

QUANTA OF SOLACE?: THE PATENT EXHAUSTION DOCTRINE AND METHOD PATENTS AFTER *QUANTA COMPUTER, INC. v. LG ELECTRONICS, INC.*

ABSTRACT

This Note discusses the legal effects and repercussions of the United States Supreme Court's unanimous decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, which properly extended the doctrine of patent exhaustion to include method patents. Patent exhaustion is the termination of an inventor's patent rights over a product after an unconditional and authorized sale of either the finalized product or a qualified component. Prior to the Quanta decision, the patent exhaustion doctrine was applied to apparatus patents only, which cover physical products. After Quanta, patent exhaustion was extended to method patents, which cover non-physical processes as well.

Part I of this Note provides an overview of this note. Part II explains the aspects of patent law necessary to understand the role of patent exhaustion and the significance of the Supreme Court's decision in the Quanta case. Part II also discusses patent exhaustion law prior to the Quanta decision. Part III gives a complete procedural history and explanation of the essential holdings of the Quanta case. Part IV discusses the effect that Quanta has already had on the principal case, other cases, and the patent market. Part V assesses the significance and impact the case will have on the future of the intellectual property industry. Part VI concludes by explaining why Quanta is a step in the right direction for intellectual property law.

I. INTRODUCTION

Patent rights are guaranteed to inventors by Article I of the United States Constitution in order to “promote the Progress of Science and useful Arts.”¹ “Patent exhaustion” refers to the termination of an inventor’s patent rights over a product after an unconditional and authorized sale of either the finalized product or a qualified component.² In *Quanta Computer, Inc. v. LG Electronics, Inc.*, the United States Supreme Court extended the doctrine of patent exhaustion to include method patents.³ Prior to the *Quanta* decision, the patent exhaustion doctrine was only applied to apparatus patents, which cover physical products.⁴ After *Quanta*, patent exhaustion was extended to include method patents as well, which cover protected non-physical processes.⁵

This Note assesses the impact of this case on intellectual property, through the expansion of the patent exhaustion doctrine. Part II of this Note begins by explaining the state of patent law before the *Quanta* decision. In *Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp.*, the Federal Circuit applied patent exhaustion to method patents contained in a device if the device itself was under an apparatus patent that required the use of the patented methods contained therein.⁶ In *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, the Federal Circuit held that the patent exhaustion doctrine did not apply to devices sold incorporating *only* method patents.⁷ On this basis, a patent holder could sue a downstream purchaser for patent infringement. The Federal Circuit therefore applied a different rule regarding the patent exhaustion effect of unconditional and authorized sales of devices incorporating only method patents versus devices covered by both apparatus and method patents.⁸ In *Quanta*, the Supreme Court reversed

1. U.S. CONST. art. I, § 8, cl. 8 (“To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”).

2. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2115 (2008).

3. *Id.* at 2109. (the “Patent Exhaustion Doctrine” is also commonly referred to as the “First Sale Doctrine”) See AMY L. LANDERS, UNDERSTANDING PATENT LAW 12 (LexisNexis 2008). For purposes of consistency with the United States Supreme Court, the term patent exhaustion will be used throughout this Note.

4. See *Quanta*, 128 S. Ct. at 2113.

5. See *id.* at 2122.

6. *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1455 (Fed. Cir. 1997).

7. *LG Elec., Inc. v. Bizcom Elec., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006).

8. Compare *LG Elec., Inc. v. Bizcom Elec., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (rejecting the use of the patent exhaustion doctrine in the sale of a device that incorporated only a method patent), with *Hewlett-Packard Co. v. Repeat-O-Type Stencil*

Bizcom and broadened the rule of *Hewlett-Packard* by eliminating this distinction and applying the patent exhaustion doctrine any time a device is sold incorporating method patents, whether or not the device is also under a separate apparatus patent.⁹

Part III of this Note explains the history of the *Quanta* case and the Supreme Court's reasoning behind its ultimate decision to extend patent exhaustion to method patents. The Northern California District Court followed existing Federal Circuit precedent by not applying patent exhaustion to method patents.¹⁰ On appeal, the Federal Circuit affirmed its own rule that the patent exhaustion doctrine does not apply to method patents, but also held that the sale of the products containing the LG Electronics, Inc. (LGE) method patents was conditional and thus the patent exhaustion doctrine was inapplicable whether or not method patents were at issue.¹¹ The Supreme Court reversed the Federal Circuit, holding that the patent exhaustion doctrine applies to method patents, and that the sale of the products containing the LGE method patents was unconditional.¹² The Supreme Court set out a two-part test for the application of patent exhaustion to method patents: whether the product sold embodied the essential features of the method, and whether the product was capable of use only in practicing the method.¹³

Part IV describes the actual and potential effect the *Quanta* decision will have on the current state of patent law. Part V discusses the future effects *Quanta* will most likely have on the lower courts and the patent market. There are a number of questions left unresolved that the courts will have to work out. Patent owners will have to use alternative licensing methods to achieve their profit goals. Antitrust law will become more applicable through the licensing agreements, while patent infringement lawsuits will become less effective for patent owners, marking a shift in the balance of power between patent owners and licensees in the licensees' favor.

Mfg. Corp., 123 F.3d 1445, 1455 (Fed. Cir. 1997) (applying patent exhaustion to method patents when they were incorporated in devices covered by an apparatus patent as well).

9. *Quanta*, 128 S. Ct. at 2122.

10. *LG Elec., Inc. v. Asustek Computers, Inc. (Asustek II)*, 248 F. Supp. 2d 912, 918 (N.D. Cal. 2003) (citing *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903 (Fed. Cir. 1984)); *Glass Equip. Dev., Inc., v. Besten, Inc.*, 174 F.3d 1337 (Fed. Cir. 1999)).

11. *Bizcom*, 453 F.3d at 1369–70.

12. *Quanta*, 128 S. Ct. at 2113.

13. *Id.* at 2119.

