

### U.S. Supreme Court Extends the Exhaustion Doctrine to Method Patents

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The “exhaustion doctrine” states that once a patented device or apparatus is sold, the U.S. patent holder has obtained the economic value associated with that patent, and may not further extract a royalty from subsequent users. As to the state of the exhaustion doctrine with respect to method claims, the U.S. Supreme Court has recently confirmed the state of this doctrine of patent exhaustion regarding method claims in the case of *LG Electronics v. Quanta Computer, Inc.*

LG Electronics (“LG”) acquired several technology *method patents* relating to processing and managing data. In an effort to exploit these method patents, LG licensed Intel Corporation to “make, use and sell” microprocessors and chipsets, but the license barred Intel from combining these microprocessors and chipsets with non-Intel parts. The license required Intel to inform any purchasers of their chipsets and microprocessors covered by the license that if they wished to place them into a computer, a separate license must be obtained from LG. While many computer manufacturers negotiated licenses from LG, Quanta Computer, Inc. (“Quanta”) refused. Consequently, LG sued Quanta for patent infringement of the aforementioned method patents.

The trial court found in favor of Quanta, but the U.S. Court of Appeals for the Federal Circuit (C.A.F.C.) reversed in favor of LG. In ruling for LG, the C.A.F.C. found that there was no unconditional sale of the device, and thus ruled that the sale of the patented device did not exhaust a patentee's rights in its method claims.

In a unanimous decision, the U.S. Supreme Court *reversed* the C.A.F.C., and ruled that method claims could indeed be exhausted. Although not directly on point, the Supreme Court relied on its 1942 decision in *United States v. Unis Lens* as the controlling case. The case of *Unis Lens* involved separate licenses for lens blanks (or molds) used to form lenses and for the finished lenses. The Court held that a patentee's rights in finished lenses did not survive a licensee's sale of lens blanks to those who ground the lenses into finished products because the finished lenses, ground by the licensee, sufficiently embodied the patented invention. In other words, the only intended use of the blanks (or molds) was as a finished product covered by the patent. The Court applied *Unis Lens* in the *LG Electronics* case, concluding that the products Intel sold to Quanta embodied the essential features of LG's method patents. The U.S. Supreme Court explicitly overruled the C.A.F.C. on this point, but seemed to leave open possibly avoiding the doctrine of exhaustion depending on the licensee's rights set forth in the license. However, in this case, because the license to Intel was too broad (allowing Intel to “make, use and sell” chipsets and microprocessors based on the patents without restriction), the license made the doctrine of exhaustion applicable to LG's method patents.

#### News About Our Firm:

We are pleased to announce that our firm has recently hired three additional staff members, including **Ms. Yumi Mimura**, fluent in both Japanese and English, who will supplement our other two Japanese speaking staff members.

Also, we are pleased to announce that our firm has completely settled the differences between our firm and the partners who departed from our firm last year, and that our firm has fully satisfied all the departed partners' interests in the firm, including those of the estate of the late Mr. James E. Armstrong, III. For more details, please see our website at: [www.kqhpatentlaw.com](http://www.kqhpatentlaw.com) and click “Joint Letter/Settlement.”