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

TERRENCE D. GARNETT
VINCENT K. YIP
PETER WIED
PAUL, HASTINGS, JANOFSKY & WALKER LLP
515 SOUTH FLOWER STREET
25TH FLOOR
LOS ANGELES, CA 90071
(213) 683-6000

Counsel for Quanta Computer, Inc., Quanta Computer USA, Inc., Q-Lity Computer, Inc.

MAUREEN E. MAHONEY
Counsel of Record
J. SCOTT BALLENGER
ANNE W. ROBINSON
LATHAM & WATKINS LLP
555 11TH STREET N.W.
SUITE 1000
WASHINGTON, D.C. 20004
(202) 637-2200
Counsel for Petitioners

Additional Counsel Listed on Inside Cover

MAXWELL A. FOX
PAUL, HASTINGS, JANOFSKY
& WALKER LLP
34 F ARK MORI BUILDING
P.O. BOX 577
12-32 AKASAKA 1-CHOME
MINATO-KU, TOKYO 107-6034
JAPAN
813 6229 6100

Counsel for Quanta Computer, Inc., Quanta Computer USA, Inc., Q-Lity Computer, Inc.

RONALD S. LEMIEUX
PAUL, HASTINGS, JANOFSKY
& WALKER LLP
5 PALO ALTO SQUARE
6TH FLOOR
PALO ALTO, CA 94306

Counsel for First International Computer, Inc. and First International Computer of America, Inc.

WILLIAM J. ANTHONY, JR.
ERIC L. WESENBERG
KAI TSENG
MATTHEW J. HULT
ROWENA Y. YOUNG
ORRICK, HERRINGTON
& SUTCLIFFE LLP
1000 MARSH ROAD
MENLO PARK, CA 94025
(650) 614-7400

Counsel for Compal Electronics, Inc., Bizcom Electronics, Inc., Sceptre Technologies, Inc.

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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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 [redacted] U.S. and foreign patents and patent applications for less than [redacted] 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], 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]

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

[redacted]

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 authorized sale exhausts the patent owner's rights in any device patents infringed by the article itself, and in any method or combination patents that will be infringed by the only reasonable use of the sold article. "An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it, and upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Id.* at 249. Consistent with those principles, this Court has held that purchasers may not be sued for patent infringement for violating a "notice" that purports to restrict the usage or resale of goods after an authorized sale.

By contrast, a patent owner *may* place restrictions on manufacturing licensees. As this Court explained in 1926,

> [i]t is well settled ... that where a patentee makes the patented article and sells it, he can exercise no further control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights. But the question is a different one ... when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell.

United States v. Gen. Elec. Co., 272 U.S. 476, 489-90 (1926) (citations omitted). Just as a patent owner who manufactures its own product may decide to whom it will sell, a patent owner may (within limits imposed by antitrust and misuse law) tell its licensees which customers they may sell to—and may enforce knowing violations of such restrictions through infringement suits. *See, e.g., Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181 (1938). A sale made in violation of a valid license restriction is not an authorized sale, and does not trigger exhaustion.

Unfortunately, this Court's early exhaustion cases are notoriously confusing, and this Court has not spoken to the issues for more than half a century. The distinction between *sales* and *licenses* has also been muddied by the advent of computer software. Because a new, potentially infringing, "copy" of computer software is created every time that software is loaded into memory, software must always be licensed, not sold. Software makers have taken advantage of the resulting opportunity to impose various use and resale restrictions in their licenses. But physical goods like cars and toasters and books cannot be burdened with "notices" providing that they may be used only in particular ways, or cannot be resold, because the patent exhaustion doctrine, and similar "first sale" doctrines in copyright and other areas of intellectual property law, prohibit restraints on use or alienation after a valid sale.

In a series of decisions beginning 14 years ago with *Mallinckrodt* and culminating here, the Federal Circuit has eviscerated all of these traditional distinctions. In this case it is undisputed that Intel *sold* microprocessors and chipsets to petitioners—*i.e.,* petitioners did not *license* anything. It is undisputed that all of those sales were fully authorized by LGE through the license it gave to Intel. The district court also correctly found that the sold products have no reasonable use that would not infringe the combination and method patents that LGE now seeks to enforce. On traditional principles, there has been an authorized first sale and LGE's patent rights are exhausted. Instead, the Federal Circuit held that the exhaustion doctrine applies only to "unconditional" sales, and that these sales were "conditional" because the circumstances indicated that LGE did not intend to convey an "implied license" to petitioners.

That holding is a nonsensical jumble of mismatched principles. Licenses may be conditional, but there has been no such thing as a conditional *sale* since this Court overruled *A.B. Dick* in 1917. Petitioners do not need a license, implied or otherwise, because LGE's patents have been exhausted. That is not a question of what LGE intended, but of the substantive scope of the patent monopoly. Exhaustion has never (until now) been just a default rule that patentees could opt out of by sending a "notice" to purchasers.