II. PRE-EXISTING PATENT EXHAUSTION LAW

A. Patent Law Overview

Congress's power to issue patents, guaranteed by Article I of the Constitution,¹⁴ is codified in Title 35 of the United States Code.¹⁵ The primary purpose of patent law is to promote the advancement of useful arts, sciences, and technology by rewarding inventors with limited term monopoly rights to their inventions.¹⁶ Patent rights promote progress because they are an "incentive to inventors to risk the often enormous costs in terms of time, research, and development."¹⁷

For an invention to qualify for a patent it must be novel,¹⁸ non-obvious,¹⁹ and useful.²⁰ Once issued, patent rights give the patent owner the right to exclude others from "practicing the invention."²¹ This powerful right to exclude others restricts persons from making, using, offering to sell, selling, or importing the invention within the United States.²² Patent rights are assignable, thus a patent owner may be the inventor or a successor to the rights.²³

Patent rights for most inventions, including processes or methods like those at issue in *Quanta*, last for twenty years from the date of filing.²⁴ The United States follows the "first to invent" rule, which gives patent rights to the first individual in time to create the invention, not necessarily the first to file the patent, even if research and development was occurring simultaneously.²⁵ Thus, a second inventor working on the same invention contemporaneously with, but in ignorance of, a first inventor, will have no patentable rights to the

14. See U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

15. 35 U.S.C. §§ 1–376 (2006).

16. *Quanta*, 128 S. Ct. at 2116 (quoting *Henry v. A. B. Dick Co.*, 224 U.S. 1, 509, 516–17 (1912)); *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942).

17. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974); see also LANDERS, *supra* note 3, at 12.

18. 35 U.S.C. § 102 (2008); see also ABA SECTION OF ANTITRUST LAW, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK 19–20 (2007) [hereinafter ANTITRUST HANDBOOK].

19. 35 U.S.C. § 103 (2006); see also ANTITRUST HANDBOOK, *supra* note 18, at 19–20.

20. 35 U.S.C. § 101 (2006); see also ANTITRUST HANDBOOK, *supra* note 18, at 19–20.

21. LANDERS, *supra* note 3, at 1.

22. 35 U.S.C. § 271(a) (2006); see also ABA SECTION OF ANTITRUST LAW, THE FEDERAL ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY: ORIGINS AND APPLICATIONS 4 (2d ed. 2002) [hereinafter ANTITRUST GUIDELINES].

23. 35 U.S.C. § 100(d) (2006); see also LANDERS, *supra* note 3, at 442.

24. 35 U.S.C. §§ 154 (2006).

25. See ANTITRUST HANDBOOK, *supra* note 18, at 20.

invention if the first inventor can prove he or she completed the invention earlier in time, even if the second inventor applied for the patent first.

In the event that someone encroaches on a patent by making, selling, offering to sell, or importing the invention without authorization and within the territory of the United States, the patent owner or exclusive licensee may initiate a patent infringement lawsuit.²⁶ The patent infringement cause of action may be maintained against both direct infringers who practice the patent without permission and indirect infringers who induce or contribute to infringement by others.²⁷ Remedies include monetary compensation and injunctions against further infringement.²⁸

Injunctions may be preliminary or permanent.²⁹ Preliminary injunctions may be issued while litigation seeking a permanent injunction is pending.³⁰ Permanent injunctions will only be issued if: 1) irreparable injuries are proven; 2) monetary damages are inadequate; 3) the patent owner will suffer more hardship without the injunction than the infringer will under it; and 4) the public interest will be best served.³¹

Monetary compensation includes lost profits and reasonable royalties.³² Lost profits are the preferred measure and can be proven by direct evidence, price erosion, loss of market share, or the “*Panduit* test.”³³ Direct evidence is proof of loss of each consumer individually, which becomes prohibitive for mass-marketed inventions.³⁴ Price erosion is based on proof that the patent owner was forced to lower prices to compete with the infringer in the market.³⁵ Loss of market share is used for inventions that have multiple legitimate producers, and requires proving how much market share was lost to the infringer before fairly allocating the damages award amongst the non-infringing

26. See 35 U.S.C. § 271 (2006); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974); LANDERS, *supra* note 3, at 13, 442.

27. See LANDERS, *supra* note 3, at 293.

28. See *id.* at 14.

29. *Id.* at 441.

30. *Id.* at 448.

31. *eBay Inc. v. MercExchange, LLC*, 126 S. Ct. 1837 (2006); see also LANDERS, *supra* note 3, at 444.

32. 35 U.S.C. § 284 (2008); see also LANDERS, *supra* note 3, at 441.

33. *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995); see also LANDERS, *supra* note 3, at 451–56.

34. LANDERS, *supra* note 3, at 451.

35. *Id.* at 453.

producers.³⁶ The *Panduit* test is four-part test to establish an inference of lost profits.³⁷ Four elements must be proved: 1) the existence of a demand for the patented invention; 2) the absence of non-infringing substitutes for the invention; 3) the patent owner's ability to fulfill the demand; and 4) the volume of sales lost to the infringer.³⁸ If lost profits are difficult or impossible to calculate, then a royalty agreement may be inferred from the circumstances or based on the amount a reasonable person would be willing to pay as a royalty yet still turn a reasonable profit on sales.³⁹

Since monopoly rights are prone to abuse and severe anticompetitive effects, there must be limits and checks put on the extent to which those powers reach. Three major forms of patent right limitations are: 1) the twenty year expiration, discussed *supra*; 2) the ability of other inventors to differentiate by improving or altering the invention in a useful manner; 3) the implied license doctrine; and 4) the doctrine of patent exhaustion, the primary issue in *Quanta* and this Note.

The implied license doctrine, like patent exhaustion, terminates a patent owner's monopoly rights over an invention. Implied license is based on the equitable notion that "a patent license can be . . . inferred from circumstances that indicate a [patent owners'] consent, waiver or estoppel that the patent be practiced by another."⁴⁰ The doctrine resembles the concept of reliance, or equitable estoppel.⁴¹ An implied license is created when the patent owner's affirmative actions reasonably, expectedly, and detrimentally induce the purchaser to believe that he or she may practice the patent without risk of liability for infringement.⁴² Implied license is an affirmative defense to patent infringement and a question of fact that must be determined by taking into account both the patent owner's actions and the reasonable expectations of the purchaser.⁴³

36. *Id.* at 454.

37. *Id.* at 451.

38. *Panduit Corp.*, 56 F.3d at 1546; *see also* LANDERS, *supra* note 3, at 451.

39. LANDERS, *supra* note 3, at 456.

40. *Id.* at 427; *see also* Wang Labs., Inc. v. Mitsubishi Elec. Am., Inc., 103 F.3d 151, 1580–81 (Fed. Cir. 1997).

41. LG Elec., Inc. v. Asustek Computer, Inc (*Asustek I*), No. C 01-00326 CW, 2002 WL 31996860, at *3 (N.D. Cal. Aug. 20, 2002).

42. *See* LANDERS, *supra* note 3, at 427; *Asustek I*, 2002 WL 31996860, at *3.

43. *Asustek I*, 2002 WL 31996860, at *3.

