No. 06-937

IN THE

Supreme Court of the United States

QUANTA COMPUTER, INC., *et al.*,
Petitioners,

v.

LG ELECTRONICS, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR RESPONDENT IN OPPOSITION

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PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT

The parties to the proceeding are listed at Pet. ii. Pursuant to this Court's Rule 29.6, petitioner LG Electronics, Inc., states that more that ten percent of its shares are owned by LG Corp.

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STATEMENT

Petitioners strain to make a broad doctrinal issue out of a narrow case-specific ruling. The district court, like petitioners themselves, accepted the governing legal principle—that a patentee *may* condition its manufacturer-licensee's sales and thereby preserve its patent rights against purchasers from the licensee-manufacturer. It concluded, however, that there was no sufficiently conditional sale in this case. The Federal Circuit, following the same legal principle, disagreed with the trial court's case-specific assessment of the terms of dealing in this case, and returned the case to the district court for trial (on five patents, including one not at issue in the Petition). That interlocutory ruling presents no issue warranting review.

The Federal Circuit's ruling presents no issue as to the governing legal principle—which has been settled in plain terms since *Mitchell v. Hawley*, 83 U.S. 544 (1873), as re-affirmed in *General Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175 (1938), and never undercut by any other authority. Petitioners, in the courts below and even in the Petition, have accepted the legal principle governing this case: that a patentee *may* restrict the patent-practicing authority to be conveyed through its manufacturer-licensee's sales to downstream customers. Despite its effort to obscure the issue by discussing situations indisputably not presented in this case (such as patentees' sales of their own products), the Petition positively stresses the distinction of the situation actually presented here, for which the governing legal principle is established and accepted. What remains, therefore, is a fact-specific disagreement about whether the particular transactions here were sufficiently conditional. That issue is not certworthy—among other reasons, it raises at most a mere drafting issue for private parties about how to exercise the license-restricting freedom the accepted legal principle recognizes. Moreover, the Federal Circuit ruling is correct. The petition therefore should be denied.

A. Background

This is a patent infringement case between large competitive businesses. LGE, which is part of the Korea-based LG family of companies that invent, make, and sell computers, mobile phones, and many other products, is asserting five patents on inventions that improved computers. The defendants, petitioners here, are substantial Taiwan-based companies that have collectively made and sold hundreds of millions of dollars worth of computers, some of which they supply to American sellers such as Dell or Hewlett-Packard. The suit alleges that those computers have been using LGE's patented technology—which is among the broad package of technologies that nonparty Intel licensed from LGE in a cross-licensing arrangement. The "exhaustion" issue that petitioners present, based on purchases from Intel, applies to four of the five patents now in the case.

At the present stage of this case, the assumption—not yet tested at trial—is that the patents at issue define novel and non-obvious inventions. The assumption, too, is that petitioners have benefitted and are benefitting by building the patented features into the computer systems they build and sell. On those assumptions, LGE has the exclusivity rights (*e.g.*, to make, sell, import, or use those inventions) expressly granted by Congress, 35 U.S.C. § 154(a)(1), and petitioners are infringing, under 35 U.S.C. § 271(a), when they make, sell, import, or use those inventions "without authority."

Petitioners' "exhaustion" argument is, as it must be under § 271(a), that they have "authority." They say that they got it from Intel when they bought certain (nonpatented) Intel microprocessors and chipsets and used those parts in making their (patented) computer systems. Pet. App. 3a; *see* Petrs' Response to Questions, Dec. 4, 2002, at 2 ("The patent exhaustion doctrine is triggered by Intel's authorized sale of licensed products to Defendants pursuant to LGE's license to Intel.") This is, therefore, a case involving a sale of a product not by the patentee (LGE), but by the patentee's licensee-manufacturer (Intel). By virtue of its agreements with LGE, however, Intel did not have and could not give the patent-practicing authority to petitioners, who indeed were expressly told that they were not getting any such authority.

The arrangement between LGE and Intel consists of two simultaneously entered-into agreements—a Patent Cross License Agreement and a Master Agreement. Under those Agreements, LGE granted *Intel* (but pointedly not Intel's customers) authority to practice a large number of LGE patents (not limited to those at issue here), and Intel granted reciprocal authority to LGE. Although some Intel-made articles *are* covered by *some* LGE patents embraced by the Intel-

LGE Agreements, it is undisputed that the Intel articles at issue here (microprocessors and chipsets) are *not* covered by any of the asserted patents. Pet. App. 3a.

The Agreements with Intel take pains to address the very situation at issue: petitioners' combination of the Intel components with non-Intel components to practice LGE's patents. In express terms, and by requiring that Intel send notices to this effect to its customers (petitioners got such notices), the Agreements make clear that LGE and Intel were settling their relations between themselves, while denying to customers of Intel any grant of needed authority to practice these patents by combining Intel parts with non-Intel components—thus leaving Intel's customers separately to negotiate any authority they needed from LGE to practice the combination-claiming patents. The Master Agreement, and the (incorporated) Cross License Agreement and Notice to petitioners, unmistakably deny Intel any right to convey, and Intel customers any receipt of, authority to practice LGE's patents.[1]

In the Cross License Agreement, Intel and LGE granted each other licenses subject to various terms and conditions, one of which disclaimed the grant of authority to Intel's customers to combine Intel and non-Intel parts to infringe LGE's patents:

> § 3.8. *No Implied Licenses or Other Rights*. No other rights are granted hereunder, by implication, estoppel, statute or otherwise, except as expressly provided herein.

[1] Although the Agreements are generally under a Protective Order, Intel has recently authorized disclosure of limited portions of the Agreements: the specific quotations in the public version of the Petition, plus certain other sections. The Agreements in their entirety were confidential at the time of the Federal Circuit's ruling—which therefore contains only a brief account of their provisions. Even now, much of the Agreements, including portions concerning the "payments" involved, which are blacked out in the public version of the Petition (at 2, 3, 9), remain under the Protective Order.

