed

In *Quanta*, the issue before the Supreme Court was cast in terms of the *uses* that could be made of a product sold. The arguments before the Supreme Court hence turned largely around questions of the kind raised by Justice Breyer’s “if I buy a pedal for my bike, what can I do with that pedal if I can’t use it on a bike?”<sup>55</sup> Little was argued of the differences in property rights between patents and other forms of property. Little was argued of the right of a patent holder to exclude others from practicing the patent. Little was argued that a patent holder has no right to use a patent if doing so infringes another patent.<sup>56</sup> Little was argued of the patentable differences between component, combination, and method patents. The question of use raised by Judge Breyer reveals the importance to the Supreme Court of the *uses of the product* sold in determining what patents are exhausted. In short, the Supreme Court early on decided to treat the patented product sold like a house or a car in which the buyer is generally entitled to all uses to which his property may be put. In so focusing its thinking, the Supreme Court effectively blurred the fundamental distinction between, on the one hand, a house or a car, and on the other, a patent, which, unlike a house or a car, only gives the holder the right to exclude and not use.

If, the Supreme Court in *Quanta* reasoned, the rights of a buyer from a purchase of a product goes beyond the product sold to the *uses* of that product, then the doctrine of patent exhaustion, which defines what rights the buyer gets on purchasing a product, must necessarily extend to those uses of the product. Under this analysis, the Supreme Court decided that the rights of a buyer to a purchased product extends to uses of that product in combination and in method patents of the seller provided that the essential features of those

combinations and methods are found in the product sold and that the only “reasonable and intended use” of the product sale was to practice the combination or method patent.

In so holding, the *Quanta* Court has articulated the following two-part test for determining when the authorized sale of a product will exhaust combination and method patents:

1. The only “reasonable and intended use” of the component product sold was to practice the combination or method patent, and
2. The component product sold “embodies essential features” of the combination or method patent.<sup>57</sup>

The two-part test of *Quanta* is not unlike the two part conjunction “and” language articulated in *Univis*. Indeed, as previously mentioned, the *Quanta* Court relied on the following passage taken from *Univis* in finding that the first sale can exhaust combination and method patents:

Where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, *and* has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article. (emphasis added.)

A comparison of the *Quanta* two-prong test to the foregoing *Univis* language shows that the first prong of the *Quanta* test correlates to the second part of the *Univis* conjunction language “destined to be finished by the purchaser in conformity to the patent” under the *Quanta* Court’s clarification of its *Univis* decision. Similarly, the second part of the *Quanta* test is seen to correlate to the first part of the *Univis* conjunction language “embodies essential features of his patented invention” under the *Quanta* Court’s clarification of its *Univis* decision.

Hence, the two prong standard in *Quanta* can be argued to reconcile with the *Univis* two part standard even though it is contrary to the compelling interpretation given to the *Univis* language by lower court jurisprudence. Whereas a reasonable pre-*Quanta* interpretation of *Univis* was that a purchaser obtained an implied license to practice the method and combination patent, the Supreme Court has decided now that all patents covering any reasonable and intended uses of the product—component, combination, and method—that are essentially embodied in the product sold are *exhausted* as a matter of law by the sale of the component.

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## The Two-Prong Standard for Determining Whether Combination or Method Patents are Exhausted

For a combination or method patent to be exhausted by an authorized sale, the product must satisfy the two-part test as articulated by the *Quanta* Court discussed above. Hence, to determine whether a combination or method patent is exhausted by an authorized sale one must look at the product sold and determine first the “reasonable and intended uses” of that product.

In *Quanta*, the Court found that the only reasonable and intended use of the Intel microprocessor and chipsets authorized for sale under the LGE-Intel license was with *any* memory device including the memory devices recited in the LGE combination and method patents.

Moreover, the possibility of using the Intel microprocessors and chipsets with Intel memory was not addressed in the *Quanta* decision.<sup>58</sup> Nor did it matter that the infringing functionality residing in the microprocessor and chipset could have been disabled.<sup>59</sup> “*Quanta* was not required to make any creative or inventive decision when it added those parts.”<sup>60</sup> In short, “LGE has suggested no reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents.”<sup>61</sup> Hence, the Intel products sold satisfied the first prong of the two-prong test for determining whether the LGE combination and method patents were exhausted under the first sale doctrine.