B. The Patent Exhaustion Doctrine

The purpose of the patent exhaustion doctrine is to act as a counterbalance to monopoly powers granted to patent owners in order to prevent anticompetitive abuse. “Patent exhaustion” is a term that describes the termination of a patent owner’s rights over an invention after an authorized and unconditional sale of the invention, any product the invention is incorporated in, or a qualified component of the invention itself.⁴⁴ A “qualified component” embodies the essential features of the invention and must be sold with the intent to be used to finish the product in conformity with the patent.⁴⁵ For example, blank prescription eyeglass lenses sold to a distributor before they have been ground down for use in eyeglasses are a “qualified component” of a patent for corrective lenses, because the blank lens is an essential feature of the corrective lens patent and is sold with the intent to eventually be ground to the proper prescription for the end user.⁴⁶

Patent exhaustion occurs by operation of law, and therefore does not have to be included in a contract of sale to take effect.⁴⁷ On the other hand, the doctrine can be nullified by an express and properly executed contract or license between the patent owner and the purchaser.⁴⁸ In that event, the patent owner retains rights even after the sale, and can potentially sue downstream purchasers for patent infringement.

Originally the patent exhaustion doctrine was known as the “first sale doctrine.”⁴⁹ The first sale doctrine was established by the United States Supreme Court in 1873 in *Adams v. Burke*.⁵⁰ In *Adams*, an inventor of a coffin lid sold his patent rights by geographic territory to two entities, Lockhart and Adams.⁵¹ Burke, an undertaker, bought

44. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2118 (2008) (citing *Adams v. Burke*, 84 U.S. 453, 457 (1873)); *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942); John W. Osborne, *Justice Breyer’s Bicycle and the Ignored Elephant of Patent Exhaustion: An Avoidable Collision in Quanta v. LGE*, 7 J. MARSHALL REV. INTELL. PROP. L. 245, 249 (2008).

45. *Univis Lens Co.*, 316 U.S. at 251; see *Quanta*, 128 S. Ct. at 2119–20; Osborne, *supra* note 44, at 249.

46. See generally *Univis*, 316 U.S. at 241.

47. LANDERS, *supra* note 3, at 427.

48. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992); see also LANDERS, *supra* note 3, at 427, 431.

49. See *LG Elecs., Inc. v. Asustek Computer, Inc. (Asustek I)*, No. C 01-00326 CW, 2002 WL 31996860, at *3 (N.D. Cal. Aug. 20, 2002); LANDERS, *supra* note 3, at 427.

50. *Adams v. Burke*, 84 U.S. 453, 457 (1873) (“[O]nce [an invention is] lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee or his assignees or licensees.”).

51. *Id.* at 454.

coffin lids from Lockhart in Lockhart's territory, but used them in his undertaker business located in Adams' territory.⁵² Adams brought suit against Burke for patent infringement over the use of the coffin lids, not purchased from Adams, in Adams' monopoly-owned territory.⁵³ Adams lost the case.⁵⁴ The Supreme Court held that when a patent owner sells a unit of his patented invention, he parts with the right to further restrict its use.⁵⁵ Thus, the purchaser may use the product in any manner other than reproduction and manufacturing, free from the limits of the monopoly.⁵⁶ Adams' geographic monopoly on *sales* of the patented item did not impose any obligation on either Lockhart or Burke with respect to the *use* of the patented item in Adams' territory. Neither Lockhart nor Burke violated Adams' rights.

Since 1873 the doctrine has evolved to accommodate increasingly sophisticated business and license transactions. Even though the doctrine is still often referred to in the intellectual property community by the "first sale" title,⁵⁷ the Supreme Court preferred the term "patent exhaustion" in the *Quanta* case.⁵⁸ The term "patent exhaustion" is more appropriate than "first sale," because a sale of the invention is not always required to terminate the patent monopoly powers, nor does a termination of the monopoly powers result every time there is a sale of the invention under certain contract or licensing conditions.⁵⁹

The patent exhaustion doctrine prevents inventors' monopoly powers from conferring market control⁶⁰ and improperly restraining the free use of products by authorized purchasers.⁶¹ In effect, patent exhaustion allows the purchasers of patented inventions to use, repair, replace parts, modify, discard, or resell the invention without threat of liability for patent infringement.⁶² Without an express license, however,

52. *Id.*

53. *Id.*

54. *Id.* at 456.

55. *Id.*

56. *Adams*, 84 U.S. at 456.

57. See generally HERBERT HOVENKAMP, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION VOLUME XII 287 (Aspen Publishers, 2d ed. 2005) (1995); LANDERS, *supra* note 3, at 427.

58. Cf. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2113 (2008).

59. Cf. *LG Elec., Inc. v. Asustek Computer, Inc. (Asustek I)*, No. C 01-00326 CW, 2002 WL 31996860, at *4 (N.D. Cal. Aug. 20, 2002).

60. *Quanta*, 128 S. Ct. at 2116 (quoting *Henry v. A. B. Dick Co.*, 224 U.S. 1, 509, 516 (1912)); see *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942).

61. *Univis*, 316 U.S. at 251 (citing *Adams v. Burke*, 84 U.S. 453, 456 (1873)).

62. *Husky Injection Molding Sys. Ltd. v. R & D Tool Eng'g Co.*, 291 F.3d 780, 787-88 (Fed. Cir. 2002); LANDERS, *supra* note 3, at 427, 430-31.

the purchaser of a patented invention is not authorized to duplicate or sell copies of the patented invention.⁶³

Unfortunately, there is no bright line rule distinguishing a repair or a replacement of parts, which is not patent infringement, from a “reconstruction,” which is.⁶⁴ Replacing the worn canvas of a patented convertible car roof system has been held permissible, but reproducing the entire metal structure and canvas would be infringement.⁶⁵ The key is the extent of the repair at any one point in time. If the repair is less than virtual reconstruction of the entire invention, then it is permissible. Thus, by replacing different parts serially over time, the entire invention may eventually be replaced without a patent violation.⁶⁶

In addition to the freedoms patent exhaustion affords purchasers of patented inventions, it also works to prevent unjust double royalties for the patent owner. As a reward and incentive to inventors, a patent owner has the right to demand royalty payments from licensed distributors.⁶⁷ Royalties are payments that licensed distributors must make back to the patent owner as compensation for the patent owner’s forbearance from bringing a patent infringement action for the distributor’s use, reproduction, and sale of the patented invention. Royalty arrangements can take many forms depending on the contract between the parties, but the most common forms are based on either a fixed sum per unit sold or a fixed percentage of profits.⁶⁸

Double royalties come into play when the patent owner demands the secondary purchaser also pay royalties for the right to use the patented invention. In this situation, the secondary purchaser has in effect paid royalties twice—once in the mark-up the licensed distributor made to compensate for its own royalty payment to the patent owner, then again directly to the patent owner. Patent exhaustion prevents double royalties.⁶⁹ The patent exhaustion doctrine applies to the transfer from the patent owner to the licensed distributor, to ensure that subsequent purchasers are free and unencumbered from the threat of a patent infringement action arising out of their subsequent use of the

63. *Id.* at 427.