> Specifically, . . . (b) no waiver, license or immunity is granted by either party hereto directly or by implication, estoppel or otherwise to any third party for the combination by a third party of Licensed Products of either party with items, components, or the like acquired (directly or indirectly) from sources other than a party hereto, or for the use, import, offer for sale or sale of such combination. Notwithstanding anything to the contrary contained *in this Agreement*, the parties agree that nothing *herein* shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products.

CAFC JA3614 (emphases added).[2]

The Master Agreement addressed the denial of patent-practicing authority by LGE to Intel's customers, with express reference to petitioners and other computer manufacturers. CAFC JA3621-32. It laid out what LGE and Intel were trying to do in a series of recitals, and it declared the willingness to license to be subject to the terms and conditions of both the Master Agreement and Cross License Agreement.[3]

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[2] Other now-public provisions of the Cross License Agreement, as well as of the Master Agreement, make both federal *and* New York law applicable to construction and performance of the Agreements and require the Agreements generally to be kept confidential, with defined exceptions. Cross-License §§ 6.7, 6.9 (CAFC JA3617, 3618); Master Agreement §§ 5, 23-25 (CAFC JA3622, 3627).

[3] "Whereas LGE is the owner of certain patents directed to computer systems, such as desktop, notebook, and server computers and to processors for computers;

"Whereas LGE has asserted patent infringement claims based on the computer systems patents it owns against computer system manufacturers;

"Whereas certain of the computer system manufacturers, which are purchasers and users of Intel processors and chipsets, have asserted that Intel is obligated as an indemnitor for the patent infringement claims by LGE;

The Cross License Agreement and the Notice that Intel was required to send to various named manufacturers, including petitioners, were deemed part of the Master Agreement (not vice versa), though the Cross License Agreement would survive a breach of the Master Agreement. § 1, CAFC JA3622. The Master Agreement, the Cross License Agreement, and Notice and other attachments were declared to embody the entire understanding of the parties. § 21, CAFC JA3627.

The Master Agreement states that "LGE and Intel intend and acknowledge that LGE's grant of a license to Intel for Integrated Circuits . . . shall not create any express or implied license under LGE's patents to computer system makers that combine Intel Integrated Circuits with other non-Intel components to manufacture motherboards, computer subsystems, and desktop, notebook and server computers." § 2, CAFC

"Whereas Intel desires to acquire a license and a release with respect to only Intel products made for or by Intel and not for the products that computer system manufacturers make by combining Intel processors and chipsets with non-Intel components and materials;

"Whereas LGE and Intel do not intend this Agreement or the Patent License . . . to give rise to implied license rights in computer system manufacturers under LGE's patents in the instance where the computer system manufacturers combine Intel processors and/or chipsets with non-Intel components to produce mother boards, computer subsystems, and computer systems, such as desktop, notebook, and server computers;

"Whereas LGE is willing to grant a license and a release under the Patent License . . . only for Intel branded products;

"Whereas Intel has patents and LGE desires to acquire a license and a release under such patents and Intel is willing to grant LGE a license and a release under Intel's patents subject to the terms and conditions of this Agreement and the Patent License . . . ; and

"Whereas LGE and Intel desire to enter into this Agreement and the Patent License . . . on the terms and conditions hereinafter set forth and to conclude a strategic relationship in business cooperation; . . . ." CAFC JA3621.

JA3622. And the Notice that Intel was required to send to identified customers said, in full:

> It has recently come to Intel's attention that LG Electronics (LGE) has contacted you and claimed that certain of your products infringe certain of LGE's patents. I am writing to notify you that Intel recently obtained a broad patent license from LGE. This patent license ensures that any Intel product that you purchase is licensed by LGE and thus does not infringe any patent held by LGE or any of LGE's subsidiaries.
>
> This patent license is consistent with Intel's policy of standing behind its products. *Please note however that while the patent license that LGE granted to Intel covers Intel's products, it does not extend, expressly or by implication, to any product that you may make by combining an Intel product with any non-Intel product.*
>
> If you have any questions or if you would like further clarification of the status of any particular Intel Product under the LGE patent license, please do not hesitate to contact me.

Attachment C, CAFC JA3632 (emphasis added). It is undisputed that petitioners received this Notice from Intel.

Nevertheless, petitioners contended in the district court that LGE had failed in its unmistakable effort to deny petitioners the authority they need to escape infringement—which includes the making or selling of patented inventions "without authority." 35 U.S.C. § 271(a). They argued that LGE had, by law, simply lost (exhausted) its patent rights in the combinations petitioners made by using the (non-infringing) parts they bought from Intel, even though petitioners were warned in clear terms that they were not getting authority to practice LGE's patents and even though the parts they were buying were not patented by LGE.[4]

B. District Court Rulings

When certain petitioners first sought partial summary judgment, the district court found exhaustion for a subset of the patent claims. Pet. App. 26a-49a; *see id.* at 60a (district court later noting its initial reservation of issue of exhaustion as to method claims). When petitioners as a whole then sought to extend the exhaustion ruling, the district court recognized that "LGE is correct that it is entitled to impose conditions on the sale of its patented products or the essential components of its patented products, if it chooses." *Id.* at 58a. But the court concluded that, on the facts here, LGE had not adequately conditioned Intel's sale to petitioners. *Id.* at 58a-59a. On that basis, and finding no exhaustion of patent claims to *methods* (as opposed to apparatuses), *id.* at 60a-61a, the district court found exhaustion as to some of the asserted patent claims. *Id.* at 61a. The court so held even though it also ruled, twice, that the terms of the dealings between LGE, Intel, and Intel's customers—which included the express Notices to petitioners—negated any implication of authority

[4] Petitioners state in passing that some of them bought some Intel components before the LGE-Intel Agreements and Notice. Pet. 6. But any contention based on such pre-Notice purchases has been waived. Presumably recognizing the relative insignificance of any such early sales, petitioners below presented their exhaustion argument as an all-or-nothing proposition; they never contended that the Federal Circuit could or should find exhaustion as to pre-Notice sales even if it rejected exhaustion for the post-notice sales. Petitioners thus cannot make the argument here. In any event, the Federal Circuit ruling, reflecting petitioners' argument, expressly takes as its premise that the purchases at issue were made after the Notices. Pet. App. 2a, 4a-6a. It is not precedent for any other situation.