The second prong of the test for determining whether a combination or method patent has been exhausted is whether the component or a step performed within the component is a “material part” or “essential feature” of the combination or method patent.<sup>62</sup> Hence, if the component sold contains the essential features of a combination or method patent, then even if there are non-infringing uses of the product, the combination and method patents are exhausted. The Court found that essential elements of the patented combination and essential steps of the patents method were embedded in the products sold by Intel and so the combination and method patents of LGE were exhausted by the sale of the Intel products.

## Uncertainties Created by the Two-Prong Standard

The “embodies essential features” prong of the Supreme Court’s two-prong standard for determining what combination and method patents are exhausted is likely to be where the *Quanta* decision has introduced the greatest uncertainty into the doctrine of patent exhaustion. Before *Quanta*, previous jurisprudence provided a bright

line indicating exactly what patents are exhausted by a sale, *i.e.*, patent exhaustion ended with all patents that completely reside in the product sold. Under *Quanta*, that bright line has been replaced with a factual query of whether a product sold “embodies essential features of the combination or method patent” or constitutes a “material part of the combination or method patent.” Because the factual queries of what combination and method patents are “embodied” in a product sold and whether those features are “essential features” of a combination or method patent are likely to be the subject of wide dispute, questions of whether a product sold embodies the “essential features” of a combination or method patent are likely to be heavily litigated.

The first prong of the two-prong test for determining what patents are exhausted also is likely to be litigated insofar as it requires a determination of what are the “reasonable and intended uses” of a product, a question about which reasonable minds are likely to differ. Further, it is not enough to defeat exhaustion for a license agreement to clearly and articulately identify the “reasonable and intended uses” of a product. If the actual reasonable and intended uses of a product as determined by a court are found to conflict with the reasonable and intended uses as expressed in the contract, the contract language may be set aside and the patents exhausted.<sup>63</sup> The subjective expression of “reasonable and intended uses” that are found in a contract may diverge from the objective determination that courts are likely to make and lead to litigation.

## The *Quanta* Decision—A Sea Change Despite Being Called a Clarification

Does the *Quanta* decision turn established jurisprudence on the doctrine of patent exhaustion on its head? Yes and no. The answer is no insofar as the underpinnings of the doctrine remain unchanged. The law still is that an authorized sale exhausts certain patents *as a matter of law*. But the answer is definitely yes as to the scope of patents that are exhausted by the first sale. Before *Quanta*, licensing programs were structured in accordance with the precedent handed down by the Federal Circuit based on Supreme Court precedent in which the first sale exhausted only patented devices entirely residing in the product sold. Now, the Supreme Court has “clarified” its *Univis* decision in a way that has overturned the lower court jurisprudence on patent exhaustion to allow the first sale to capture combination and method patents essentially residing in the product sold.

In view of the sea change in the law on patent exhaustion, practitioners need to revise their licensing programs to account for the broader scope of patents that under

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*Quanta* are now exhausted by the first sale of a product *as a matter of law*.

## Effect of *Quanta* on Licensing and Litigation Programs

Under *Quanta*, all combination and method patents that satisfy the two-prong test for exhaustion are exhausted *as a matter of law* upon the unrestricted sale of a product. So licensing and litigation practitioners need to pay particular attention to identifying which combination patents have essential elements that reside in a product authorized for sale and which method patents have essential steps that take place in the product. *Quanta* provides several valuable lessons to the licensing practitioner and/or litigator on how to structure a license.

First and foremost, companies need to revisit their licensing programs and the sales that have been authorized under their licenses to determine what patent rights have been licensed and what rights may be exhausted. Also, companies need to determine whether the pre-*Quanta* rate of payment made under the license is still supportable by the post-*Quanta* patents remaining in the license. In short, companies need to revisit their licensing programs to account for the broader scope of patents that under *Quanta* are now exhausted by the first sale *as a matter of law* and to make changes as necessary to reflect the bargained for exchange contemplated by the parties in view of the exhausted patents.