64. *Id.* at 428.

65. *See generally* Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336 (1964).

66. *See generally* FMC Corp. v. Up-Right, Inc., 21 F.3d 1073 (Fed. Cir. 1994).

67. *See* Brulotte v. Thys Co., 379 U.S. 29, 33 (1964).

68. ABA SECTION OF ANTITRUST LAW, ANTITRUST LAW DEVELOPMENTS 1108 (6th ed. 2007) [hereinafter ANTITRUST LAW DEVELOPMENTS].

69. PSC Inc. v. Symbol Techs., 26 F. Supp. 2d 505, 510 (W.D.N.Y. 1998).

invention.⁷⁰ Because the secondary purchaser has no direct contract with the patent owner, the patent exhaustion doctrine is not waived, although this can be circumvented by a contract with the licensed distributor requiring sub-license royalties that are shared with the patent owner.⁷¹ These licensing and antitrust issues will be discussed in more detail in Part V of this Note.

C. Apparatus versus Method Patents

Patents originally were divided into three categories: utility, plant, and design.⁷² Plant patents apply to asexually reproduced varieties of newly created or discovered plants.⁷³ Design patents apply to “any new, original and ornamental design for an article of manufacture”⁷⁴ Utility patents are the most common and include, *inter alia*, both “apparatus” and “method” patents.⁷⁵

Apparatus patents are the most familiar type of patent. They cover physical inventions such as computer hardware, machines, and household appliances.⁷⁶

Method patents cover processes that consist of any number of operative steps.⁷⁷ A simple example of a method patent is patent number 5,417,790 for a replaceable labeling system on reusable containers.⁷⁸ The method involves: 1) any reusable container; 2) affixing a placard with a laminated front coating on the container; 3) affixing a label to the placard describing the contents of the container;

70. See *Id.* at 510; ANTITRUST HANDBOOK, *supra* note 18, at 217–18.

71. *Standard Oil Co. v. United States*, 283 U.S. 163, 170–71 (1931); see also ANTITRUST LAW DEVELOPMENTS, *supra* note 68, at 1112.

72. ANTITRUST HANDBOOK, *supra* note 18, at 19. See generally 35 U.S.C. §§ 154, 161, 171 (2006).

73. 35 U.S.C. § 161 (2006).

74. 35 U.S.C. § 171 (2006).

75. 35 U.S.C. § 154 (2006).

76. For example: a Cuisinart Food Processor, U.S. Patent No. D560,093 (filed Nov. 9, 2006) (issued Jan. 22, 2008); a Dyson DC14 Vacuum Cleaner Head Assembly, U.S. Patent No. 6,519,807 (filed April 6, 2001) (issued Feb. 18, 2003); a HP Rapid Network Access Laptop Computer System, U.S. Patent No. 6,625,649 (filed June 8, 1998) (issued Sep. 23, 2003); a Whirlpool Refrigerator, U.S. Patent No. 7,055,338 (filed Oct. 15, 2004) (issued Jun 6, 2006); or a Briggs and Stratton Riding Lawn Mower Incorporating a Mule Drive, U.S. Patent No. 7,427,247 (filed July 30, 2004) (issued Sep. 23, 2008).

77. DONALD S. CHISUM, CHISUM ON PATENTS 16-60 (LexisNexis 2004) (1978).

78. United States Patent Office Database, <http://patft.uspto.gov/netacgi/nph-Parser?Sect1=PTO2&Sect2=HITOFF&u=%2Fnethtml%2FPTO%2Fsearch-adv.htm&r=15&f=G&l=50&d=PTXT&p=1&S1=5,417,790&OS=5,417,790&RS=5,417,790>.

and 4) removing and replacing the label as the contents of the container change.⁷⁹

While method patents are not physically transferable like a patented apparatus, they can be an essential feature “embodied in a product.”⁸⁰ Because method patents necessarily involve multiple steps, infringement of a method patent requires unauthorized substantial performance of all the operative steps involved in the patented method process.⁸¹ In practice, method patents tend to be exceedingly complex. The *Quanta* case dealt with three method patents owned by LGE and licensed to Intel Corporation (Intel) for the efficient use and management of data on microprocessors.⁸²

Prior to the Supreme Court decision in *Quanta*, the Federal Circuit differentiated between the sale of products containing only method patents and products containing both apparatus and method patents.⁸³ In *Glass Equipment Development, Inc. v. Besten, Inc.*, the patent owner sold double paned window spacers necessary to practice a method patent, but the spacers themselves were not under an apparatus patent.⁸⁴ The Federal Circuit held that patent exhaustion did not apply to the spacers because the sale was for products containing method patents only.⁸⁵ In *Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp.*, Hewlett-Packard (HP) owned both method and apparatus patents on ink jet cartridges.⁸⁶ Repeat-O-Type Stencil Manufacturing (ROT) would buy the ink jet cartridges, modify them to make them refillable, and then sell them to consumers.⁸⁷ Despite both apparatus and method patents being incorporated in the ink jet cartridges, the Federal Circuit court held that HP’s patent rights over the ink cartridges were terminated due to the authorized and unconditional sale to ROT.⁸⁸ Hence, the patent exhaustion doctrine applied to the sale of products under apparatus patents, but not to the sale of products

79. United States Patent Office Database, *supra* note 78.

80. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2117 (2008).

81. CHISUM, *supra* note 77, at 16-60.

82. *Quanta*, 128 S. Ct. at 2113-14.

83. *Compare* *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1342 n.1 (Fed. Cir. 1999) (rejecting the use of the patent exhaustion doctrine in the sale of a device that incorporated only a method patent), *with* *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1455 (Fed. Cir. 1997) (applying the patent exhaustion to method patents when they were incorporated in devices covered by an apparatus patent as well).

84. *Glass*, 174 F.3d at 1339-42.

85. *Id.* at 1342 n.1.

86. *Hewlett-Packard*, 123 F.3d at 1446-49.

87. *Id.* at 1449.

88. *Id.* at 1445.

containing method patents only. This all changed after the Supreme Court's decision in *Quanta*.