(license) for petitioners to practice these patents. *Id.* at 49a-50a, 60a-61a.[5]

C. Court of Appeals Ruling

On LGE's appeal, most petitioners did not dispute the district court's decision rejecting any implied license—which, in any event, the Federal Circuit affirmed in a ruling (*id.* at 4a) that the Petition does not challenge. On the only issue presented in the Petition, the Federal Circuit reversed the district court's holding that exhaustion precluded infringement despite the denial of any license. *Id.* at 4a-6a. Like the district court, the court of appeals accepted (what petitioners themselves accepted) that a restriction on the terms of sale may defeat exhaustion; but, unlike the district court, it concluded that the particular dealings between LGE, Intel, and petitioners in this case were sufficient to effect such a restriction.

The court's analysis was brief, reflecting the lack of dispute over the governing legal principle and the confidentiality of the Agreements in the Federal Circuit. The court noted that "[t]he patents asserted by LGE do not cover the products licensed to or sold by Intel; they cover those products when combined with additional components." *Id.* at 4a; *see also id.* at 5a ("Notably, [the Intel] sale involved a component of the asserted patented invention, not the entire patented system."). Relying on *Mitchell v. Hawley*, 83 U.S. at 547—which, with

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[5] The district court went on to grant summary judgment of non-infringement of all the patents on other grounds. It rested that ruling on interpretations of the complicated computer-related terms of the patents, its view of what certain evidence at the summary-judgment stage showed, and its reading of a "non-assertion provision" in agreements between LGE and Microsoft (applicable to the patent for which exhaustion is not even asserted). *Id.* at 62a-81a; *see* CAFC JA1-63 (claim construction opinion). The Federal Circuit overturned many of those rulings, Pet. App. 6a-25a, which are not at issue here.

striking similarity to this case, enforced a patentee's restrictions on its manufacturer-licensee's ability to authorize the latter's customers to practice the patent at issue—the court of appeals explained that "[i]t is axiomatic that the patent exhaustion doctrine, commonly referred to as the first sale doctrine, is triggered by an unconditional sale." Pet. App. 4a-5a. The court noted that the district court, analyzing Intel's sale, had recognized the legal principle that LGE *could* impose conditions, but had concluded (on summary judgment) that LGE had not done so. *Id.* at 5a-6a. The court of appeals then "disagree[d]" with that case-specific ruling. *Id*. at 6a.[6]

The court pointed to the fact that "[t]he LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components." *Id.* at 6a. "Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did." *Id.* Accordingly, "[a]lthough Intel was free to sell its microprocessors and chipsets, those sales were conditional, and Intel's customers were expressly prohibited from infringing LGE's combination patents," and "LGE's rights in asserting infringement of its system claims were not exhausted." *Id.* The court then concluded that exhaustion did not apply to LGE's *method* claims for the very same reason: "even if the exhaustion doctrine were applicable to method claims, it would not apply here because there was no unconditional sale." *Id.*

[6] The court of appeals stated the LGE-Intel license "constitutes a sale for exhaustion purposes," citing *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942). Pet. App. 5a. That statement, consistent with the cited passage from *Masonite*, means only that the license was the first part of the two-part process that characterizes *every* situation where, as here, the patentee licenses someone else to make and sell the actual article that (*if* the "first sale" or "exhaustion" doctrine applies) becomes free of patent claims. The sentence thus identifies this as a case of licensee sale, as distinguished from patentee sale, of the required sold article—a distinction the Petition features as critical.

The court added that, in any event, "the sale of a device does not exhaust a patentee's rights in its method claims." *Id.*[7]

Petitioners sought rehearing. They accepted the legal principle that a patentee could condition its manufacturer-licensee's sales (here not even of a patented article) and thus preserve its exclusivity rights, avoiding "exhaustion" of those rights. They merely argued that the LGE-Intel-petitioners dealings in this particular case did not involve "a conditional sale" (and challenged the court's one sentence about method claims). Reh'g Pet. 2.[8] No judge even called for a response, let alone voted for rehearing by the panel or by the full court.

The case was remanded for further discovery and trial, and pre-trial proceedings are now under way.

ARGUMENT

None of the grounds for certiorari is present in this case. The decision below is interlocutory. It creates no conflict with decisions by other circuits or within the Federal Circuit. It raises nothing like the kind of pervasively arising fundamental patent-law issue that has been involved in other patent

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[7] With the sale held properly conditional, what petitioners paid Intel for was, at the least, the right to use the parts they purchased *once they got their own licenses*—and the price petitioners paid presumably reflected the limitation on what they were buying. Pet. App. 5a. Having so ruled, the court of appeals had no occasion to consider whether the parts petitioners bought from Intel had any commercially reasonable non-infringing use even without LGE's further authorization. At a minimum, petitioners, which are Taiwan-based companies that make computers for the world market, could have used the parts to make computers for sale outside the United States, which would not infringe U.S. patents.

