

No.

In the
Supreme Court of the United States

QUANTA COMPUTER, INC., QUANTA COMPUTER USA, INC.,
Q-LITY COMPUTER, INC., COMPAL ELECTRONICS, INC.,
BIZCOM ELECTRONICS, INC., SCEPTRE TECHNOLOGIES,
INC., FIRST INTERNATIONAL COMPUTER, INC. AND FIRST
INTERNATIONAL COMPUTER OF AMERICA, INC.,
PETITIONERS,

v.

LG ELECTRONICS, INC.,
RESPONDENT.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL
CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Federal Circuit erred by holding, in conflict with decisions of this Court and other courts of appeals, that respondent's patent rights were not exhausted by its license agreement with Intel Corporation, and Intel's subsequent sale of product under the license to petitioners.

PARTIES TO THE PROCEEDING

Pursuant to Rule 14.1(b), the following list identifies all of the parties appearing here and before the Federal Circuit Court of Appeals.

The petitioners here and appellees and cross-appellants below are Bizcom Electronics, Inc., Compal Electronics, Inc., and Sceptre Technologies, Inc.; Quanta Computer, Inc., Quanta Computer USA, Inc., and Q-Lity Computer, Inc.; and First International Computer, Inc., First International Computer of America, Inc. The additional appellee below was Everex Systems, Inc.

The appellant and cross-appellee below and respondent here is LG Electronics, Inc.

RULE 29.6 STATEMENT

First International Computer, Inc. is the parent company of First International Computer of America, Inc. No other publicly held company owns 10% or more of the stock of either company.

Quanta Computer, Inc. is the parent corporation of Quanta Computer USA, Inc. and Q-Lity Computer, Inc. No other publicly held company owns 10% or more of the stock of any of those companies.

Compal Electronics is the 100% owner of Bizcom Electronics, Inc. Compal Electronics is the only publicly held company owning 10% or more of Sceptre Technologies, Inc.'s stock.

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OPINIONS BELOW

The opinion of the U.S. Court of Appeals for the Federal Circuit (Pet. App. 1a-25a) is reported at 453 F.3d 1364. Three opinions of the district court are relevant. The first (Pet. App. 26a-51a) is unreported. The second (Pet. App. 52a-61a) is reported at 248 F. Supp. 2d 912. The third (Pet. App. 62a-81a) is unreported.

JURISDICTION

The Federal Circuit denied a petition for rehearing or rehearing *en banc* on September 1, 2006. Pet. App. 82a-83a. This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a).

STATEMENT OF THE CASE

Respondent LG Electronics, Inc. (“LGE”) purchased a portfolio of patents for [REDACTED] and now contends that those patents are infringed by every computer in the world, whenever microprocessors and chipsets are combined with generic components such as busses and memory. A year after its purchase, LGE resolved its standoff with Intel Corporation (“Intel”) by negotiating a [REDACTED] license payment from Intel that gave Intel an unrestricted right to “make, use, [and] sell” products incorporating LGE’s patents. LGE insisted, however, that Intel send a “notice” to its own customers purporting to inform them that Intel’s license did not protect *them* from infringement suits if they actually used microprocessors or chipsets purchased from Intel in a computer. The district court correctly found that Intel had every right under its license to make and sell chips to petitioners—and that the only reasonable use of those products was to incorporate them into computers in the manner that LGE now contends is infringing.

Under the patent exhaustion doctrine that this Court has applied for more than 90 years—since *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), was overruled by *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502 (1917)—an authorized first sale of a patented article exhausts the patent owner's rights in that article, and nullifies any "conditions" that the patent owner has tried to attach to its use or resale. Beginning with its decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), however, the Federal Circuit has steadily eroded the exhaustion doctrine. In this decision the Federal Circuit held that exhaustion is entirely optional, and easily nullified by a "notice" announcing that the patent owner would prefer that it not apply. That is an unprecedented and extremely dangerous expansion of the patent monopoly, in direct conflict with numerous decisions of this Court.

This case is important on several levels. First, on these specific facts LGE is now holding the entire computer industry hostage for billions of dollars in duplicative royalties, on patents that under this Court's precedents have clearly been exhausted. Second, on a broader level the Federal Circuit's new jurisprudence of "notice" restrictions threatens to usher in a new era of servitudes and restraints on alienation running with chattels, by which patent owners attempt to suppress competition and control the use of patented goods after an authorized first sale. If LGE's tactics are not rejected now, they are likely to spread through the economy like the common cold—producing decades of litigation over "notice" restrictions stamped on sold goods such as "single use only," "for use only with Microsoft software," "cannot be resold for less than \$1000," and anything else that patent owners can dream up.

Statement of Facts

The basic facts are undisputed. On May 3, 1999, LGE purchased a portfolio of more than ■■■ U.S. and foreign patents and patent applications for less than ■■■■■ in


contemporary U.S. dollars. A4701.028; A4701.070-4701.079.¹ LGE contends that every computer that contains Intel chips infringes up to four of these patents. (LGE also contends that computers containing *non-Intel* chips infringe, but those computers are not at issue in this petition.)

Petitioners are original equipment manufacturers of computers and file servers, who purchase licensed microprocessors and chipsets from Intel and incorporate them into computers in exact accordance with the specifications they receive from Intel. Petitioners in no way modify the chips after purchasing them and, indeed, have no choice but to follow Intel's specifications because they have no way of knowing the specifics of the chips' internal designs, which Intel protects as trade secrets. Once Intel's chips are incorporated into them, the computers petitioners make are then sold in the U.S. and around the world to companies such as Dell, HP, IBM, and Gateway.

