

Introduction

- Biography
- Exhaustion – Changes in 2 Years
 - *Quanta v. LGE* (SCOTUS – June 2008)
 - *Costco v. Omega* (9th Cir – September 2008; cert pending; awaiting SG's brief)
 - *Transcore v. ETC* (Fed Cir – April 2009)
 - *LGE v. Hitachi* (ND Cal – March 2009)

Quanta v. LGE – Background Facts

- Patents at Issue
 - '641 Patent – cache coherency → ensures that the main memory and the cache memory both reflect the most recent versions of the data.
 - '379 Patent – coordinates read and write requests to the main memory.
 - '733 Patent – managing and prioritizing requests across the bus.
 - '645 Patent – page-mode memory access across a system bus.
- Accused Devices
 - Processor
 - System Bus – PCI Bus
 - Memory – SDRAM
 - Common Chipset
- LGE-Intel Contract
 - LGE authorized Intel to “make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of” products practicing the LGE patents. (p. 3).
 - LGE did not authorize Intel to license its customers to combine any of the products with other items not acquired from a party that is not a party to the license → Intel could not grant licenses to combine with non-Intel products.
 - Makes no changes to the doctrine of exhaustion.
 - Notice provision – Separate license required Intel to give notice to its customers that its license does not cover the combination of Intel components with non-Intel components.
 - PROBLEM – Intel's third-party customers never entered an agreement whereby they promised (either to Intel or to LGE) not to combine Intel with non-Intel.
- District Court
 - Summary Judgment in favor of Quanta on exhaustion (limited later).
- Federal Circuit
 - Held that the sales could not exhaust method patents.
 - Held that the sales were conditional by virtue of the notice provision.
 - NOTE: LGE waived foreign sales argument – all sales treated as US sales.

- NOTE: Court held that the license agreement would be a “sale” for purposes of exhaustion if the contract had indeed authorized the sales.

Supreme Court

- Statement of Rule
 - “The initial authorized sale of a patented item terminates all patent rights to that item” (p. 5) → No post-sale use restrictions can be imposed by the seller [under patent law].
 - “The right to vend is exhausted by a single, unconditional sale....” (p. 7).
 - *Adams v. Burke* – licensed carpenter only to sell within 10 miles of Boston; seller bought within that zone and carries lid outside of radius.
 - *Hobbie v. Jennison* – bought pipe in Michigan (one sales region) and used in Connecticut (in another sales region).
 - Substantial embodiment – article does not need to practice the patent, so long as the article “embodied essential features” of the patented invention.
 - *Univis Lens* case – sale involved lens blanks, which had not yet been finished into usable lenses → still exhausts because the blanks embody the essential features of the invention and their only intended use is to be finished under the terms of the patent.
- Differences from the Federal Circuit’s Approach
 - CAFC’s Test of Infringement? – Does the sale directly infringe the patent claims?
 - Notion 1 – Method claims don’t exhaust because the sale of the device doesn’t practice the method → Yes, consistent with infringement approach.
 - Notion 2 – A worldwide License is a defense → Yes, consistent with infringement approach.
- Method Claims
 - Method claims can be exhausted.
 - On-point precedent – *Ethyl Gasoline* case (p.10).
 - Also looks to *Adams v. Burke* – broad prohibition on post-sale use restrictions via patent law; notes that one could avoid exhaustion by clever claim drafting.
- Substantial Embodiment
 - Test offered by LGE – full embodiment or “no patentable distinction” → an infringement test.
 - Multiple tests—tests of sufficiency; not bright line
 - Article has no reasonable use except for use that would infringe patent.
 - Additional steps are not central to the patents. (p. 14).
 - Additional components are standard components. (p. 14).
 - Buyer was not required to make any creative or inventive decision in adding the additional steps or parts. (p. 14).
 - Limits the prohibition of applying *Aro’s* essential feature test → applies only when the combination itself is only inventive aspect of the patent.
- Authorization

- The sales were authorized – nothing in the agreement restricts Intel’s right to sell its microprocessors and chipsets only to purchasers who intend to combine them with non-Intel parts.
- Authority to sell not conditioned on the notice or on Quanta’s decision to abide by LGE’s directions in the notice.

Answered Questions

- Method claims can be exhausted.
- Authorized sales—at least in the US—are exhausting sales.

LGE v. Hitachi – foreign sales

- Problem – no directly addressed by SCOTUS, but Federal Circuit precedent (*Jazz Photo*) that expressly states that sales must occur in the US to be exhausting sales.
- Policy argument – SCOTUS overthrew the CAFC’s infringement-based analysis, and replaced it with an analysis based on the buyer’s right to be free of the patent monopoly once he or she buys the patented product in an authorized sale; in other words, SCOTUS did not envision an exhaustion doctrine that was susceptible to end-runs.
- *Keeler v. Standard Folding-Bed* (1895) – “[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property right, unrestricted in time or place.”
- *Curtiss Aeroplane Case* (2d Cir 1920) – purchased planes in Canada from one authorized to sell them in Canada; carried them into US → authorized Canadian sale exhausted the US patent because the Canadian and US patents were owned by the same company.
- *Quanta* footnote 6 – “But *Univis* teaches that the question is whether the product is capable of use only in practicing the patent, not whether those uses are infringing.”
- Implication – SCOTUS struck down CAFC’s infringement-based analysis with the desire to eliminate potential end-runs around the doctrine of exhaustion.

Potential Unanswered Questions

- Substantial embodiment – tests of sufficiency, but no bright-line test.
 - Ritonavir case – does the sale of ritonavir by a pharmacy exhaust Abbott’s patents that are directed to the use of ritonavir as a booster (in combination with another protease inhibitor)?
- Seed saving cases – Is there a continuing patent-law remedy?
 - Seed saving cases – CAFC has generally implied an infringement-based analysis, thereby limiting exhaustion to the boundaries of an implied license. Thus, when the seed buyer’s conduct stretches outside of the scope of the implied license, he or she still faces liability for patent infringement. But after *Quanta*, is the seed seller’s remedy limited to a contract remedy?
 - What if the seed supplier never has the farmer sign the contract?
- Comparison to *Costco v. Omega*.
 - 17 USC 106(3) – “[T]he owner of a copyright...has the exclusive rights to do and to authorize any of the following: to distribute copies...of the copyrighted work to the public by sale or other transfer of ownership....”

- 17 USC 109(a) – “Notwithstanding the provisions of section 106(3), the owner of a particular copy...lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy....”
- How do the policies that underlie Quanta relate to a copyright case?
- Berne Convention v. Paris Convention (or GATT): Any effect on the outcome?