[8] Petitioners presented three issues, arguing that "the panel's opinion was contrary to established precedent 1) in holding that the license agreement between [LGE] and [Intel] was a conditional sale; 2) in holding that the sale of Intel products to the Defendants was a conditional sale; and 3) in holding that patent exhaustion could never apply to method claims of a patent." Reh'g Pet. 2.

cases this Court has reviewed. Rather, the Federal Circuit's decision rests on a case-specific application of a legal principle that petitioners accepted below, that is settled under the precedents of this Court they now invoke, and that makes a particular case-specific result of no broad importance—because the accepted legal principle makes preserving patentees' rights in this situation simply a matter of private drafting. The Federal Circuit's application of the accepted and settled principle, moreover, is correct. The petition therefore should be denied.

A. The Decision Below Is Interlocutory

The interlocutory character of the ruling below, which generally counsels against certiorari (*see* R. Stern, E. Gressman, S. Shapiro, & K. Geller, *Supreme Court Practice* § 4.18 (8th ed. 2002)), is clear. This case has not been tried. The Federal Circuit ruling reversed certain summary judgment rulings and returned the case for further pretrial proceedings in preparation for trial. In fact, the now-scheduled trial must proceed regardless of this Petition, for one patent is unaffected by the exhaustion issue. Petitioners, in relying on the alleged breadth of LGE's patents and their effect on the computer makers, are necessarily suggesting that the validity and reach of LGE's patents are relevant to their exhaustion argument. Pet. 1, 3, 9. Whether the patents are valid and whether petitioners' computers infringe are precisely the issues that are now working their way to trial.

B. The Decision Presents Neither Inter- Nor Intra-Circuit Conflicts Nor An Issue That Arises Frequently

The Federal Circuit ruling creates no lower court conflicts or disarray. To begin with, it does not conflict with any decision of another court of appeals. Petitioners, almost in passing, cite a few older decisions of the Fifth, First, and Seventh Circuits from before the Federal Circuit was created to centralize appellate review of patent cases (28 U.S.C. § 1295(a)(1), (3), (6)). *See* Pet. 25. Given the Federal Circuit's unique nationwide appellate jurisdiction, such decisions would not create a disparity of governing law in different areas of the country even if they conflicted in substance with the decision below. But in fact, they do not, as petitioners' express descriptions make plain. Petitioners' descriptions correctly characterize *all* three circuits' law as *allowing* patentees to restrict a manufacturer-licensee's sales: "restrictions on the right to sell imposed on manufacturing licensees were enforceable." Pet. 25. That is the legal principle the Federal Circuit invoked here. *See also* note 11, *infra*.

Nor has exhaustion doctrine generally, or the aspects at issue here, provoked significant doctrinal divisions within the Federal Circuit. *Compare*, *e.g.*, *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997) (*en banc* decision with multiple opinions on doctrine of equivalents); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722 (2002) (same); *Pfaff v. Wells Elecs.*, 525 U.S. 55 (1998) (persistent division on standards for "on-sale bar"). Petitioners do not even purport to show otherwise. The most they do is to cite an article by Judge Gajarsa (Pet. 9), which is not a judicial pronouncement, and which says nothing to disagree with the legal principles governing this case. Notably, Judge Gajarsa did not even request a response to the rehearing petition, let alone vote for rehearing.

Further, exhaustion issues, even taken as a whole, arise only occasionally, and the specific issue of what constitutes a sufficiently restricted sale arises very rarely. *See also* note 11, *infra*. In this respect, this case contrasts sharply with other patent cases this Court has reviewed in recent years, which have involved issues—such as infringement under the doctrine of equivalents, invalidity for obviousness, and the availability of injunctive relief, *see Warner-Jenkinson*, *supra*; *Festo*, *supra*; *KSR Int'l Co. v. Teleflex, Inc.*, No. 04-1350, oral argument held Nov. 28, 2006; *eBay Inc. v. MercExchange, LLC*, 126 S. Ct. 1837 (2006)—that arise in the mine-run of patent cases week in and week out. Nothing close to such pervasiveness applies to exhaustion issues even in general, much less to the aspects involved in this case.

C. The Decision Presents A Narrow Case-Specific Application, Having No Broad Importance, of a Legal Principle That Petitioners Have Accepted and That Is Settled Under This Court's Precedents

Petitioners cannot, as they did not below, challenge the legal principle applicable here: that a patentee (like LGE) *can* restrict the sales of its manufacturer-licensee (like Intel) to the licensee's customers (like petitioners). Whether particular terms of dealing effectuate such a restriction is all this case involves, and is merely a matter of drafting for other patentees and their licensees. Of course, a restriction must not violate the Sherman Act or *other* legal proscriptions, but that is not an issue here. The ruling below thus rests on no more than a narrow application of a legal principle that the Petition repeatedly accepts and that in any event petitioners cannot dispute, both because they waived any such challenge below and because the precedents of this Court—notably, *Mitchell v. Hawley* and *General Talking Pictures*—firmly establish the principle.

1. The Federal Circuit resolved a narrow question under the accepted legal principle governing the situation where a patentee, rather than making and selling its own articles, enters into a license agreement with a manufacturer of articles that the latter sells. That legal principle permits restrictions to preserve the patentee's rights, as both courts below (and even petitioners) recognized. The Federal Circuit decided that the particular dealings between LGE and Intel and petitioners were sufficiently restricted.

The Petition affirmatively confirms the narrowness of the issue actually presented. Much of the Petition is in terms a case-specific argument about whether the sale here was properly restricted. Pet. 17-21. And the only other significant component of the Petition is its wide-ranging discussion of precedents (Pet. 11-17, 22-27) that the Petition itself distinguishes from this case.