The *Mallinckrodt* decision and its progeny have been the subject of harsh scholarly criticism. One commentator pointed out that it "overrul[ed] a century of Supreme Court decisional law under the exhaustion doctrine." Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in U.S. Patent Law: Mallinckrodt v. Medipart*, 15 Eur. Intell. Prop. Rev. 460, 461 (1993). He was led to wonder whether "the Federal Circuit panel simply ha[d] its own notion of whether it or the Supreme Court is in charge?" *Id.* at 464. Another wrote that the Federal Circuit has "vitiate[d] a distinction between sale and license which had grown to be well accepted" and "create[d] a confusing *melange* in which exhaustion, misuse, and antitrust principles are all conflated although all have somewhat different origins and purposes." James B. Kobak, Jr., *Contracting Around Exhaustion: Some Thoughts About the CAFC's Mallinckrodt Decision*, 75 J. Pat. & Trademark Off. Soc'y 550, 554 (1993). Even Judge Gajarsa worried in print that this line of precedent from his own court could usher in a "conceptual collapse of contract law and property law." Arthur J. Gajarsa et al., *How Much Fuel to Add to the Fire of Genius? Some Questions About the Repair/ Reconstruction Distinction in Patent Law*, 48 Am. U. L. Rev. 1205, 1229-30 (1999) (capitalization altered).

The facts of this case illustrate the pernicious consequences of the Federal Circuit's new, optional version of the exhaustion doctrine. LGE purchased these patents as part of a portfolio of [redacted] different patents and patent applications, for which it paid less than [redacted]. Intel paid LGE approximately [redacted] for a license that gives Intel an unlimited right to practice the patents. LGE now contends that Intel's *customers* need to pay LGE again before incorporating those microprocessors and chipsets into computers—which is, of course, their only reasonable use. LGE contends that every computer in the world infringes these patents, and is attempting to shake down the entire computer industry for several billion dollars in duplicative licensing fees. If computer manufacturers relent and agree to purchase a license from LGE, LGE may next insist that they too send a "notice" informing consumers that they do not have any "implied license" from LGE, and must obtain a third license before turning any computer on. This is precisely the sort of mischief that the patent exhaustion doctrine has always been designed to prevent.

More broadly, the Federal Circuit's new jurisprudence threatens to kick off a new era of "notices" attached to sold goods. Obvious candidates include "single use only," "no use outside of Massachusetts," "no repair," "no resale," or "no resale for less than the price of purchase." Under the Federal Circuit's rule, patent owners may use such notices to extend territorial division and resale price maintenance schemes from distributors down to end consumers, and to eliminate competition from aftermarket resales of the patented good. Violation of such arbitrary restrictions will subject the consumer to the full range of damages available under the patent laws for infringement. The Federal Circuit has suggested that some notices may not be effective, if they are not "reasonably within the patent grant" or "venture[] beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." *Mallinckrodt*, 976 F.2d at 708. Against the backdrop that traditional patent law would not have permitted *any* of these conditions, such vague caveats are (at best) an invitation to decades of wasteful litigation.

The Federal Circuit's holding in this case is flatly inconsistent with precedents of this Court and other courts of appeals, and expands the patent monopoly beyond all reasonable bounds. It threatens to entangle the free flow of commerce with restraints on the use and alienation of chattels that have not been permitted by this Court for almost 90 years. And the Federal Circuit's exclusive jurisdiction over patent appeals means that further percolation in the lower courts is now impossible. This Court's intervention is urgently needed.

I. UNDER THIS COURT'S PRECEDENTS, AN AUTHORIZED SALE EXHAUSTS THE PATENT OWNER'S RIGHTS IN THE SOLD ARTICLE

It has been clear since at least 1917 that an authorized first sale of a patented article exhausts the patent holder's rights in that article, and that "notices" purporting to reserve such rights are void. As one commentator put it:

> Until the Federal Circuit's *Mallinckrodt* decision, an unbroken line of Supreme Court and lower court precedents held that the patentee's patent right over a product that the patentee sold (or that a licensee authorised to make a sale sold) ended at the point of sale. Accordingly, a customer did not commit patent infringement by disobeying a notice, contract, or other "remote control" limitation that the patentee sought to impose on the use of goods that it had sold to the customer.

Stern, 15 Eur. Intell. Prop. Rev. at 461. The doctrine took several twists and turns during its early development, however, so an overview of this Court's cases is essential to understanding where the Federal Circuit has gone astray.