The following are some of the issues that a litigator should consider when negotiating a license:

- Understand which combination and method patents are essentially embodied in the product sold.
- Consider licensing your combination and method patents in one license.
- If you want to keep patent rights from being exhausted, beware of what sale you authorize in your license agreement.
- To cut off exhaustion the authorized sale must be restricted.
- *General Talking Pictures Corp.* remains good law—a sale can be restricted to a field of use.
- “Limiting the authorized sale to licensed products not embodying essential features of specified combination or method patents” may be an option.
- “Requiring a licensee to disable any features in a product that are essential features of a combination or method patent” may be an option.
- Include the restrictions in the license grant.
- Craft your sales grant so that the product authorized for sale fails to satisfy one or both prongs of the two-prong standard for determining exhaustion.

- Implied license language will not save your patents from exhaustion.
- Boiler plate language is fine but it won’t preclude exhaustion.

## That a Product Sold Has Substantial Non-Infringing Uses May Not Matter

That a product has a substantially non-infringing use may have no affect on the second prong (“essentially embodied” prong) of the two-part test for determining what patents are exhausted on the authorized sale of a product. This is so because in crafting the first prong of the two-prong test, the *Quanta* Court resorted to “reasonable and intended uses” language when it could just have easily crafted the first prong of the two-prong test using no substantial non-infringing uses language. This distinction does not appear to be an insignificant one. Rather, this distinction indicates that *both* the “reasonable and intended” uses specified in the first prong of the two-prong test for determining exhaustion under *Quanta* and the *no substantial non-infringing uses* to which the product can be put *do not have to be* mutually inclusive.

With the no substantial non-infringing uses standard, the focus is not on what the defendant is doing; rather it is on whether there are no substantial non-infringing uses. Under the reasonable and intended uses test set out in *Quanta*, the focus now is on what the defendant is doing and whether that use is reasonable and intended. Plainly, the no substantial non-infringing uses test does not overlay the reasonable and intended uses test set out in *Quanta*. The two tests are different.

## Does *Quanta*’s Ascribing of Essentiality to Features Square with the Court’s Precedent in *Aro*?

In *Quanta*, the sale of microprocessors exhausted the combination and method patents because the essential functionality of the combination and method patents resided in the microprocessor and chipsets. Among the precedents discussed by the Court in *Quanta* is *Aro Mfg. Co. v. Convertible Top Replacement Co.*<sup>64</sup> *Aro* involved a patent directed to a combination, in an automobile body, of a flexible fabric, supporting structures, and a mechanism for sealing the fabric against the side of the automobile body to keep out the rain.

In *Aro*, a patent infringement suit was brought against manufacturers who manufactured and sold replacement

fabrics for use in the patented combination. The *Aro* Court held that the manufacturers were not guilty of either direct or contributory infringement of the patent because the replacement of the worn-out fabric was a permissible repair. In arriving at this holding, the *Aro* Court cited precedent that “a combination patent covers only the totality of the elements in the claim, and that no element, separately viewed, is within the grant.”<sup>65</sup> Hence, according to the Supreme Court’s own *Aro* precedent, as to combination patents, the *combination* of elements is the invention and it is distinct from any of its elements. Yet in *Quanta*, the Court went on to find that the inventive part of the *Quanta* combination and method patents lies *not* in the combination but in the microprocessor itself:

[i]n this case, the inventive part of the patent is not the fact that memory and buses are combined with a microprocessor or chipset; rather, it is included in the design of the Intel Products themselves and the way these products access the memory or bus.<sup>66</sup>

The *Aro* court warned that no element can be viewed as central to or equivalent to the invention.<sup>67</sup> Yet the *Quanta* Court did just that with the explanation that “*Aro*’s] warning that no element can be viewed as central to or equivalent to the invention is specific to the context in which the combination itself is the only inventive aspect of the patent.”<sup>68</sup>

By resorting to the use of an “essential elements” test in analyzing combination patents, *Quanta* appears to be in contradistinction to the Supreme Court’s holding in *Aro* that there is no legally recognizable or protected “essential” element, “gist” or “heart” of the invention in a combination patent.