Thus, the Petition takes pain to emphasize the distinction between the situation presented here—a patentee's license to a manufacturer followed by the licensee's sale of an article—and the situation presented where (unlike in this case) the patentee itself makes and sells the article supposedly freed by sale from patent restraints. Pet. 25; *see* Pet. 7, 30. That distinction renders beside the point the bulk of the *legal* discussion in the Petition: its walk-through of precedents not involving the licensee-sale situation (Pet. 11-17); and its attack (relying on a couple of articles) on the Federal Circuit's ruling in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and later decisions, for *extending* to the patentee-sale setting the settled principle allowing restrictions in the licensee-sale setting. Pet. 22-27. Simply, issues about *Mallinckrodt* and the patentee-sale setting are not presented here; if that situation presents issues warranting this Court's review, they must await a case that involves that situation. Despite the effort to sow confusion and uncertainty, the Petition effectively acknowledges that none exists for the only situation that this case presents.

2. The Federal Circuit's decision that this particular case involves a restricted sale is not of wide importance. We have already noted the fact that the issue does not arise often. In addition, the accepted governing legal principle makes the particular resolution here relatively inconsequential.

Because the legal principle is not subject to dispute by petitioners, *i.e.*, that patentees *can* restrict their licensees to preclude passing on any authority to practice their patents, the particular language needed to accomplish that result is in the end just a matter of drafting in the process of commercial dealing. Even if petitioners were right (which they are not) that the particular Agreements here were not drafted tightly enough to preserve LGE's exclusivity rights, the next license in the next case can readily do so. A case-specific ruling about what language works or does not work, when the legal principle is settled (as it is here), is therefore of no great moment. The real-world process of licensing and negotiation (here among large commercial enterprises) determines whether what is permitted by the accepted governing legal principle has been accomplished.

Petitioners recognize the prevalence of licensing restrictions in the marketplace. Pet. 6, 26-27 (software). How such terms are construed and applied can always be controlled by drafting clarity. Moreover, as in this case, construction will often be a matter, at least in part, of *state* law. *See* note 2, *supra*. For those reasons—and because the record in this case does not contain any further terms of dealing between Intel and petitioners (Reh'g Pet. 3 ("[t]he sales documents between Intel and [petitioners] . . . are not in the record"))—this Court's review of the case-specific conclusion about the dealings in this case is not warranted.

3. Petitioners do not, and in any event cannot, challenge the governing principle—that a sufficient restriction on the licensee's ability to authorize its customers to practice the patents sale *does* eliminate exhaustion. Most of the Petition expressly accepts the principle and merely disputes whether the dealings in this particular case involved such a restriction. *E.g.*, Pet. 7 ("a patent owner *may* place restrictions on manufacturing licensees"); Pet. 8 ("[l]icenses may be conditional"). Petitioners make one passing effort to transform their case-specific argument into a genuine legal dispute by intimating that they are challenging the principle itself, saying that "an authorized first sale of a patented article" simply "nullifies any 'conditions' that the patent owner has tried to attach to its use or resale." Pet. 2. But that suggestion is wholly undeveloped, is stated as applying only to the sale of a "patented article" (which is not this case), and contradicts the Petition's own pervasive recognition of the legal principle. In any event, and decisively, petitioners waived any challenge to this principle below.

Petitioners told the district court that "restrictions placed on the direct *licensee* determine whether a subsequent third party purchaser is similarly restricted." Defts' Response to Questions (Dec. 4, 2002), at 6. They added: "all a patentee has the right to do is choose which of the rights it wishes to waive with respect to a licensee and its licensed products." *Id.* at 8; *id.* ("A century of legal authority holds that it is the scope of the license granted to the direct *licensee* that sets the parameters for permissible conduct by subsequent purchasers from that licensee."). Accordingly, "[i]f LGE had wished to legally restrict Intel's customers' use of the licensed products, it could, and indeed should, have place the same limitations on the rights it granted to Intel." *Id.* at 9.

Similarly, in the court of appeals petitioners never disputed, as the district court itself accepted, that a patentee *can* restrict its licensee's ability, through the licensee's sales, to permit the buyers to practice the patents. Rather, petitioners' legal premise was that "the patent exhaustion doctrine is based on the principle that the *unrestricted or unconditional* 'sale of a patented article, by or with the authority of the patentee, 'exhausts' the patentee's right to control further sale and use of that article by enforcing the patent under which it was first sold.'" Petrs' CAFC Br. 18 (emphasis added; citation omitted). *See id.* at 30 ("the unremarkable proposition that a sale can be conditional and that a conditional sale would not implicate the patent exhaustion doctrine").

When they lost before the panel, petitioners did not seek rehearing on the legal principle, but only its application, asking simply whether the LGE-Intel-petitioners dealings were in fact conditional sales. *See* note 8, *supra*. Indeed, they expressly accepted the legal principle, merely disputing the particulars of the dealings in this case: "if LGE had wanted to limit or condition Intel's ability to distribute the Licensed Products, it could have included limitations in the license grant itself. For example, it could have granted Intel only the right to sell Licensed Products to those customers that had obtained a separate license from LGE; alternatively, it could have granted Intel only the right to sell Licensed Products for use in combination with other Intel products." Reh'g Pet. 7.

4. Petitioners' concessions below were correct. Even the Petition acknowledges that, *in the licensee-sale setting*, the precedents of this Court, namely *Mitchell v. Hawley* and *General Talking Pictures*, are clear. Thus, the Petition, insisting on the distinction between the patentee-sale situation and the licensee-sale situation, recognizes that it is long settled in this Court that "a patent owner *may* place restrictions on manufacturing licensees." Pet. 7 (emphasis by petitioners); *see* Pet. 24-25 (*General Talking Pictures* "holds that breach of a condition in a manufacturing license permits an infringement suit against both licensee and purchaser, because exhaustion is triggered only by an *authorized* sale") (emphasis by petitioners). Likewise, the very articles on which petitioners rely recognize the "well accepted" understanding of *General Talking Pictures* and of *United States v. Gen. Elec. Co.*, 272 U.S. 476 (1926), that exhaustion does not override a patentee's freedom to restrict its licensee's ability to convey patent-practicing authority to the licensee's customers.[9]

