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UNANIMOUS SUPREME COURT DECISION HOLDS DOCTRINE OF PATENT EXHAUSTION APPLIES TO METHOD PATENTS

In a unanimous decision, the U.S. Supreme Court in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. ___, 86 USPQ2d 1673 (2008) has determined that the doctrine of patent exhaustion applies to method patents, thus potentially impacting the ability of licensors to enforce patent rights against downstream purchasers of articles that may be covered by method claims of a licensed patent under both existing licenses and future licenses. The patent exhaustion doctrine provides that a patented item's initial authorized sale terminates all patent rights to that item. The Supreme Court held that a license authorizing the sale of an article that substantially embodies a patented method exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article.

In the case, LG Electronics, Inc. (LGE) licensed to Intel Corporation a patent portfolio containing patents including method claims involving data processing and managing techniques (LGE patents). The license agreement permitted Intel to manufacture and sell microprocessors and chipsets that used the claimed technologies of the LGE patents. Quanta Computer, Inc. purchased the microprocessors and chipsets from Intel and manufactured computers using the microprocessors and chipsets in combination with other non-Intel components in ways covered by the method claims of the LGE patents. LGE filed a complaint against Quanta asserting that the combination of Intel's microprocessors and chipsets with non-Intel components infringed the LGE patents. Both the district court and the Court of Appeals for the Federal Circuit (Federal Circuit) agreed that the doctrine of patent exhaustion does not apply to method claims. The Supreme Court disagreed, reversing the Federal Circuit, and determining that the patent exhaustion doctrine applies to method patents. The Court held that because LGE licensed Intel to sell products practicing the LGE patents and because the microprocessors and chipsets sold by Intel had no reasonable non-infringing use and included all the inventive aspects of the patented methods, LGE could no longer assert its patent rights under the LGE patents against Quanta. In effect, Intel's licensed sale to Quanta of an article that substantially embodied, but did not completely practice, the patent exhausted LGE's patent rights. The Court noted as important that nothing in LGE's license agreement restricted Intel's right to sell its microprocessors and chipsets to purchasers who intended to combine them with non-Intel parts. Although the license agreement specifically disclaimed any license to third parties to practice the patents by combining licensed products with other components, the Court stated that patent exhaustion turned only on Intel's own license with LGE to sell products practicing the LGE patents. Thus, the disclaimer of third party licenses was not helpful to LGE; Quanta did not need a license from either LGE or Intel.

The Court's decision does not preclude a patent holder's ability to craft an appropriately restrictive license with a licensee that, for example, limits the licensee's right to sell articles covered by method claims. It has always been the case that a patent holder should carefully consider issues involving restricting the authority of the licensee to make, use and sell products substantially embodying licensed patents. However, the *Quanta* decision makes this even more important now that the patent exhaustion doctrine applies to method claims.

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