III. THE *QUANTA* DECISION

A. Case Background and Procedural History

In 1999, LG Electronics, Inc., (LGE) purchased patent rights to three method patents involving computer technology.⁸⁹ These patented methods are applicable in the manufacturing of computer microprocessors and chipsets.⁹⁰ Patent number '641 is a process method that ensures only the most current and updated version of computer data is retained when stored in two locations.⁹¹ Computers store long term data in the main memory (RAM), but will also duplicate data onto a cache memory for quick access.⁹² A problem arises when data is modified on only one of the two memory forms.⁹³ Patent number '641 addresses this problem by monitoring any modifications to duplicate data and ensuring the modifications are reflected in the other memory form as well.⁹⁴

Patent number '379 is a method that coordinates the efforts of the limited resources on the microprocessor to maximize the speed at which data is read from and written to the main memory.⁹⁵ Since reading information from the memory occurs much faster than writing to the main memory, method patent '379 prioritizes read requests until there is either a lull in processing, or a request is made for data that has not been written to memory yet.⁹⁶ When a read request for data that has not been written to the main memory yet is made, method '379 will switch priority to writing the information to the main memory, and then switch back to reading, to ensure the most current version of data is always retrieved.⁹⁷

Patent number '733 is a method for managing the data traffic on a computer "bus."⁹⁸ The computer bus consists of the wires which

89. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2113 (2008).

90. *Id.*

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.*

95. *Quanta*, 128 S. Ct. at 2113.

96. *Id.*

97. *Id.*

98. *Id.* at 2113–14.

connect the various hardware components of the computer together.⁹⁹ The bus has limited resources to fulfill the data and processing needs of the various components.¹⁰⁰ Method '733 ensures that the bus processing resources are proportionately allocated to the various system requests without letting any one device monopolize all the bus's capacity.¹⁰¹

In September of 2000, LGE licensed these three methods to Intel for use in their microprocessors and chipsets.¹⁰² The patent license between LGE and Intel specifically included a clause stating that "nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products."¹⁰³ Confusingly, a separate clause in the LGE-Intel license states that no license is granted to allow third parties to use the Intel products for combination with other products acquired from non-Intel sources.¹⁰⁴ Furthermore, Intel made a separate agreement with LGE to give notice to all its customers that its license for the LGE patents on its microprocessors and chipsets "does not extend . . . to any product [they] make by combining an Intel product with any non-Intel product."¹⁰⁵

A group of computer manufacturers (the Quanta Parties) purchased the microprocessors and chipsets containing the LGE patented methods from Intel.¹⁰⁶ As part of the transaction between Intel and the Quanta Parties, the Quanta Parties were mailed written notice, as required by the separate LGE-Intel agreement, which explained that the Quanta Parties were not authorized to use the Intel products containing the LGE patented methods in combination with non-Intel products.¹⁰⁷ Nonetheless, the Quanta Parties subsequently combined their Intel products with non-Intel components to build their computer systems for sale at market.¹⁰⁸

99. *Id.* at 2113.

100. *Id.* at 2114.

101. *Quanta*, 128 S. Ct. at 2114.

102. *Id.*; *LG Elec., Inc. v. Asustek Computer, Inc. (Asustek I)*, No. C 01-00326 CW, 2002 WL 31996860, at *2 (N.D. Cal. Aug. 20, 2002).

103. *Quanta*, 128 S. Ct. at 2114.

104. *Id.* ("[N]o license 'is granted is granted by either party hereto . . . to any third party for the combination by a third party of Licensed Products of either party with items, components, or the like acquired . . . from sources other than a party hereto, or for the use, import, offer for sale or sale of such combination.'").

105. *Id.*

106. *Id.*

107. *Id.*; *Asustek I*, 2002 WL 31996860 at *2.

108. *Quanta*, 128 S. Ct. at 2114.

LGE filed suit in April of 2001 against the Quanta Parties for patent infringement based upon the premise that the Quanta Parties were not licensed to use the LGE patented methods incorporated in the Intel products in combination with non-Intel products to build their computer systems.¹⁰⁹

In 2002, the Federal District Court for the Northern District of California interpreted the seemingly conflicting clauses in the LGE-Intel agreements, which specified that the license to use the LGE method patents did not extend to third parties combining the Intel products with non-Intel products, by labeling them as only a waiver of the implied license doctrine.¹¹⁰ The implied license doctrine and the patent exhaustion doctrine are separate and distinct means of terminating a patent owner's monopoly rights.¹¹¹ Therefore, a waiver of the implied license did not prevent patent exhaustion from applying.¹¹²

As a result, the district court ruled in favor of the Quanta Parties on summary judgment.¹¹³ It held that although the implied license doctrine was waived in the LGE-Intel patent license, the patent exhaustion doctrine still applied, and relieved the Quanta Parties of liability for any infringement.¹¹⁴ Despite the fact that there was not a "sale," in the traditional sense, from LGE to Intel, the LGE-Intel patent license was the equivalent of a sale, and therefore LGE's patent rights were terminated by operation of the patent exhaustion doctrine.¹¹⁵

The district court also held that there were not any reasonable non-infringing uses for the Intel products other than as a component in a computer system, which strengthened the Quanta Parties' argument for patent exhaustion.¹¹⁶ The two possible non-infringing uses proffered by Intel were discarded by the court as unreasonable.¹¹⁷ The first was for the Quanta Parties to use the microprocessor and chipsets containing LGE's patented methods only outside the United States, which was dismissed by the court because it would eviscerate the doctrines of both patent exhaustion and implied license since patent law only applies to

109. Complaint for Patent Infringement, LG Elec., Inc. v. Asustek Computer, Inc. (*Asustek I*), No. C 01-00326 CW, 2002 WL 31996860 (N.D. Cal. Aug. 20, 2002), 2001 WL 36117917; *Quanta*, 128 S. Ct. at 2114.

110. *Asustek I*, 2002 WL 31996860 at *2-3, *13.

111. *Id.* Both the implied license and patent exhaustion doctrines are explained *supra*, in Part II of this Note.

112. *See Id.* at *13-14.

113. *Id.* at *1.

114. *Id.* at *13-14.

115. *Id.* at *4-14.

116. *Asustek I*, 2002 WL 31996860 at *12.