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[9] Kobak, *Contracting Around Exhaustion: Some Thoughts About the CAFC's* Mallinckrodt *Decision*, 75 J. Pat. & Trademark Off. Soc'y 550, 554-55 (1993), recognizes the principle, then criticizes the *extension* of that "well accepted" principle to patentee sales in *Mallinckrodt*. *See* Pet. 30 (quoting Kobak). The same is true of Stern, *The Unobserved Demise*

That principle is founded directly in *Mitchell v. Hawley*, in which the patentee gave his licensee the right to make, use, and sell the patented machine during the original patent term, but provided "that the licensee 'shall not, in any way, or form, dispose of, sell, or grant any license to use the said machines beyond the expiration' of the original term." 83 U.S. at 549 (emphasis deleted). After the patent term was extended, the patentee sued the licensee's customers who, having bought the machines during the original term, continued using them during the extension term. This Court, stating the principle that patent rights can be lost by a sale "*without any conditions*" (*id.* at 547 (emphasis added)), affirmed an injunction against the purchasers' continued use on the ground that the licensee could not pass to his customers rights that had been withheld in his license from the patentee:

> [T]he instrument of conveyance from the patentee to him, which describes all the title he ever had, expressly stipulates that he shall not in any way or form dispose of, sell, or grant any license to use the said machines beyond the expiration of that term of the patent, and the form of the license which he gave to the purchasers shows conclusively that he understood that he was not empowered to give a license which should extend beyond that limitation.

Id. at 550. Even had there been *no notice to the purchasers* (here, of course, petitioners got notice), the licensee-seller could not convey rights it did not have: "Notice to the purchaser in such a case is not required, as the law imposes the risk upon the purchaser, as against the real owner,

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of the Exhaustion Doctrine in U.S. Patent Law, 15 Eur. Intell. Prop. Rev. 460 (1993)—which, as the Petition indicates (Pet. 25), expressly indicates that, *for licensee-sale* cases, the rule of *General Talking Pictures* and *Gen. Elec.* was clear and well-established. Stern, 15 Eur. Intell. Prop. Rev. at 460 ("the doctrine permitting limited manufacturing licences" was "clear" and "fixed" by time of *Gen. Elec.*).

whether the title of the seller is such that he can make a valid conveyance." *Id. Mitchell*, whose ruling was unmistakable, has been followed by this Court, and no decision has repudiated it. *E.g.*, *General Talking Pictures*, 305 U.S. at 127; *Keeler v. Standard Folding-Bed. Co.*, 157 U.S. 659, 662 (1895); *Waterman v. McKenzie*, 138 U.S. 252, 255 (1891).

Petitioners invoke other authorities in their effort to broaden the range of issues laid before this Court. But as confirmed by their acknowledgment of the settled principle governing the licensee-sale situation, they do not and cannot assert that this Court has ever repudiated the licensee-restriction principle of *Mitchell* and *General Talking Pictures*. Only two of the cases petitioners cite warrant discussion.

First, petitioners feature *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), as the seminal case that supposedly re-shaped exhaustion doctrine 90 years ago. Pet. 2, 15, 27. But *Motion Picture Patents* is irrelevant: it plainly did nothing to renounce the principle allowing patentees to restrict their licensees' sales and thereby preserve their right to sue for infringement—as confirmed by the fact petitioners nowhere even cited it in the court of appeals, either in their merits briefs or in their rehearing petition. Rather, *Motion Picture Patents* simply gave rise to the *patent misuse* bar on certain tying arrangements involving required purchases of non-patented articles—a doctrine that is not at issue here and that has since been cut back both congressionally and judicially. *See Illinois Tool Works Inc. v. Independent Ink, Inc.*, 126 S. Ct. 1281, 1286 n.2, 1288, 1290 (2006). Moreover, petitioners themselves expressly recognize that the Court's decisions in *General Talking Pictures* and *General Electric*, *after* the Court's decision in *Motion Picture Patents*, continued to hold that sufficient conditions on "manufacturing *licensees*" preserve the patentee's patent-enforcement rights. Pet. 15-16. *Motion Picture Patents* thus cannot help petitioners.[10]

Petitioners also are wrong in relying on this Court's decision in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942)—for multiple reasons. To begin with, they are flatly wrong in asserting that *Univis Lens* "held that the conditions imposed by the licenses were invalid because of the exhaustion doctrine." Pet. 24; *see* Pet. 18. The Court in *Univis Lens* held that certain license conditions, involving resale price maintenance, were invalid *under the Sherman Act* (in a Government-brought antitrust suit, not an infringement action), and it rejected the *defense* that the patent statute overrode the proscription of the Sherman Act. The Court thus merely held that the patent statute did not authorize an *otherwise-invalid* restriction on a license. It did not hold that the exhaustion doctrine overrode an otherwise-valid license restriction. And the Court said nothing whatever to question or to alter the pre-existing principle of *Mitchell v. Hawley*, *General Talking Pictures*, and *General Electric*.

Moreover, *Univis Lens* nowhere endorses petitioners' novel position: that patent rights are lost as a matter of law under some exhaustion principle, even where the circumstances *negate* a license, as they do here. To the contrary, *before* its single use of the term "exhaust"—which it expressly states in terms of sale of a "patented article" (again, not this case), 316 U.S. at 250—the Court in *Univis Lens* had already drawn the conclusion that the circumstances confirmed, rather than negated, a "license." *Id.* at 249. The Court cited the facts that the case involved mere finishing of the article for its only viable use, *id.* at 249, that the patentee

[10] Petitioners make a passing reference to copyright law. Pet. 14. The copyright statute, however, explicitly crafts limitations on the rights-holder's exclusivity rights with respect to particular copies. 17 U.S.C. § 109. Congress has enacted no such limitation to the exclusivity rights of patentees under 35 U.S.C. § 154.

had, by its contracts, restricted its own monetary payments to its initial licensee, *id.* at 245, 249-50, and that the finisher bought the unfinished unit "without more" in the way of valid restrictions, *id.* at 251. Simply: *Univis Lens*, finding a license, cannot be precedent for finding exhaustion despite the negating of a license.