Under pressure from LGE's extraordinary infringement claims, on September 7, 2000 Intel agreed to pay LGE [REDACTED]

[REDACTED], in exchange for the complete and unrestricted right to make, use, sell, offer to sell, import or otherwise dispose of its own products free from LGE's patent claims. A3605-3632(§3.2); A3578.142-3578.143(¶¶6,7). The "make, use, [and] sell" phrasing is a term of art in patent law, which encompasses the entire scope of the exclusionary rights granted to a patent owner. Nonetheless, in a separate agreement with LGE, Intel agreed to send a "notice" to its own customers, purporting to inform them that they did not receive any "license" from LGE to use products purchased from Intel in any product made "by combining an Intel product with any non-Intel product." A3632. [REDACTED]

¹ All citations to record evidence are to material in the Joint Appendix ("A") that was before the Federal Circuit.



Pursuant to its side agreement with LGE, and *after* many of the sales at issue here had already occurred, Intel sent the demanded “notice” letter to petitioners. LGE sued petitioners, alleging that they cannot actually use the computer chips they bought from Intel in any computer (even though the chips were made and sold under a valid license, and even though their use is the one called for by Intel’s own specifications) without infringing LGE’s patents. Petitioners have no way to evaluate that claim because, again, Intel protects the design and operation of its chips as a trade secret. LGE has also targeted more than 70 other major companies whom it insists must pay it a second round of royalties before they may use Intel chips in computers.

Proceedings Below

Between late 2000 and Spring 2001, LGE brought separate suits against petitioners in the United States District Court for the Northern District of California, alleging that petitioners (and another company with whom LGE has since settled) infringe six of LGE’s patents on computer technology. The District Court consolidated all of the cases for pretrial purposes. Five of the original patents at issue (U.S. Patent Nos. 4,918,645, 4,939,641, 5,077,733, 5,379,379 and 4,926,419) relate to technology allegedly used in microprocessors and memory controllers made by Intel and its competitors. Following the Court’s claim construction decision, LGE dropped its allegations of infringement with respect to U.S. Patent No. 4,926,419, leaving four Intel-related patents at issue. In the District Court, LGE contended that the essential features of these four patents are found in Intel’s chips, and that the patents

are infringed by merely combining Intel chips with generic components such as busses and memory.

On August 20, 2002, the District Court issued a carefully reasoned opinion and Order granting petitioners' motion for partial summary judgment of non-infringement on the ground that LGE's unrestricted license to Intel and Intel's subsequent sale of chips to petitioners exhausted LGE's rights to recover royalties with respect to those chips. Pet. App. 32a-45a. The district court found as a fact that, if LGE's broad infringement contentions were correct, there could be no reasonable use of Intel's chips that did not infringe LGE's patents. *Id.* at 45a-49a. Relying on the patent exhaustion doctrine discussed at length in this Court's decision in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), the District Court held that LGE's patent rights had been exhausted and that LGE's demand for additional royalties from petitioners was an impermissible attempt to extend the patent monopoly and obtain a double royalty on the same patents. *Id.* at 50a, 40a, 32a.

LGE requested reconsideration, and the District Court issued another Order on February 6, 2003, upholding the finding of exhaustion with respect to LGE's apparatus claims but holding that the *method* claims in those same patents were not exhausted even though they essentially covered the mere use of the device claimed in the exhausted apparatus claims. *Id.* at 57a-61a. It concluded that method claims could never be exhausted, relying on language from two Federal Circuit decisions, *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984), and *Glass Equipment Development, Inc. v. Besten, Inc.*, 174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999). *Id.* at 61a.

In Spring 2004, petitioners moved for summary judgment of non-infringement. The District Court granted petitioners' motion in late 2004 and entered a final judgment against LGE in January 2005. LGE appealed each of the District Court's rulings to the Federal Circuit. Petitioners cross-appealed on several grounds, including the holding that LGE's method claims were not exhausted.

On appeal, petitioners argued, *inter alia*, that LGE cannot nullify the patent exhaustion resulting from LGE's unrestricted license to Intel and Intel's subsequent licensed sales to petitioners simply by having Intel notify petitioners, post-sale in some instances, that they do not receive a license from LGE to use the products purchased from Intel for their only reasonable use. Petitioners argued that, because LGE imposed no restrictions on Intel's rights to practice the licensed patents (and, indeed, explicitly recognized the applicability of the patent exhaustion doctrine in the license agreement), LGE cannot ignore the unrestricted license it granted to Intel and attempt to restrict the activities of Intel's *customers*.

The Federal Circuit reversed. It held that the patent exhaustion doctrine applies only to "unconditional" sales, and that the "notice" Intel agreed to send to its customers imposed a "condition" on the sale that the patent exhaustion doctrine would not apply. Pet. App. 5a-6a. The Federal Circuit implied that petitioners had agreed to such a "condition" by failing to object to Intel's "notice" under New York's version of the U.C.C. "battle of the forms" provision, *Id.* at 6a. (The Federal Circuit did not actually discuss New York law, or explain why New York law should govern). It also held that, even if the sales in question were not "conditional," the exhaustion doctrine would not apply to LGE's method claims because "the sale of a device does not exhaust a patentee's rights in its method claims." *Id.*

REASONS FOR GRANTING THE WRIT

This Court has consistently held for more than a century that no patent owner is entitled to more than one royalty on the sale of a patented article, and that an authorized first sale fully exhausts the patent owner's rights with respect to that article during its ordinary useful life. The patent owner's "monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Univis Lens*, 316 U.S. at 250. An