117. *Id.* at *12-13.

products used or sold in the United States.¹¹⁸ The second non-infringing use suggested by Intel was for the Quanta Parties to use the microprocessors and chipsets only as replacement parts for non-infringing computer systems.¹¹⁹ The court dismissed this second option as an unreasonable business limitation that the Quanta Parties would not willingly agree to, nor had it been intended by Intel.¹²⁰ Since there were no reasonable non-infringing uses for the LGE patented methods, the court held that LGE must have intended an unconditional sale, which terminated its patent rights by operation of the patent exhaustion doctrine.¹²¹

In 2003, the district court reconsidered the summary judgment motion based upon two new arguments presented by LGE.¹²² First, LGE asserted that patent exhaustion was inapplicable because the LGE-Intel patent license was not an unconditional sale.¹²³ In response, the district court held that the sale of microprocessors and chipsets from Intel to the Quanta Parties was unconditional, and the subsequent letter from Intel limiting the Quanta Parties' rights in accordance with the LGE-Intel separate agreement was insufficient to change an already unconditional sale to a conditional one.¹²⁴

LGE next contended that the patent exhaustion doctrine does not apply to method patents.¹²⁵ This argument was better received.¹²⁶ The district court cited two previous Federal Circuit cases holding that the sale of a product does not terminate the patent owner's monopoly rights to the method patents incorporated therein.¹²⁷ On this basis, the district court therefore ruled in favor of LGE, restoring its right to bring a patent infringement action against the Quanta Parties.¹²⁸

In 2006, the Federal Circuit took the case based on appeals by both parties.¹²⁹ In a near total victory for LGE, the Federal Circuit affirmed the district court's conclusions that the implied license doctrine

118. *Id.* at *12.

119. *Id.* at *12–13.

120. *Id.* at *13.

121. *Id.* at *11–13; *see also* LG Elec., Inc. v. Asustek Computers (*Asustek II*), Inc., 248 F. Supp. 2d 912, 915 (N.D. Cal. 2003).

122. *Asustek II*, 248 F. Supp. at 915.

123. *Id.*

124. *Id.* at 917.

125. *Id.*

126. *Id.* at 918.

127. *Id.* (citing *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903 (Fed. Cir. 1984) and *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337 (Fed. Cir. 1999)).

128. *Asustek II*, 248 F. Supp. at 918.

129. *LG Elec., Inc. v. Bizcom Elec., Inc.*, 453 F.3d 1364, 1368 (Fed. Cir. 2006).

was not applicable, the patent exhaustion doctrine does not apply to method patents, and the LGE-Intel patent license constituted a sale in the context of the patent exhaustion doctrine.¹³⁰ The Federal Circuit also reversed the district court's holding that the sale of Intel products to the Quanta Parties was unconditional.¹³¹ The Federal Circuit found that the LGE-Intel license expressly precluded Intel from allowing the Quanta Parties to use the LGE patented methods in non-Intel products.¹³² Since Intel did not have the right to sell its products unconditionally, its sales to the Quanta Parties must have been conditional and, therefore, the patent exhaustion doctrine would not apply.¹³³ LGE's right to pursue patent infringement claims against the Quanta Parties became even stronger than after the district court's reconsideration.¹³⁴

B. The U.S. Supreme Court's Ruling in Quanta

Reversing the Federal Circuit, in June of 2008, the United States Supreme Court unanimously extended the patent exhaustion doctrine to method patents.¹³⁵ The Supreme Court also addressed whether the sale of Intel products to the Quanta Parties was conditional.¹³⁶

LGE argued that since the LGE-Intel separate agreement did not allow Intel to sell its products incorporating the LGE method patents for use with non-Intel products, the sale to the Quanta Parties for that purpose was unauthorized.¹³⁷ The Supreme Court disagreed, finding that there was nothing in the LGE-Intel agreements that restricted "Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts."¹³⁸ Rather, the LGE-Intel agreements only required that Intel provide notice to purchasers about the limit of the patent license, which Intel did.¹³⁹ Thus, the sale of the microprocessors and chipsets to the Quanta Parties was held to be unconditional.¹⁴⁰ Since the Court found that the sale of the Intel products was unconditional,¹⁴¹ the patent exhaustion doctrine would be

130. *Id.* at 1369–70.

131. *Id.* at 1370.

132. *Id.*

133. *Id.*

134. *Id.*

135. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2117 (2008).

136. *Id.* at 2113.

137. *Id.* at 2121.

138. *Id.*

139. *Id.*

140. *Id.* at 2122.

141. *Quanta*, 128 S. Ct. at 2122.

triggered—but only if it was extended to include method patents as well.

As discussed in Part II, there was conflicting authority in the Federal Circuit about the application of patent exhaustion to the sale of products containing only method patents and to products containing both apparatus and method patents.¹⁴² The Supreme Court in *Quanta* resolved this conflict and established a bright line rule. The doctrine of patent exhaustion applies to method patents if: 1) the product sold embodies the essential features of the method; and 2) the product is capable of use only in practicing the method.¹⁴³

For a component product to embody the essential features of a method patent it must integrate *all* inventive processes described in the patent, lacking only standard parts or the application of common procedures.¹⁴⁴ “Essential features” are distinctive characteristics that make the invention unique and form the basis of its patentability.¹⁴⁵ The “distinctive characteristics” of the LGE patents involved methods that made the Intel microprocessors and chipsets operate more effectively and efficiently.¹⁴⁶ Thus, the essential features of the LGE method patents were entirely embodied in the Intel products.¹⁴⁷ The remaining components necessary to complete the computer systems were merely standard parts and would have been required regardless of whether or not the LGE patented methods were incorporated.¹⁴⁸

Next, the Court evaluated whether the Intel products could only be used to practice the LGE method patents.¹⁴⁹ For the LGE method patents, “practicing the patent” meant using the Intel products to build the finalized computer system.¹⁵⁰ Since there is no reasonable or practical use for microprocessors other than integration into a computer system, the Intel products satisfied this last element.¹⁵¹ The Supreme Court held that “Intel’s microprocessors and chipsets substantially

142. *Compare* Glass Equip. Dev., Inc. v. Besten, Inc., 174 F.3d 1337, 1342 n.1 (Fed. Cir. 1999) (rejecting the use of the patent exhaustion doctrine in the sale of a device that incorporated only a method patent), *with* Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp., 123 F.3d 1445, 1455 (Fed. Cir. 1997) (applying the patent exhaustion to method patents when they were incorporated in devices covered by an apparatus patent as well).

143. *Quanta*, 128 S. Ct. at 2119.

144. *Id.* at 2120; *see also* United States v. Univis Lens Co., 316 U.S. 241, 248 (1942).

145. *See* Osborne, *supra* note 44, at 268; *see also* *Quanta*, 128 S. Ct. at 2119.

146. *Quanta*, 128 S. Ct. at 2113–14.

147. *Id.* at 2120.

148. *Id.*

149. *Id.* at 2119 n.6 (quoting *Univis*, 316 U.S. at 249).

150. *Id.* at 2119.