The basic fallacy in respondent’s position is that it requires the ascribing to one element of the patented combination the status of patented invention in itself. Yet this Court has made it clear in the two *Mercoird* cases that there is no legally recognizable or protected “essential” element, “gist” or “heart” of the invention in a combination patent.<sup>69</sup>

By looking at the “essential” element, “gist,” or “heart” of the invention in the LGE combination patents, the *Quanta* decision may have opened a Pandora’s box with respect to combination patents. If, for example, “inventiveness” of a combination patent is found to lie in the essentiality of one of its elements as suggested by the *Quanta* decision, then does patentability lie in that element and not in the combination? If so, then does a combination patent cease to be patentable subject matter because it is the same invention as the patented element?<sup>70</sup> These are but some of the many troubling

questions raised by the *Quanta* decision which the Court likely will be asked to decide in the future unless preempted by Congressional legislation.

## Has the *Quanta* Decision Left Licensing Programs Open to Charges of Patent Misuse?

If patent misuse involves the patentee impermissibly broadening the “physical or temporal scope” of the patent grant with anticompetitive effect, *Windsurfing*,<sup>71</sup> does licensing of an exhausted patent create a patent misuse because it broadens the “temporal scope” of the patent grant with anticompetitive effect ala *Windsurfing* by the collection of royalties on an exhausted patent (*i.e.*, you are extending the patent (or more precisely your return on your patent) beyond the exhaustion of the patent)?<sup>72</sup> This issue already is being tested in a recently filed complaint, *Broadcom v. Qualcomm*, filed in the US District Court for the Southern District of California in San Diego in October 2008, wherein Broadcomm asserts, among other things, that Qualcomm’s use of “exhausted” patents to control post-sale use of products in the wireless communications industry results in a double recovery of royalties (or other consideration) to Qualcomm for the use of its patents. This emerging litigation tactic underscores the need for companies to review their licensing programs.

## Has the *Quanta* “Inventive Elements” Thinking Replaced the “All Elements Test” for Establishing Infringement under the Doctrine of Equivalents?

For infringement to exist under the doctrine of equivalents, the accused device must contain an equivalent of every limitation of the claimed invention (*i.e.*, the “all elements” test).<sup>73</sup> But if an accused device contains an equivalent of the “essential elements” of a combination claim but is missing one or more other “non-essential” elements of the claim, would that device nonetheless infringe the combination patent under the doctrine of equivalents in view of the “inventive elements” thinking set forth in *Quanta*? This is yet another of the many troubling questions raised by the *Quanta* decision.

## Conclusion

In *Quanta*, the Supreme Court has clarified the reach of *Univis* of patents that are exhausted under the first sale

doctrine. Under *Quanta*, an authorized sale will exhaust all patents of the patent holder *as a matter of law* that satisfy a two-prong test. According to the first part of the test, combination and method patents are exhausted if they are the “reasonable and intended use” of the product sold. Per the second part of the test, the combination and method patents are exhausted if the product sold “essentially embodies” the combination and/or the method patents. On the one hand, the *Quanta* decision is disguised as a clarification of the Supreme Court’s decision in *Univis*. But on the other hand, *Quanta* actually introduced a sea change in the law on what patents are exhausted.

Before *Quanta*, only device patents entirely residing in the product sold were exhausted. Under *Quanta* all combination and method patents “essentially” embodied in the product sold also are exhausted if the only reasonable and intended use of the product sold is to practice the combination or method patents. The Supreme Court has interpreted the conjunction “and” test used in *Univis* one way in *Quanta*. Yet the *Univis* conjunction “and”

test as interpreted by lower court jurisprudence over the past 66 years provides the Supreme Court with a basis to revisit the law of patent exhaustion from the standpoint of the *actual uses of a patent* residing in a product *as opposed to the actual uses of the product* on which the *Quanta* decision is based. Doing so could provide an opportunity for the Supreme Court to square all of its precedent with *Univis* in a way that adds more certainty and predictability to the exhaustion doctrine and preserves the viability of combination and method patents as separately patentable subject matter. Doing so could also minimize litigation that is likely to occur from the application of the *Quanta* two-prong test for determining what patents are exhausted about which reasonable minds are likely to differ. Until that happens, however, if ever, companies need to revisit their licensing programs to account for the broader scope of patents that under *Quanta* are now exhausted by the first sale *as a matter of law*. As the dust settles in the aftermath of *Quanta* at least one thing is clear. A restricted sale still serves to cut off the exhaustion of patents.

