

On June 9, 2008, the Supreme Court handed down a unanimous decision, holding, in part, that: (1) patent exhaustion applies to process and method claims, as well as apparatus and system claims; and (2) the authorized sale of an item embodying the essential elements of a patent exhausts patent rights in that item.

Background

Respondent LG Electronics, Inc. (LGE) licensed certain patents to Intel Corporation (Intel). Intel, in turn, manufactured computer chip and microprocessor products based on the LGE patents. Some of the customers Intel sold their products to, including Quanta, combined the Intel products with other non-Intel components to make computers. LGE brought suit against Quanta on the basis that the combination of Intel products with non-Intel components infringed LGE's patents.

Patent Exhaustion

Quanta's defense was based on the doctrine of patent exhaustion, which generally stands for the proposition that upon the sale of a patented product, the patentee no longer retains his exclusionary rights under the patent laws. The major issue in this case was whether patent exhaustion was applicable to patents with method claims, and whether the sale of Intel products to Quanta exhausted LGE's patent rights.

Patent Exhaustion in Method Claims

The Court did not agree with LGE that "method claims, as a category, are never exhaustible."¹ On the contrary, the Court pointed to several cases applying the doctrine of patent

exhaustion to method claims,² and cautioned that "[e]liminating exhaustion for method patents would [allow] . . . [p]atentees seeking to avoid patent exhaustion [to] simply draft their patent claims to describe a method rather than an apparatus."³ Thus, the Court held that while "[i]t is true that a patented process or method may not be sold in the same way as a patented apparatus or device, the process or method may nonetheless be 'embodied' in a product, the sale of which exhausts patent rights."⁴

Complete Practice of a Patent

Additionally, the Court held that the authorized sale of a product can trigger exhaustion even if the product does not *completely* practice a patent, as long as the product "embodies" the essential elements of the patent.⁵ In this case, the Court noted that the Intel products *would* completely practice the LGE patents if not for the lack of standard additional parts, such as memory and bus components,⁶ and thus held the Intel products to substantially embody the LGE patents.⁷ Furthermore, the Court construed LGE's argument that patent exhaustion did not apply to post sale restrictions on "making" an article as a reiteration of the above noted argument, and held that "no further 'making' results from the addition of standard parts - here, buses and memory - to a product that already substantially embodies the patent."⁸

Authorized Sales

Finally, the Court held that Intel's sale to Quanta was authorized under the licensing agreement. The Court found the licensing agreement to be "broadly" crafted, permitting Intel to make, use, or sell products practicing the LGE patents. Although a separate

agreement required Intel to give notice to its customers that LGE had not licensed those customers to practice its patents, Intel's authority to sell its products was not conditioned on that agreement. Thus, the Court held Intel's sales to be authorized under the license agreement and barred LGE from asserting its patent rights against Quanta.⁹

Notable Contract Claim Omissions

The Court briefly noted that LGE had not included any breach of contract claims in their complaint.¹⁰ Though LGE's patent rights were exhausted, this did not necessarily limit their other contractual rights.¹¹ However, since LGE did not include a breach of contract claim in their complaint, the Court expressed no opinion as to whether contract damages might have been available.¹²

For more information, please contact:

Nicholas P. Schmidbauer, Partner
nshmidbauer@mccrackenfrank.com
312.263.3836

Matthew S. Rudd, Law Clerk
mrudd@mccrackenfrank.com
312.422.5605



311 South Wacker Drive, Suite 2500
Chicago, IL 60606
t 312.263.4700
f 312.263.3990

www.mccrackenfrank.com

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¹ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. ___, No. 06 - 937, slip op. at 11 (June 9, 2008)

² See e.g. *Ethyl Gasoline Corp. v. United States*, 209 U.S. 436, 446, 457 (1940) (holding that the sale of a motor fuel produced under one patent also exhausted the patent for a method of using the fuel in combustion motors).

³ *Quanta* at 10.

⁴ *Id.* at 9.

⁵ *Id.* at 14, 19. See also *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942) (holding that “the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold”).

⁶ *Quanta*. at 11, 15.

⁷ *Id.* at 14.

⁸ *Id.* at 18.

⁹ *Id.* at 17-19.

¹⁰ *Id.* at 18 n.7.

¹¹ *Id.*

¹² See *Id.* (limiting the Court’s holding to patent exhaustion and expressing “no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages”) (citations omitted). See also *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (stating “whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers . . . would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws”).