151. *Id.*

embodied the LGE Patents because they had no reasonable noninfringing use and included all the inventive aspects of the patented methods.”¹⁵² Thus, the doctrine of patent exhaustion terminated LGE’s method patent monopoly rights upon the sale of the Intel products to the Quanta Parties.¹⁵³ The Federal Circuit decision was reversed and the case was remanded back to the Northern California District Court.¹⁵⁴

Based on the Supreme Court’s decisions, the Quanta Parties filed for summary judgment back in the District Court, in August of 2008.¹⁵⁵ LGE attempted to raise new issues based upon sales made outside the United States and claims on non-Intel products, but the court denied them as waived by their failure to raise the issues in the original litigation and by LGE’s stipulation to entry of final judgment.¹⁵⁶ After seven years in litigation, the Quanta Parties finally emerged victorious.

IV. THE QUANTA EFFECT

The *Quanta* ruling, while a reversal of the Federal Circuit, was not a reversal of Supreme Court precedent.¹⁵⁷ Rather, it was a clarification that the patent exhaustion doctrine did in fact apply to method patents under wider ranging circumstances.¹⁵⁸ This elucidation may have dramatic repercussions for patent owners and licensees though. Many companies and patent owners, other than just LGE relied on the faulty assumption that the patent exhaustion doctrine did not apply to method patents, as evidenced by the amici curiae brief that was filed by Dell, Hewlett-Packard, and Gateway.¹⁵⁹ After *Quanta*, many downstream purchasers and licensees received a windfall, gaining free use and relief from royalty payments for the method patents they use

152. *Quanta*, 128 S. Ct at 2122.

153. *Id.*

154. *Id.*

155. LG Elec., Inc. v. Q-Lity Computer Inc., No. C 01-2187 CW, 2008 WL 3895463, at *3 (N.D. Cal. Aug. 19, 2008).

156. *Id.* at *3–5.

157. See Osborne, *supra* note 44, at 266–73; Eileen McDermott, *How Quanta Will Change Licensing*, MANAGING INTELL. PROP., July 1, 2008, at 1, 4, available at <http://www.managingip.com/Article/1968339/How-Quanta-will-change-licensing.html> (last visited July 16, 2008).

158. McDermott, *supra* note 157, at 1, 4.

159. See Brief for Wi-LAN Inc. as Amicus Curiae Supporting Respondent, *Quanta Computer Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937), 2007 WL 4340882 [hereinafter *Wi-LAN Brief*]; McDermott, *supra* note 157, at 1, 3. See generally Osborne, *supra* note 44, at 246.

and possess.¹⁶⁰ However, these short-term effects will fade as the industry adapts by incorporating conditional licenses, collateral agreements, and other novel alternatives and adaptations.¹⁶¹

The *Quanta* decision may increase costs in both the short and long term. In the short term, legal costs for patent licensing will increase as patent attorneys attempt to find a cure to compensate their patent holding clients for the loss of downstream royalty revenue.¹⁶² In the long term, license prices are likely to increase for first-order patent rights purchasers as the patent owners ensure larger revenues upfront and force the licensee to pass the costs down the chain.¹⁶³

Long term judicial effects will play out in the lower courts as the various jurisdictions attempt to define the ambiguities left unresolved by *Quanta*.¹⁶⁴ What exactly does embodiment of essential features mean? Does it include only the description in the patent, or does it extend to logical applications as well? What does “no reasonable use other than incorporation into the practice of the patent” mean? Is reasonableness measured from the licensor’s perspective? The licensee’s? The objective person? What about the Court’s direct admission that they “express no opinion on whether contract damages might be available . . . ?”¹⁶⁵

Perhaps most significant are the new arguments for parties claiming and defending patent infringement.¹⁶⁶ Previously, method patent infringement required unauthorized use, or constructive inducement, of the entire process to be actionable.¹⁶⁷ Now, plaintiffs only have to claim and prove that the alleged method infringement was an embodiment of the essential features of the patent. Conversely, defendants can escape liability by establishing that any operative step of the method they employed is not a substantial embodiment of the essential features that the patent was intended to protect. Furthermore, legitimate patent licensees will endeavor to avoid the royalties associated with their conditional licenses, which are immune from patent exhaustion, by arguing that they actually embody all the essential

160. See generally Brief for Dell Inc., et al. as Amici Curiae Supporting Petitioners, *Quanta Computer Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937), 2007 WL 748638 [hereinafter *Amici Curiae Brief for Petitioners*].

161. See McDermott, *supra* note 157, at 3.

162. See *id.* at 4.

163. *Id.* at 1.

164. *Id.* at 3.

165. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2122 n.7 (2008); see also McDermott, *supra* note 157, at 3.

166. See McDermott, *supra* note 157, at 2.

167. CHISUM, *supra* note 77, at 16-60 to 16-61.

features of the patent and thus bar the patent owners' royalties rights by operation of the patent exhaustion doctrine.

In 2008, in *Hynix Semiconductor Inc. v. Rambus Inc.*, Hynix was one of the first companies to try and take advantage of the new method patent law.¹⁶⁸ Previously, in 2006, Hynix had been found liable to Rambus for infringement of both apparatus and method patents.¹⁶⁹ In this case, Hynix was attempting to obtain relief from the judgment in light of the new defense of patent exhaustion available to defeat Rambus's method patent infringement claims.¹⁷⁰ While Hynix's argument was valid, it was ultimately rejected by the court as untimely because it was not raised in any of the original or amended pleadings despite being a valid defense to at least the apparatus patent infringement claims.¹⁷¹

Also in 2008, in *ExcelStor Technology, Inc. v. Papst Licensing GMBH & Co. KG*, ExcelStor tried to use the patent exhaustion doctrine as an affirmative cause of action to recover double royalties already paid to Papst.¹⁷² ExcelStor was manufacturing computer hard disk drives under a method patent license from Papst.¹⁷³ Part of the license agreement required ExcelStor to pay double royalties on behalf of downstream purchasers of the hard disks incorporating the method patents, which ExcelStor did.¹⁷⁴ After the *Quanta* decision clarified that double royalties were not enforceable, ExcelStor brought an action to recover their double royalty payments.¹⁷⁵ The court held that patent exhaustion is only a defense and dismissed the case for failure to raise a federal cause of action.¹⁷⁶ Furthermore, the court clarified that there is nothing illegal about collecting multiple royalties, nor licenses that require multiple royalties; it is simply that multiple royalties are not enforceable in a federal court under patent law.¹⁷⁷

168. See *Hynix Semiconductors Inc. v. Rambus Inc.*, No. C-00-20905 RMW, 2008 WL 4155655 (N.D. Cal. Sept. 5, 2008).

169. *Id.* at *1–*2.