In their walk-through of precedents, petitioners make a passing suggestion (Pet. 23) that this Court has rigidly separated "exhaustion" and "implied license" cases. But that is not true. In fact, this Court in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964), expressly treated both this Court's decision in *Univis Lens* and its decision in *Adams v. Burke*, 84 U.S. 453 (1873)—which petitioners note is "widely regarded as the leading case on patent exhaustion" (Pet. 11)—as involving "'an implied license to use'" conveyed through an authorized sale, distinguishing sales made without the required authority as giving "the purchasers no implied license to use," so that purchasers' use would be "'without authority' and infringing under § 271(a)." 377 U.S. at 484.

In short, the governing legal principle for the licensee-sale situation is as settled as petitioners' (and the district court's and court of appeals') acceptance of it indicates. The decision below presents no issue about the governing legal principle, well settled since *Mitchell v. Hawley* and *General Talking Pictures*.

D. The Decision Is Correct

1. The Federal Circuit's case-specific ruling is correct. The circumstances are in all material respects like *Mitchell v. Hawley*. Intel did not receive and could not convey the "authority" petitioners need in order for their practice of LGE's combination patents to be anything other than infringement. The Agreements with Intel made it clear that LGE was *not* giving Intel the right to authorize Intel's customers to practice LGE's patents by combining Intel's components with non-Intel components; and the Notice clearly told petitioners that such authority was not among the property rights they were getting in buying the components. Intel therefore "could not convey" to its buyers "what both knew it was not authorized to sell." *General Talking Pictures*, 304 U.S. at 181.

The Master Agreement—of which the Cross-License Agreement is a part (though not vice versa)—makes crystal clear that the parties had this very situation in mind when forming their contracts. The "whereas" clauses state that the intent was for LGE to *retain* its enforcement rights against computer manufacturers like petitioners. The Agreements expressly withhold from Intel any entitlement to pass on the authority to practice these patents that petitioners need in order for their making, selling, and using the computers covered by LGE's patents to be anything but infringement, which is statutorily defined to include precisely those activities if "without authority." 35 U.S.C. § 271(a). The license-granting provisions are subject to the terms and conditions that unmistakably withhold the "authority" from petitioners—who, of course, were expressly notified of that very withholding of authority. The Federal Circuit simply gave the common-sense reading to the simultaneously executed LGE-Intel Agreements: Intel could not give and petitioners did not get authority to practice LGE's patents. Even viewed as a contract matter, the ruling reflects the "cardinal principle of contract construction: that a document should be read to give effect to all its provisions and to render them consistent with each other." *Mastrobuono v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52, 63 (1995).[11]

[11] The Petition contains one paragraph (Pet. 21) challenging the Federal Circuit's sentence stating that "the sale of a device does not exhaust a patentee's rights in its method claims." Pet. App. 6a. The Petition does not suggest any separate ground for reviewing that issue: it neither breaks

2. Contrary to petitioners' assertion, there is nothing remotely "absurd" or "unconscionable" (Pet. 19) about this result—as petitioners' consistent concession about the legal principle, and this Court's adherence to that principle, indicate. Simply, nothing in the Patent Act, which grants plenary exclusivity rights to the patentee (35 U.S.C. § 154(a)(1)) and bars others from practicing the patents "without authority" (35 U.S.C. § 271(a)), overrides the patentee's freedom to enter into otherwise-lawful contracts that clearly parcel out those exclusivity rights to various users, with partial payments negotiated with each.

Indeed, the Court in *Birdsell v. Shaliol*, 112 U.S. 485 (1884), held that a patentee may sue both a manufacturer and user of a patented product and recover separate damages from each, as long as the amounts are not duplicative. Similarly, the Court in *Aro Mfg.*, 377 U.S. at 501, held that a "release given a direct infringer in respect of past infringement, which

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out a Question Presented focused on whether method claims can be exhausted by a sale, nor identifies any conflict over the issue, nor shows that the issue arises more than episodically. The method-claim sentence, moreover, has no effect on the judgment, once the conditional-sale ground is left in place, for the Federal Circuit's opinion independently rejects exhaustion of the method claims on the same conditional-sale ground as applied to the apparatus claims. Pet. App. 6a.

In any event, the method-claim sentence is itself correct. Each patent claim defines a separate patented invention, and exhaustion, as stated expressly by petitioners' main authority, is limited to sale of a "patented article" (*Univis Lens*, 316 U.S. at 250; Pet. 6 (exhaustion rule based on sale of "patented article")), but an "article" is not "patented" by a *method* claim—which therefore cannot be exhausted. Of course, a sale of certain articles can convey a "license" to practice certain method claims, which is what occurred in *Univis Lens*, 316 U.S. at 249, but petitioners now accept that there was no such license in this case. The implied license doctrine fully addresses the method-claim situation.

The Federal Circuit's method-claim sentence, being correct and not warranting review, precludes exhaustion for the *method* claims even apart from the licensee-restriction issue, as the district court held.

clearly intends to save the releasor's rights against a past contributory infringer, does not automatically surrender those rights." There is no good reason for a different rule from the forward-looking perspective: an authorization to one in the chain of firms contributing to an infringing end product does not by law constitute authorization to others further down the chain, *i.e.*, forfeit the preserved exclusivity rights regarding them.

