

Supreme Court Hands Another Loss to Patent Owners in Quanta Computer Case

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On June 9, 2008 the Supreme Court again overturned the Federal Circuit, this time ruling that the doctrine of patent exhaustion is applicable to method claims, and prevented a patent owner from collecting against a company downstream in the chain of commerce from the licensee.

The patent exhaustion doctrine applies to the initial authorized sale of a patented item. If I own a patent and sell the patented item, the exhaustion doctrine prevents my bringing a lawsuit for patent infringement against my customer or any one else in the stream of commerce buying from my customer.

In recent years, the Federal Circuit had been whittling away at the exhaustion doctrine. In its decision involving Quanta Computer and LG Electronics, the Federal Circuit had said that the patent exhaustion doctrine does not apply to a license under method claims of a patent. 453 F.3d 1364 (Fed. Cir. 2006). Another decision held that sales of a patented item outside the United States cannot invoke the exhaustion doctrine. *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005).

The Supreme Court reversed, citing its decision in *United States v. Unis Lens Co.*, 316 U.S. 241 (1942), and pointing to more than 150 years of precedent involving the exhaustion doctrine.

LG licensed a collection of patents to Intel under terms excluding from the license any product made by combining an Intel product with any non-Intel product. Intel sold product to Quanta, which lacked a license from LG, yet nevertheless combined the Intel product with non-Intel product. LG brought a patent infringement suit against Quanta.

The Court indicated that “everything inventive about each patent” that LG was asserting against Quanta was embodied in the products Intel sold to Quanta, and those products “had no reasonable non-infringing use.” Accordingly, the Court said that the exhaustion doctrine applied and therefore LG could not prevail on an infringement claim against Quanta.

The Supreme Court’s decision effectively limits fancy wording in licenses that might be used to circumvent the exhaustion doctrine. In the present case, for example, having struck its deal with Intel, LG was prevented from making further deals with downstream customers of Intel, such as Quanta.

Although this decision may not be alarming in itself, it comes on the heels of recent decisions by the Supreme Court limiting the rights of patent owners by making injunctions harder to get (*eBay*), making it easier for licensing targets to sue for patent invalidity (*MedImmune*), and making it easier to challenge patents for obviousness (*KSR*). ✧

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