Patent attorneys are anxiously awaiting the Supreme Court’s decision in ‘LG Electronics v. Quanta’, which is expected to clarify the scope of the first-sale doctrine.

By Rachel C. Hughey

Patent geeks are waiting with bated breath for the U.S. Supreme Court’s decision in LG Electronics v. Quanta, where justices will decide the extent to which a patent holder can restrict the activities of its licensee’s customers.

The broad issue in LG is whether the first-sale doctrine is an absolute bar, or whether parties can contract around it — and if so, to what extent.

The facts are undisputed. LG owns method and apparatus patents pertaining to computer technology, and granted Intel a license to make, use, and sell microprocessors and chipsets covered by LG’s patents. The license stated that it did not grant permission for Intel’s customers to combine the microprocessors and chipsets with other non-Intel parts into configurations that infringed LG’s patents. The license also required Intel to notify its customers of the relevant terms, and stated that nothing in the agreement “shall in any way limit or alter the effect of patent exhaustion that would otherwise apply” when Intel sells its components.

Intel sent a letter to its customers, including Quanta, informing them that its license with LG did not extend “to any product that you may make by combining an Intel product with any non-Intel product.” However, Quanta disregarded the letter and purchased microprocessors and chipsets from Intel, installing them into computers with non-Intel parts.

Then the court battles began. LG sued Quanta, alleging that Quanta’s combination of Intel components with other non-Intel parts constituted infringement of LG’s patents. Quanta moved for summary judgment on the basis that LG’s claim was precluded by the first-sale doctrine because of Intel’s sale of the licensed components to Quanta. LG opposed the motion, arguing that the first-sale doctrine did not apply because Intel’s sale to Quanta was conditional.

In Round 1, each side took blows but Quanta seemingly prevailed. The U.S. District Court for Northern California rejected LG’s argument with respect to its claims for infringement of the apparatus claims, finding that Intel’s sale to Quanta was unconditional because it was not conditioned on Quanta’s agreement not to combine the Intel compo-
Energy Act that calls for, among many other goals, statewide greenhouse gas reductions of 15 percent by 2020, with 30 percent by 2050 and 80 percent by 2050. The legislation also requires utilities to provide 25 percent of their electricity from renewable sources by 2025.

In addition to governors, including Pawlenty, recently signed the Midwestern Regional Greenhouse Gas Reduction Accord in Milwaukee. The agreement will develop a market-based and multisector cap-and-trade mechanism to help advance greenhouse gas reduction targets.

Pawlenty last year also appointed a Minnesota Climate Change Advisory Group charged with developing a comprehensive plan for reducing the state’s greenhouse gas emissions. The group released a report on April 11 with recommendations that could go before state lawmakers in the not-too-distant future.

There are precedents and come to a regional approach for tackling global warming versus a unified, national approach. Knudsen said it’s very difficult for national or international businesses to tailor their operations to multiple states or regions. On the other hand, Davis said that state efforts and regional accords can serve as experiments for lawmakers to study until the best approach can be found.

Advise for counsel

Hefner has this advice for in-house counsel: “Stay tuned.” Sustainability has caused some anxiety in the business world because “it’s hard for companies to engage in long-term strategic planning, he said. You can’t erase that anxiety entirely, but you can ease some minds by staying on top of the issue.

That means tackling the science, too, and there’s definitely a learning curve, Knudsen said. “The more familiarity that in-house counsel can have with just the basic concepts, the easier it will be for them and their clients to digest it, and understand where the opportunities are, once the framework is passed with some sort of concrete legislation,” she said.

Solicitor General — that the first-sale doctrine did not apply. The court’s decision in the case would not be before the Supreme Court. So the problem is not that the sale from Intel to Quanta was unconditional — was incorrect. The Federal Circuit held that the District Court’s conclusion — that the sale from Intel to Quanta was unconditional — was incorrect. The Federal Circuit held that the provision in the LG-InTEL license rendered Intel’s sales to Quanta conditional: (1) the provision that disclaimed a license and (2) the provision that required Intel to notify its customers of the non-Intel nature of the parts.

Although Intel was free to sell its licensed components, the Federal Circuit held that those sales were conditional, and accordingly, Intel’s customers were expressly prohibited from infringing LG’s combination patents.

In its appeal to the Supreme Court, Quanta argued that an authorized first sale of a patented article exhausts the patent owner’s rights and nullifies any conditions that the patent owner has tried to attach to its use or resale. Specifically, Quanta argued that the Federal Circuit’s recent decisions on the first-sale doctrine conflicted with Supreme Court precedent.

Quanta further argued that the sale from Intel to Quanta was unconditional and Intel never breached any obligation to LG. The U.S. Solicitor General filed an amicus brief in support of LG, as did 10 other groups — many of them computer manufacturers. LG responded that Quanta’s position would be unreasonable and expand the first-sale doctrine. Fourteen amicus organizations filed briefs in support of LG and nullifies any conditions that the parties could carefully draft their licenses to avoid an unconditional sale — appears to be the best option.

The rule proposed by the Solicitor General — that the first-sale doctrine is an absolute bar when there is an unconditional sale, but that the parties can carefully draft their licenses to avoid an unconditional sale — appears to be the best option.

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— Samee H. Knudsen, an associate with Faegre & Benson law firm in Minneapolis

Solicitor General proposes new rule

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Everyone is affected

Green | From Page 5

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Supreme Court precedent recognizes that a patentee has the right to impose at least some restrictions on its licensees. While the Federal Circuit may have expanded this right too far, that court also agrees that patentees have the right to impose restrictions on their licensees and on downstream users. Second, from a policy standpoint, there may be some situations where downstream restrictions on use may be necessary to prevent the patent from becoming worthless. In all likelihood, if LG had followed the rule proposed by the Solicitor General (and required Intel to further enter into licenses with the downstream users prohibiting the purchasers from combining the Intel components with non-Intel components) this case would not be before the Supreme Court. So the problem is not that LG attempted to restrict downstream purchasers, but instead was the way that LG chose to do so.

While a first unconditional sale should be an absolute bar to later restrictions, parties should be free to construct licenses to be conditional such that the first-sale doctrine does not apply. The court’s decision in LG will shape the power of patent holders to control their patented products, and will certainly have an affect on patent licensing contracts. For LG, though, it may come too late.

Rachel C. Hughey is an intellectual property attorney with Carlson, Caspers, Vandenburgh & Lindquist in Minneapolis. She recently received a 2008 Up & Coming Attorneys award from Minnesota Lawyer.