The tension and confusion in the early cases is illustrated by two decisions of this Court from 1873. In *Adams v. Burke*, 84 U.S. 453 (1873), widely regarded as the leading case on patent exhaustion, the owner of a patent on coffin lids granted exclusive territories to various dealers. When an undertaker purchased coffin lids within one territory and used them in another, the patent owner sued for infringement. This Court rejected that claim, holding that:

> in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use

> of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.

Adams, 84 U.S. at 456 (footnote omitted).

On the other hand, in *Mitchell v. Hawley*, 83 U.S. 544 (1873), that same year, the defendants had bought patented machines from the patent owner's licensee. The seller's license agreement provided that he had no authority to "'dispose of, sell, or grant any license to use the said machines beyond the expiration' of the original [patent] term." 83 U.S. at 549. When the patent term was later extended and purchasers continued using the machines during the extension period, the patent owner sued them for infringement. This Court reasoned that patented goods may be sold "with or without conditions," *id.* at 548, and that because the licensee had no title or authority to grant any right to use the patent beyond the original term, purchasers from him could not have acquired such a right, *id.* at 550-51.

After *Adams* and *Mitchell* the exhaustion doctrine remained unsettled for decades. In *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), this Court considered an exclusive territories case very similar to *Adams*, with the wrinkle that the licensee *knew* that the purchaser intended to use the goods outside of his territory. This Court held that the seller's knowledge was irrelevant, and that a

> brief history of the cases shows that ... as between the owner of a patent on the one side, and a purchaser of an article made under the patent on the other, the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent throughout the entire life of the patent.

157 U.S. at 666. This Court held that under patent law "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place." *Id.*

It noted that "[w]hether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion." *Id.* But this Court emphasized that "[i]t is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws." *Id.* That clarification appears to be inconsistent with *Mitchell*, which suggested that conditions imposed on end-users could be enforced *under the patent laws*, via suits for infringement.

The early cases were much less ambivalent about conditions imposed on *manufacturing licensees*, restricting the terms under which they were authorized to make and sell the product. In *Bement v. National Harrow Co.*, 186 U.S. 70, 91 (1902), for example, this Court stated that "the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts." In *Bement* this Court upheld a resale price restriction imposed on a manufacturing licensee. "The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article." *Id.* at 93.

These cross-currents came to a head in *A.B. Dick* in 1912. The patentee sold a mimeograph machine stamped with a notice that said "This machine is sold by the A.B. Dick Co. with the license restriction that it may be used only with the stencil paper, ink, and other supplies made by A.B. Dick Company, Chicago, U.S.A." 224 U.S. at 11. A supplier who sold ink to a purchaser of the machine was sued for contributory infringement, and defended on the ground that the restriction was either invalid on exhaustion grounds or (as suggested in *Keeler*) at most enforceable only in an action for breach of contract. This Court rejected those arguments, and in the process recast the entire exhaustion doctrine as a waivable *implied license* to use the product. "If sold unreservedly the right to the entire use of the invention passes, because that is the implied intent; but this right to use is nothing more nor less than an unrestricted license presumed from an unconditional sale." *Id.* at 24. But this Court reasoned that "if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee," and that "[i]f that reserved control of use of the machine be violated, the patent is thereby invaded." *Id.* at 24-25. So long as the purchaser had notice, this Court indicated (citing *Bement*) that virtually any condition imposed on purchasers would be upheld. *Id.* at 47. This Court viewed the restriction in *A.B. Dick* as a legitimate adjunct to the patent owner's strategy for capitalizing on his patent, which was apparently to sell the machines at cost and make money on the ink. *Id.* at 32.

The clear rule of *A.B. Dick* was, however, extremely short-lived. The next year, in *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913), this Court held that a "notice" stating that the product "is licensed by us for sale and use at a price not less than one dollar" could not be enforced against retailers selling the product for less. This Court noted that it had refused to enforce similar notices under the copyright statute, on the ground that an authorized first sale of a book exhausts the copyright, *see Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), and reasoned that "there is a strong similarity between and identity of purpose in the two statutes" in their implementation of the exclusive right to *sell* the patented or copyrighted good. *Bauer*, 229 U.S. at 12-13. This Court distinguished *A.B. Dick* as involving a restriction on the purchaser's right to *use*, which has no equivalent in the copyright statute. *Id.* at 13-15. It also dismissed as a "mere play on words" and "perversion of terms" the patent owner's attempt to cast the restriction as a limitation on *use* as opposed to *resale*. *Id.* at 16; *see also Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 498 (1917) (use notice was "a disguised attempt to control the prices of its machines after they have been sold and paid for").

