A Review of the Supreme Court’s Decision in Quanta v. LG Electronics

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Historical Discussion: Development of the First-Sale Doctrine

- “It can hardly be maintained that Congress could lawfully deprive a citizen of the use of his property after he had purchased the absolute and unlimited right . . . .”

- Restraints on alienation “have been hateful to the law from Lord Coke’s day to ours, because obnoxious to public interest.”

- BUT “Unquestionably” a patent owner may grant licenses to manufacture, use, or sell with certain restrictions.
Historical Discussion: Federal Circuit

- *Bandag* (1984) and *Glass Equipment* (1999) – patent exhaustion does not apply to method claims
- *Mallinckrodt* (1992) – post-sale restrictions may be implemented via a license
The License Agreement authorized Intel to make, use, and sell products practicing LG’s patents. It stipulated that no license was granted to any third party for the combination of Intel products with non-Intel components.

In a separate Master Agreement, Intel agreed to give written notice to its customers. The parties agreed that a breach of the Master Agreement would have no affect on the License Agreement.

Pursuant to the Master Agreement, Intel gave written notice to its customers that any Intel component purchased was licensed by LG, but the license did not extend to any product that combines Intel and non-Intel components.
Round 1: The District Court Held Exhaustion Applied

- Held that patent exhaustion applied because the sales were authorized by the License Agreement
- Held that patent exhaustion did not apply to method claims
  - Followed Fed. Cir. precedent
Round 2: The Federal Circuit Held

Exhaustion Does Not Apply

- Held that patent exhaustion did not apply because the sales were not authorized by the License Agreement
- Held that patent exhaustion did not apply to method claims
  - Followed Fed. Cir. precedent
Round 3: Court Holds Exhaustion Applies To An Authorized Sale

- Initial *authorized* sale of patented product terminates the patent owner’s rights.
- Exhaustion applies when the item sold *sufficiently embodies the patent* such that its only intended use is to be finished under the patent’s terms.
- Patent exhaustion applies to method claims.
- Exhaustion may apply across patents.
Footnote 7

“We note that the authorized nature of the sale to Quanta does not necessarily limit LGE’s other contract rights. LGE’s complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.”
What Does The Court’s Opinion Really Mean?

- Federal Circuit:
  - Sale = exhaustion
  - Conditional sale or license = no exhaustion

- Supreme Court:
  - Conditional sale = sale = exhaustion
  - License = no exhaustion (?)
How To License Around?

- Require licensee to sell only to purchasers who take licenses from patentee
Questions?