Quanta Computer v. LG Electronics

IP License Strategies After Court's Unanimous Ruling on Patent Exhaustion

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Strafford Teleconferences
Wednesday, July 16, 2007

Questions after *Quanta*

- **How should patent licenses be drafted to deal with *Quanta*?**

  The Court held that neither the notice given by Intel to Quanta nor the "disclaimer" of implied license set out in LGE's Master Agreement with Intel sufficiently conditioned the sale to Intel to avoid exhaustion. What sort of explicit restrictions are more likely to be found valid conditional licenses and what sort less likely to be so found? Is it a valid approach for Licensors to attempt to limit the effect of exhaustion by contract, unlike the agreements between LGE and Intel?

- **Can patent portfolio strategies be changed to avoid, or minimize effects of, exhaustion? How does one know if a patent is exhausted by sale of a product? Put another way, what are the "essential features" of the patent?**

  Licensors may not have the economic leverage to negotiate restrictive limitations on sales to licensees. Yet the court in Quanta found patents exhausted by such unconditional sales when the article sold embodied the essential features of the patent. Under these circumstances, could changes to patent claiming strategies increase the chances that certain patents are not exhausted by such unconditional sales? For example, is exhaustion more likely avoided if the article sold is claimed as a novel combination of standard components in a larger system?

  The Court found that Intel's microprocessors and chipsets substantially embodied LGE's patents because: (i) "they had no reasonable noninfringing use," and (ii) "they included all the inventive aspects of the patented methods." Intel's products met the second part of this test because the additional parts needed to fully practice LGE's patents were "standard parts," the products were designed to function only when combined with these standard parts, and Quanta did not have to make "any creative or inventive decision when it added those parts." This minimal guidance leaves open many questions, including how to apply the analysis to different industries. For example, if a product is useful in connection with any one of three patented methods, are all three patents exhausted**?** If a patent is useful in three patents, would a court still find that the product has no reasonable noninfringing use, assuming use in connection with at least one of the methods has been licensed?

- **How many alternative uses of a product are needed before exhaustion is avoided (or does this matter)?**

  Does the "no reasonable noninfringing use" part of the substantial embodiment test require only a single noninfringing use, assuming the use is reasonable?

- **What is the role of privity in the *Quanta* analysis?**

  The Court stated in footnote 7 that "the authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights." If a future court were not to find privity between LGE and Quanta, would LGE have any remedy at all? In general, will restrictions passed along to non-contracting parties be enforceable, or lack the required "privity"?

- **Should large manufacturers attempt to circumvent *Quanta*, or should they embrace Quanta to avoid tying and misuse questions? Is *Quanta* useful in avoiding such questions (and how relevant are such questions anyway)?**

  If the manufacturer of a product holds a patent on the product and on a method of using the product, can the manufacturer withhold licenses under the method patent to non-purchasers of the product? How does this work in the software context?

- **How, if at all, does the use of patent holding companies mitigate against patent exhaustion?**

  The Court held in *Quanta* that "authorized" sales of articles that substantially embody a patent leads to exhaustion. Given this holding, would patent holding companies' unrestricted licenses to manufacturers have the same effect on the patentee as if the patentee licensed the invention to the end users?

- **Is the Federal Circuit's decision in *Mallinckrodt, Inc. v. Medipart, Inc.* still valid?**

  The Court did not refer to a single Federal Circuit case in the *Quanta* opinion. Quanta argued in its briefs and oral argument that the Court should affirmatively overrule *Mallinckrodt*.

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