1. *Quanta Computer, Inc. v. LG Elecs., Inc.*, No. 06-937, Supreme Court of the United States, 128 S. Ct. 2109; 170 L. Ed. 2d 996; 2008 U.S. LEXIS 4702; 76 U.S.L.W. 4375; 86 U.S.P.Q.2d (BNA) 1673 (2008).
2. In *KSR v. Teleflex*, the Supreme Court expanded the definition of obviousness, making it harder to get a patent and in *eBay v. MercExchange*, the Supreme Court limited the use of injunctions after a finding of infringement.
3. See, e.g., Transcripts of Oral Hearings before the Supreme Court, pp. 29–31, 35–38, 47–48.
4. *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 62 S. Ct. 1088, 86 L. Ed. 1408, 1942 Dec. Comm’r Pat. 789 (1942).
5. *Quanta*, 128 S. Ct. 2122, 2119.
6. *Quanta*, 128 S. Ct. at 2116, 2116–2122; *Cornell Univ. v. Hewlett-Packard Co.*, N.D.N.Y., No. 01-CV-1974, 8/1/08 (“Although case law is scarce with respect to the nature of the patent exhaustion doctrine, the Supreme Court has recognized that patent exhaustion has its roots in the patent law statutory framework,” Judge Rader said, citing *Bloomer v. McQuewan*, 55 U.S. 539 (1852).)
7. *Cornell Univ. v. Hewlett-Packard Co.*, 2008 U.S. Dist. LEXIS 60209 (N.D.N.Y. Aug. 1, 2008).
8. *Id.*
9. *Bandag, Inc. v. Al Bolser’s Tire Stores, Inc.*, 750 F.2d 930, 925 (Fed. Cir. 1984); *Met-Coil Sys. Corp. v. Korner’s Unlimited, Inc.*, 803 F.2d 684, 686 (Fed. Cir. 1986); see also *LGE* 128 S. Ct. at 2123; *Cornell Univ.*, 2008 U.S. Dist. LEXIS 60209, citing *Met-Coil Sys. Corp.* at 686; *Wang Lab., Inc. v. Mitsubishi Elecs. Am.*, 103 F.3d 1571, 1578 (Fed. Cir. 1997) (It is well-settled that the defense of implied license is equitable in nature and reserved for the trial judge.)
10. *Met-Coil Sys.* at 686.
11. *Quanta*, 128 S. Ct. at 2115, 2115–2122.
12. See, *Bandag*, 750 F.2d at 925; *Met-Coil*, 803 F.2d at 686; *LGE*, 128 S. Ct. at 2122.
13. *Intel*, 995 F.2d at 1568., citing *Unidisco, Inc. v. Schattner*, 824 F.2d 965, 968 (Fed. Cir. 1987), cert. denied, 484 U.S. 1042, 108 S. Ct. 774, 98 L. Ed. 2d 860 (1988).
14. *Id.*, citing *Univis*, 316 U.S. at 250.
15. *United States v. Studiengesellschaft Kohle, G.m.b.H.*, 216 U.S. App. D.C. 303 (D.C. Cir. 1981).
16. *Ortho Pharmaceutical Corp. v. Genetics Inst.*, 52 F.3d 1026 (Fed. Cir. 1995).
17. *Jac United States v. Precision Coated Prods.*, 2003 U.S. Dist. LEXIS 4782 (D. Ill. 2003).
18. *TransCore, LP v. Elec. Transaction Consultants Corp.*, 2008 U.S. Dist. LEXIS 41812 (D. Tex. 2008).
19. *Shell Oil Co. v. Schering AG*, 1997 U.S. Dist. LEXIS 2236, \*9 (D. Del. 1997).
20. *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648 (D.S.C. 1977).
21. *Hazeltine Research, Inc. v. Zenith Radio Corp.*, 239 F. Supp. 51, 69 (D. Ill. 1965).
22. *Cargill, Inc. v. Nelson* (In re LGX, LLC), 2006 Bankr. LEXIS 635, 9-10 (Bankr. Fed. App. 2006).
