

## Another Term, Another High-Stakes Patent Case

*Wednesday, Oct 24, 2007* --- Patent disputes are qualifying as certworthy in increasing numbers.

In the past two years alone, the U.S. Supreme Court has granted certiorari in patent cases more times than in the first twelve years following the inception of the U.S. Court of Appeals for the Federal Circuit – i.e., the court created by Congress in 1982 to rein in circuit conflicts and bring about doctrinal uniformity in patent law.

The conventional view now is that the Supreme Court is reining in the Federal Circuit.

During the past two terms, not only has the Supreme Court consistently reversed the Federal Circuit, the reversals have all been unanimous or near-unanimous, never garnering more than a single dissenter.

This trend prompted Judge Gajarsa to remark that “the Federal Circuit is poised to become the ‘Ninth Circuit’ of the twenty-first century.”<sup>[1]</sup>

So begins the October 2007 Term with yet another certiorari grant in a patent case: *Quanta Computer, Inc. v. LG Electronics, Inc.* At issue in *Quanta* is the Federal Circuit’s application of the patent exhaustion doctrine, also known as the first-sale doctrine.

This long-standing doctrine provides that an authorized sale of a patented article exhausts the patentee's exclusive rights as to that article insofar as the article embodies the invention. The patentee is therefore precluded from obtaining any further royalties or restrictions on the article.

The Supreme Court has not squarely addressed the exhaustion doctrine since 1942,<sup>[2]</sup> a year in which the Court decided eleven intellectual property cases (a number not since surpassed).

Sixty-five years later, the Court is revisiting the doctrine – and once again, at a time when heavy attention is focused on intellectual property cases.

In the case at bar, LG owns several patents related to systems and methods for receiving and transmitting data in computer systems. In 2000, LG licensed the right to make, use, and sell microprocessors and chipsets under these patents to industry giant Intel.

That license expressly disclaims any express or implied license for acts of infringement that may occur when a subsequent purchaser of Intel

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microprocessors and chipsets combines those Intel components with non-Intel products or components.

The petitioners, several Taiwan-based computer manufacturers, are such downstream purchasers for whom LG intended to retain the right to sue.

It is undisputed that Intel notified the petitioners that they could face an infringement lawsuit by LG for combining Intel products with non-Intel products. The petitioners disregarded the notice, and litigation ensued.

The petitioners argued that LG's license to Intel and Intel's subsequent sale of chips to petitioners exhausted LG's patent rights with respect to those chips.

In a partial summary judgment ruling, the U.S. District Court for the Northern District of California agreed with the petitioners. Judge Claudia Wilken determined that under LG's infringement theory, there could be no reasonable use of Intel's chips that did not infringe LG's patents. As such, Judge Wilken concluded that LG was impermissibly trying to obtain double royalties on the same patents.

The Federal Circuit reversed. The pivotal fact, in the court of appeals' view, was that Intel's sale of chips to the petitioners was "conditional."

Conditional sales – i.e., sales subject to restrictions on the purchaser's right to use or resell the article – do not trigger the first-sale doctrine, the Federal Circuit ruled.

The Supreme Court alluded to such a principle in an opinion dating back more than a century. In *Mitchell v. Hawley*, the High Court stated that a sale "without any conditions" can exhaust one's patent rights.[3]

Here, the Federal Circuit concluded that Intel's sale of chips to the petitioners was "conditional" due to the disclaimer notice that Intel sent to the petitioners.

U.S. Solicitor General Paul Clement, whose views were sought at the certiorari stage, opined that the Federal Circuit had developed an overly broad reading of what constituted a "conditional" sale.

The Solicitor General (joined by the U.S. Patent and Trademark Office) argued that the Federal Circuit's understanding of "conditional" and "unconditional" sales had deviated from the Supreme Court's teachings.

Those precedents, asserted the government, explain that an unconditional sale simply occurs when a person acquires lawful title to a patented item.

The petitioners no doubt welcomed the General Clement's comments. In recent years, the Supreme Court has routinely invited the Solicitor General's views in patent cases and has ultimately decided those cases in accordance with such advice.

Then again, the Solicitor General may not be in complete lockstep with the petitioners. The government appeared to tiptoe around the merits of one issue: whether the exhaustion doctrine applies to method patents.

On that question, the district court and Federal Circuit were in agreement. Both courts ruled against the petitioners, holding that method claims – as opposed to apparatus claims – are exempt from the exhaustion doctrine. Undeterred, the petitioners continue to assert that LG’s method claims were exhausted.

It is unclear what standard, if any, the Solicitor General will ultimately advocate regarding the treatment of method claims. The government’s certiorari-stage brief focused on the exhaustion doctrine as applied to the sale of “articles,” “items,” or “devices,” rather than “methods” or “processes.”

The Solicitor General did quarrel, however, with the Federal Circuit’s holding that method patents are categorically exempt from the first-sale doctrine. To the contrary, the Solicitor General pointed to Supreme Court patent-exhaustion cases that involved method patents.

Whichever way the Court goes, the decision in *Quanta* should have a profound and lasting impact on patent licensing practices, particularly in the computer technology industry.

According to the petitioners, if the Federal Circuit’s ruling stands, then LG’s “patents are infringed by every computer in the world, whenever microprocessors and chipsets are combined with generic components such as busses and memory.”[4]

The petitioners dramatically warn of “an explosion of infringement suits seeking a second round of royalties from persons who (like petitioners) purchased goods and paid full price for them expecting that the patentee’s claims were satisfied.”[5]

This is perhaps smart posturing at a time when the judicial (and congressional) pendulum seems to be gravitating towards protecting businesses from what is perceived as rampant abuses and excesses in patent litigation.

Briefing is currently scheduled to be completed by December 28, 2007, meaning that oral argument will take place in early 2008, with a decision likely to be issued in the spring. The computer industry will be watching closely.

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[1] A.J. Gajarsa & L.P. Cogswell, III, The Federal Circuit and the Supreme Court, 55 Am. U. L. Rev. 821, 844 (2006).

[2] United States v. Unis Lens Co., 316 U.S. 241 (1942).

[3] 83 U.S. (16 Wall.) 544, 547 (1873).

[4] Pet. for Cert. at 1.

[5] Id. at 29.