The *A.B. Dick* rule was laid completely to rest in 1917 in *Motion Picture Patents*, in which a notice purported to restrict movie projectors to use only with film leased from the patent owner, and subject to "other terms to be fixed by the [patent owner]." 243 U.S. at 506. This Court stated that the issue, "which is arising with increasing frequency in recent years," was "the extent to which a patentee or his assignee is authorized ... to prescribe by notice attached to a patented machine the conditions of its use ..., under pain of infringement of the patent." *Id.* at 509. This Court noted that *A.B. Dick* and its predecessors had "led to an immediate and widespread adoption" of use restrictions, which had evolved in this case into "[t]he perfect instrument of favoritism and oppression." *Id.* at 515. This Court cited with approval the reasoning of *Bauer* that, by analogy to copyright, "the right to vend is exhausted by a single, unconditional sale." *Id.* at 516. But this Court abandoned *Bauer*'s attempt to preserve the holding of *A.B. Dick* by distinguishing "use" rights from "vend" rights. "The statutory authority to grant the exclusive right to 'use' a patented machine is not greater, indeed it is precisely the same, as the authority to grant the exclusive right to 'vend'" the patented article. *Id.* This Court held that the notice was invalid, and that *A.B. Dick* was expressly overruled. *Id.* at 518. It also endorsed the earlier reasoning from *Keeler* that "[t]he extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law," and that any such right "must be derived from the general [contract law] and not from the patent law." *Id.* at 509 (citing *Keeler*, 157 U.S. at 659); *see also id.* at 513.

Although *Motion Picture Patents* indicated that "notice" restrictions imposed on *purchasers* are (by analogy to copyright) not enforceable through infringement suits, this Court remained receptive to explicit conditions imposed on manufacturing *licensees*. In *General Electric*, this Court explained that it was "well settled" that a patent owner "can exercise no future control over what the purchaser may wish to do with the article" after an authorized sale, but that "the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell." 272 U.S. at 489-90. This Court explained that *Motion Picture Patents* had overruled *A.B. Dick* but not *Bement*, and that the cases invalidating restrictions on purchasers did not apply to restrictions in manufacturing licenses. *Id.* at 493. Cases like *Bauer* and *Victor Talking Machine*, this Court wrote, "are only instances of the application of the principle of *Adams v. Burke* ... that a patentee may not attach to the article made by him, or with his consent, a condition running with the article in the hands of purchasers." *Id.* at 493-94.

In *General Talking Pictures* in 1938, this Court held that if a purchaser knowingly buys from a manufacturing licensee in violation of a restriction in the license, both the licensee and the purchaser may be sued for infringement. This Court explained that a sale that is not authorized by the license is not a sale "made under the patents," and that therefore the purchaser was not "a purchaser in the ordinary channels of trade" and exhaustion did not apply. 304 U.S at 180-81. This Court thus declined to consider whether a use restriction stamped on the product could have been enforced against an *authorized* purchaser. *Id.* at 182.

This Court's last significant pronouncement on the exhaustion doctrine is *Univis Lens*. Univis Lens owned several patents for making eyeglass lenses. It produced lens blanks, and sold them to three categories of licensees. Wholesalers ground the lenses and resold them to prescription retailers. Finishing retailers ground their own lenses, mounted them in glasses, and sold directly to consumers. Prescription retailers purchased ground lenses from wholesalers, mounted them into glasses, and sold them to consumers. Univis Lens had license agreements with all three groups that restricted to whom, and for how much, they could sell. It took all its profits from a 50-cent royalty on each lens blank it sold. 316 U.S. at 243-45. This Court held that the price restrictions in the licenses "derive[d] no support from the patent" and were invalid. *Id.* at 251.

This Court emphasized that "where the sale of the blank is by the patentee or his licensee ... to a finisher, the only use to which it could be put and the only object of the sale is to enable the latter to grind and polish it for use as a lens by the prospective wearer." *Id.* at 249. It explained that "upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold," *id.*, and that "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," *id.* at 250. This Court therefore held that the sale of the lens blanks to wholesalers and finishers exhausted the patent holder's rights. "[W]here one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article." *Id.* at 250-51. *Univis Lens* remains the authoritative precedent from this Court on exhaustion.

II. THE FEDERAL CIRCUIT HAS EVISCERATED THE PATENT EXHAUSTION DOCTRINE

A. LGE's Patent Rights Have Been Exhausted

The Federal Circuit held in this case that LGE's patent rights were not exhausted because LGE's license to Intel, and Intel's sale to petitioners, were "conditional." The "condition" in question was LGE's purported reservation of the right to sue petitioners for infringement if they did not obtain a separate license from LGE. In other words, LGE authorized Intel to "make, use, [and] sell" its products subject to the "condition" that such sales would not exhaust LGE's patent rights as against downstream purchasers. That holding is inconsistent with *Univis Lens*. Indeed, the Federal Circuit has embraced the discredited reasoning of