23. In re Yarn Processing Patent Validity Litigation, 602 F. Supp. 159, 162 (D.N.C. 1984). See also *Jac United States*, 2003 U.S. Dist. LEXIS 4782.
24. *TransCore, LP v. Elec. Transaction Consultants Corp.*, 2008 U.S. Dist. LEXIS 41812 (D. Tex. 2008).
25. *Shell Oil Co. v. Schering AG*, 1997 U.S. Dist. LEXIS 2236, \*9 (D. Del. 1997).
26. *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648 (D.S.C. 1977).
27. *Quanta*, 128 S. Ct. at 2122.
28. *Id.*
29. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 at 518 (1917).
30. In *Motion Pictures*, the patent holder licensed a patent to licensee for sale of a patented movie projector for use with film that was initially patented but at the time of the patent infringement suit had expired. The Court found that the sale of the projector exhausted the patent on the projector and so the restriction on the use of the projector with the film was governed by contract law. Under general law, the post sale control of the use of the projector was found to be anticompetitive.
31. *Motion Picture Patents*, 243 U.S. at 514.
32. *Quanta*, 128 S. Ct. at 2115.
33. See *Bloomer v. McQuewan*, 55 U.S. 539, 14 How. 539, 549, 14 L. Ed. 532 (1853) “when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly.” *LGE*, 128 S. Ct. at 2115.
34. *Bloomer*, 55 U.S. at 553.
35. *Adams v. Burke*, 84 U.S. 453, 17 Wall. 453, 21 L. Ed. 700, 1885 Dec. Comm’r Pat. (1873); *Motion Picture Patents* at 518, 37 S. Ct. 416, 61 L. Ed. 871, 1917 Dec. Comm’r Pat. 391 (1917); and *Univis*, 316 U.S. 241, 62 S. Ct. 1088, 86 L. Ed. 1408, 1942 Dec. Comm’r Pat. 789 (1942); *LGE*, 128 S. Ct. at 2115–2117.
36. *Adams*, 84 U.S. at 455; *LGE* at 2115.
37. In *Adams*, a patent holder (Merrill & Horner) assigned a part of its interest in a patent for an improved coffin lid to Lockhart & Seelye. The part assignment was of all right, title, and interest in the patent for, to and in a circle whose radius is 10 miles, having the city of Boston as a center. Later, the patent holder assigned its remaining interest in the patent to Adams. An undertaker Burke bought a coffin lid from Lockhart & Seelye within the 10 mile radius of Boston but used the coffin lids outside the 10 mile radius. Adams sued for infringement.
38. *Motion Picture Patents*, 243 U.S. at 518.
39. *Henry v. A. B. Dick Co.*, 224 U.S. 1, 32 S. Ct. 364, 56 L. Ed. 645, 1912 Dec. Comm’r Pat. 575 (1912).
40. *Motion Picture Patents* at 509, 518. In response to these concerns many years later Congress passed the Patent Misuse Reform Act of 1988, Pub. L. No. 100-73 (102 Stat. 4674) (codified at 35 U.S.C. § 271(d) (1994)). Under 35 U.S.C. § 271(d)(5), it is not misuse to “condition[] the license of any rights to the patent . . . on the acquisition of a license to rights in another patent or

- purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.”
38. The non-patented product was kinesiographic film that was patented by Thomas Edison (Re 12,192) but which patent had expired at the time of the alleged infringement.
  39. *Motion Picture Patents*, 243 U.S. at 518.
  40. *Univis*, 316 U.S. 249.
  41. In other words, only those patents are exhausted that fall under the first part of the passage (*i.e.*, those patents that are “a complete transfer of ownership of the blank, which is within the protection of the patent law”). The patents falling under the second part of the passage, *i.e.*, patents required to finish the unfinished blank falling under the “a license to practice the final stage of the patent procedure” language used in *Univis*, are rights that appear to flow to the buyer as a license (*e.g.*, implied license) as the language suggests. *See Met-Coil*, 803 F.2d at 685–686.
  42. *Univis* at 250–251.
  43. *Quanta*, 128 S. Ct. at 2116–2117.
  44. *Ethyl Gasoline Corp.*, 309 U.S. 436, 456, 457, 60 S. Ct. 618, 84 L. Ed. 852, 1940 Dec. Comm’r Pat. 758 (1940) and *Univis*, *infra*; *LGE*, 128 S. Ct. at 2117.
  45. Two of the four patents U.S. Pat. Nos. 1,592,954 and 1,668,022 are directed generally to an additive. A third patent No. 1,573,846 is directed generally to a fuel mix of fuel and a metal additive. The fourth patent 1,787,419 is directed to a method of using a fuel which comprises forming a mixture of fuel and air and burning it under high compression in the presence of a metallic element.
  46. *Ethyl Gasoline* at 449.
  47. *Id.* at 457.
  48. *Id.*
  49. *Quanta*, 128 S. Ct. at 2117.
  50. *Id.*
  51. *See Met-Coil* at 686 (in *Univis* the “[s]ale of a lens blank by the patentee or by his licensee is thus in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, and a license to practice the final stage of the patent procedure.”)
  52. For a more in depth analysis of the Federal Circuit precedent on patent exhaustion and implied license see “Patent Exhaustion, Implied License and the Strategic Use of Non-asserts in Agreements, by Paul R. Juhasz, Presented at the 2003 AIPLA Annual Meeting, Oct. 30–Nov. 1, 2003.
  53. The purchasers of the unfinished blanks sold by a company held by the patent holder were the wholesalers, finishing retailers, and prescription retailers who by license were required to sell the finished blanks at prices set by the patent holder.
  54. In limiting patent exhaustion to patents residing in the product sold, the Federal Circuit recognized the fundamental distinction between patents and other forms of property, namely, the right of the patent holder to exclude but not use a patent if doing so infringes another patent. The Federal Circuit also recognized that there are differences among a patent on a component, a combination, and a method. Because a patent on a combination or a method are other patents and these other patents carry the right to exclude the buyer of the component from practicing the combination or method, the combination and method patent rights were not part of the rights of the purchased component as a matter of law. Rather, the rights of the buyer in the purchased component are limited to the patents residing in the component. Hence, the sale of the component carried no rights as a matter of law to practice the combination patent with which the component may be used or the method steps performed outside of the purchased article.
  55. *See supra* n.3.
  56. A patent holder may be excluded from practicing his patent because of a dominant patent that overlaps with his patent.
  57. *Quanta*, 128 S. Ct. at 2119.
  58. At the trial level, LGE proffered only two non-infringing uses for the Intel microprocessors and chipsets, namely, use in computers sold outside the United States and use as replacement parts. *LG Elecs. Inc. v. Ausustek Computer, Inc.*, 2002 U.S. Dist. LEXIS 25956, at \*35, \*36. An interesting question is whether the microprocessor sold to Quanta could have had non-infringing uses with at least Intel memory devices that also appear to have been licensed.
  59. *Quanta*, 128 S. Ct. at note 6.
  60. *Quanta*, 128 S. Ct. at 2120.
  61. *Quanta*, 128 S. Ct. at 2119.
  62. *Id.*
  63. If the only uses of the product are in the infringing combination or method, patent exhaustion will extend to those combination and method patents as a matter of law.
  64. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 81 S. Ct. 599, 5 L. Ed. 2d 592, 1961 Dec. Comm’r Pat. 635 (1961).
  65. *Aro*, 365 U.S. at 337–346.
  66. *Quanta* at 2121.
  67. *Aro*, 365 U.S. at 344.
  68. *Quanta* at 2121.
  69. *Aro*, 365 U.S. at 345–346.
  70. The short answer may be that under LGE a device patent and the combination patent in which it is used may both be treated as device patents (*i.e.*, the simpler device patent of the “device patent” and the complex device patent of the “combination patent”). Both the simple device patent and complex device patent distinguishes over one another for purposes of patentability. Now though because of the exhaustion of one patent by the sale of the other it is up to the patent holder to choose which one of the two patents to license. In other words, pre-LGE a patent holder had both patents to license. Now post-LGE because of the exhaustion of one by the other the patent holder may only hold one arrow in his quiver.
  71. *Windsurfing*, 782 F.2d at 1001 (*quoting* *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313 (1970)).
  72. Maybe not if the license provides a licensee with some other freedom of movement with respect to its business. For example, the freedom of movement could come from the licensee’s freedom from liability regarding where it gets its chipsets or if it decides to make its own chipsets. If the license also grants a license to know-how, the know-how license may save the license from these kinds of challenges.
  73. *Warner-Jenkinson Co v. Hilton Davis Chem Co.*, 520 U.S. 17, 40 (1997); *TIP Sys., LLC v. Phillips & Brooks/Gladwin Inc.*, Nos. 2007-1241, 2007-1279, F.3d, 2008 U.S. App. LEXIS (Fed. Cir. June 18, 2008).

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