The amounts of money that will change hands at each level, of course, will be affected by whether the authorizations are partial or complete. *See* Pet. App. 5a (quoting *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)). Moreover, some restrictions may be unlawful under the Sherman Act or patent-misuse doctrine or otherwise; perhaps, too, some restrictions might not be adequately communicated to the purchasers (who might have certain equitable rights as a result). But where, as here, there are no such independent illegality or notice concerns, the parceling out of the exclusivity rights is simply a matter for negotiation in the marketplace, not for a legal override of commercially fashioned terms.[12]

3. Although the Petition's Statement relies on a provision in the Cross License Agreement that refers to exhaustion (Pet. 3-4), the Petition's Argument that the Federal Circuit erred (Pet. 7, 17-21) makes no mention of the provision, and for good reason: the provision does not help petitioners. The district court, though it found exhaustion in part, did not rely on the provision at all. And there is no evidence that *petition-*

[12]Practitioner Richard Ulmer said recently even about the extension of the principle to the patentee-sale situation in *Mallinckrodt*: "To our mind, all Mallinckrodt did was to allow patent rights, the right to exclude, to be treated in the same way as other property rights. When you step back and think about it, why shouldn't that be so? Why shouldn't freedom of contract also apply in the patent arena? . . . [T]he Mallinckrodt case was well-reasoned, well-decided." *Symposium*, 16 Fordham Intell. Prop. Media & Ent. L.J. 1025, 1043 (2006) (footnote omitted).

ers, upon receiving the clear Notices denying them LGE's authority to practice LGE's patents, ever were aware of this clause (the Agreements' terms were confidential), which thus could not have undermined their clear understanding from the Notices that they were being denied authority. In any event, the provision does not change the result that otherwise applies in this case.

The provision, ending the paragraph of the Cross License Agreement that pointedly denies the grant of any permission to third parties to make infringing combinations, uses limited language: "Notwithstanding anything to the contrary contained *in this Agreement*, the parties agree that nothing *herein* shall in any way limit or alter the effect of patent exhaustion that would otherwise apply *when a party hereto sells any of its Licensed Products*." CAFC JA3614 (§ 3.8) (emphases added). That provision, in referring only to the effect of the *Patent Cross License Agreement*, says nothing to limit the effect of the simultaneously entered *Master Agreement* (which is not part of the Cross License Agreement) on how "exhaustion" would apply. *See* Petrs' CAFC Br. 19 ("In the Intel-LGE license, LGE agreed that *the license* did not limit the effect of patent exhaustion.") (emphasis added). And, as relevant here, the only subject it addresses is whether exhaustion would apply when Intel sells Intel products as LGE's licensee—which is precisely the circumstance in which this Court's decisions, as recognized by petitioners, establish that exhaustion does *not* apply when the patent holder has limited the rights it granted in the first place to the manufacturer, certainly where the restriction is made known at the time of the manufacturer-licensee's sale to third parties. That is what the *Master Agreement* and follow-up Notices to petitioners in fact did.[13]

[13] Petitioners quote (Pet. 4, 19) a sentence of the Master Agreement stating that "a *breach* of this Agreement shall have no effect on and shall not be grounds for termination of the Patent License." CAFC JA3622

4. Although the Petition, as atmospheric background, recites certain dollar figures in its nonpublic portions (at 2, 3, 9), petitioners cannot rely on those figures to challenge the decision below. In the Federal Circuit, they merely mentioned, in a footnote, what amounts LGE paid to its affiliate LG LCD to acquire the patents at issue and what amounts LGE received as part of its complex total-portfolio cross-licensing deal with Intel. Petrs' CAFC Br. 29 n.10. They presented no argument based on those figures; moreover, the law is clear in the Federal Circuit that "arguments raised in footnotes are not preserved." *SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1320 (Fed. Cir. 2006) (citing earlier decisions). Nor have petitioners ever presented an economic analysis to show that the dollar comparisons make any sense or that LGE received the full economic value for its patents from Intel. Not surprisingly, neither the district court nor the court of appeals even mentioned the figures or found that LGE had received its "full" reward for its payments.[14]

It is apparent why petitioners cannot make a coherent argument based on the dollar figures: they are comparing apples and oranges, and unsoundly characterizing the apples and oranges at that. Contrary to petitioners' suggestion, not all the figures are cash payments at all; some involved benefits to the "paying" party. In any event, what LGE paid to a related corporate entity (for a bundle of patents) does not establish the worth of these particular patents. Similarly, the "payment" received from Intel was part of a complex exchange, in which,

(§ 1) (emphasis added). Limiting the consequences of a possible *breach*, however, is a quite different matter from erasing the plain authority-restricting effect of the Master Agreement while it is being *performed*.

[14] In this respect, too, this case is wholly unlike *Univis Lens*, in which the express terms of the licensing arrangement made clear, as this Court took pains to emphasize (316 U.S. at 245, 249-50), that the patent holder had secured its full payment from its initial licensee (there was no payment demanded from others).

among other things, LGE licensed its entire portfolio (hundreds of patents) to Intel, including patents not at issue here, such as a patent directly covering Intel's chips. Again, what LGE got (or would get) cannot be attributed to the particular patents at issue here, let alone be viewed as fully exhausting those patents' value.

To the contrary, the recitals and reservations of rights against third parties in the LGE-Intel Agreements make plain that LGE was *not* exhausting these patents' value. The Intel "payment" must therefore be viewed as only partial. *See* Pet. App. 5a. Indeed, when LGE showed that the Intel figure was only a tiny fraction of what LGE would obtain from even a low-level royalty on the infringing computers (LGE SJ Opposition and Cross-Motion, Sept. 20, 2002, at 17 n.10), petitioners all but conceded the point: they responded not by contesting the simple calculation but by saying that it was just too bad if LGE did not "exact what it perceives to be the full value of its patents from Intel." FIC/Compal Reply, Sept. 27, 2002, at 7 n.3. Petitioners cannot now draw any legitimate contrary lesson from the naked figures they present.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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