170. *Id.* at *1.

171. *Id.* at *5.

172. *ExcelStor Tech., Inc. v. Papst Licensing GMBH & Co. KG*, No. 2008-1140, 2008 WL 4207435, at *1 (Fed. Cir. Sept. 16, 2008).

173. *Id.*

174. *Id.*

175. *Id.* at *1–*2.

176. *Id.* at *3.

177. *Id.*

V. THE FUTURE OF INTELLECTUAL PROPERTY LAW

Quanta did not eliminate patent owners' ability to influence downstream use of their inventions; it simply re-balanced a scale that had tipped in favor of the patent owners.¹⁷⁸ Patent owners have alternatives to infringement suits against downstream purchasers. One alternative is to demand collateral contracts from parties seeking to license their patented methods. Misuse is then actionable as breach of contract rather than patent infringement. In the *Quanta* case, as further consideration for licensing the patented methods, LGE could have required Intel to collaterally agree to make subsequent commercial purchasers sign an agreement to also pay a set fee to LGE in order to use the LGE patents in their own non-Intel products. Then, if Intel failed to include such a clause in their sales contracts, Intel would be liable to LGE for breach of contract. Alternatively, if the *Quanta* Parties had agreed to the required fee, but failed to pay, they would be liable to LGE as the third party beneficiary of their contract with Intel.

The benefit of a contract law approach is the built in checks and balances that do not exist under patent law. Contracts are governed by antitrust, state, equity, and privity law considerations, whereas patent law exists as a backdoor allowing patent owners to circumvent these contract laws.¹⁷⁹ Using collateral contracts instead of patent rights allows patent owners access to downstream revenues while striking an appropriate balance with purchasers' rights to freedom of contract and unrepressed use and enjoyment of their possessions.¹⁸⁰ Policy considerations are also addressed by "promoting the progress of science and useful arts," while preventing the use of patents to "secure market control of related, unpatented items."¹⁸¹

Conditional licenses are another alternative for patent owners to influence the downstream use of their products.¹⁸² In conditional licensing the patent owner grants only limited patent rights to the purchaser.¹⁸³ The remaining rights stay under the ownership of the patent owner.¹⁸⁴ Since the patent owner has not given away all rights under the patent grant, his exclusivity on the remaining rights is

178. See Osborne, *supra* note 44, at 258; McDermott, *supra* note 157, at 3.

179. See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992); Osborne, *supra* note 44, at 258–60.

180. Cf. *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942) (citing *Adams v. Burke*, 84 U.S. 453, 456 (1873)); Osborne, *supra* note 44, at 258.

181. *Quanta Computer, Inc. v. LG Elec., Inc.*, 128 S. Ct. 2109, 2116 (2008).

182. *Mallinckrodt*, 976 F.2d at 704 (citing *Mitchell v. Hawley*, 83 U.S. 544 (1872)).

183. See *Mallinckrodt*, 976 F.2d at 703.

184. *Id.*

therefore not terminated under the patent exhaustion doctrine.¹⁸⁵ Thus, conditional license rights are immune from patent exhaustion as long as they conform to applicable laws.¹⁸⁶

In conditional licensing it is reasonable to infer that the parties negotiated a fair price that reflects only the value conferred.¹⁸⁷ Thus, no harm is visited upon the purchaser, and the patent owner still retains the benefit of licensing the remaining rights to another. The policy concerns about conditional licenses pertain to the potential for patent owners to use their monopoly power to implement price-fixing and to gain control over non-patented methods or articles.¹⁸⁸ Conditional licenses are another form of contract, so the protections and balances of contract, antitrust, privity, and equity laws are still applicable.¹⁸⁹ Under antitrust law, any restrictions patent owners attempt to put on licensees must be justified under the rule of reason.¹⁹⁰ Therefore, restrictions that venture beyond the scope of the patent grant and have anticompetitive effect, such as price-fixing and extension of monopoly control to non-patent methods or articles, are unreasonable and will be void in accordance with the law and public policy.¹⁹¹

VI. CONCLUSION

Despite the ambiguity and uncertainty that comes with most Supreme Court decisions, the *Quanta* holding is a step in the right direction. The Court was faced with a lengthy litigation history and voluminous briefs filed by both the parties and numerous amici curiae, which advocated extreme resolutions ranging from refusing to extend the patent exhaustion doctrine to method patents altogether to eliminating all downstream rights of patent owners.¹⁹² Still, the Court managed to find a balanced solution in harmony with the principal purpose of patent law. As important as promoting innovation over the past 200 years has been, it is even more important in today's radically evolving world of technology, which often requires substantial amounts

185. *Id.* at 704–05 (quoting *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926)).

186. Osborne, *supra* note 44, at 260; *Cf. Mallinckrodt*, 976 F.2d at 704–05 (quoting *Gen. Elec.*, 272 U.S. at 489).

187. Osborne, *supra* note 44, at 260 (quoting *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)).

188. *United States v. Univis Lens Co.*, 316 U.S. 241, 252–53 (1942); *Mallinckrodt*, 976 F.2d at 704.

189. Osborne, *supra* note 44, at 260.

190. *See Mallinckrodt*, 976 F.2d at 708.

191. *Id.*

192. *See generally* Osborne, *supra* note 44, at 245; *Amici Curiae Brief for Petitioners*, *supra* note 160; *Wi-LAN Brief*, *supra* note 159.

of investment before a profitable discovery can be made. The entities assuming the risk to fund innovation deserve the reward upon success. Conversely, patent law is not intended as a means of securing private fortunes and corporate dynasties.¹⁹³ The true benefit of promoting private innovation is the public's access to that progress. There must be a balance between the reward to the inventor and the benefit to society. The doctrine of patent exhaustion strikes that balance. It allows inventors to market their creations as they choose, but also secures the buyers' right to freedom of use and application after purchase. This balance is no less important when applied to methods as it has been in application to apparatus articles.

Ultimately, the Supreme Court's decision to extend the patent exhaustion doctrine to include method patents ensures that inventors get their rightful royalties, prevents patent owners from doubling up on royalty charges,¹⁹⁴ and guarantees that purchasers' rights to free use and enjoyment of their goods is protected under contract, antitrust, privity, and equity laws.¹⁹⁵

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193. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2116 (2008).

194. Osborne, *supra* note 44, at 285.

195. See *Mallinckrodt*, 976 F.2d at 703; Cf. *United States v. Unis Lens Co.*, 316 U.S. 241, 251 (1942) (citing *Adams v. Burke*, 84 U.S. 453, 456 (1873)); Osborne, *supra* note 44, at 258.

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