



# An Update on “Exhaustion”— Supreme Court Decides *Quanta* Case

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.....In the November/December 2007 issue of *IEEE Micro*, this column reported that the Supreme Court had decided to hear an appeal of the Federal Circuit’s decision in a patent licensing case for the first time in many years.<sup>1</sup> The Court has now decided the case and reversed the judgment of the Federal Circuit, but it did so in a decision based on narrow grounds and leaving many important questions unanswered—in fact, unaddressed.<sup>2</sup> As explained in the earlier Micro Law column, the case involves the “exhaustion doctrine,” under which the sale of a patented product by the patentee or its licensee “exhausts” patent rights in regard to the sold product. The question in the case was whether the sale of microprocessors and chipsets to Quanta by Intel—a licensee of the patent holder, LG Electronics (LGE)—exhausted LGE’s patent rights in regard to those microprocessors and chipsets.

### Factual background

LGE acquired a portfolio of semiconductor chip patents from Wang Labs and set out on an ambitious licensing program. Wang had invented some novel microprocessors, and it obtained patents on both the microprocessors and on conventional computer systems containing such microprocessors. LGE, as new owner of the Wang patents, proposed to collect royalties both from microproces-

sor manufacturers (notably, Intel) and computer manufacturers (such as Quanta) who incorporated the same microprocessors into their computers. Thus, under its business model, LGE proposed to collect separate patent royalties at each level of distribution.

This requires a digression into the doctrine of “exhausted combinations.” To keep this simple, suppose that Wang invented purple microprocessors. Wang then applied for, and the patent office granted, both patents on purple microprocessors and patents on conventional computers in which the CPU is a purple microprocessor. It used to be the law that you could not do this. That is, the only way you could have a separate patent on the computer containing the purple microprocessor would be if the purple microprocessor interacted with the computer hardware in a novel and unexpected way. The combination of a microprocessor with the conventional components of a computer, interacting together in a conventional way, was called an “exhausted combination,” and was unpatentable.<sup>3</sup>

In 1984, the Federal Circuit held that this doctrine is outdated and no longer reflects the law.<sup>4</sup> In effect, the Federal Circuit overruled the Supreme Court on this point—or claimed that Congress’s passage of the 1952 patent recodification law had done so. Under Federal Circuit precedent, it has been possible to obtain patents on, for example, a new

motor and also an otherwise conventional disc drive containing the new motor. It has also been held that the sale of the motor, in such a case, does not exhaust the patent rights on the disc drive containing the new motor.<sup>5</sup> Thus, the patent owner was entitled to charge motor manufacturers one royalty and to charge manufacturers of disk drives, who bought the motors, a second royalty.

Accordingly, LGE took the position that its patents on systems (for example, computers) made by combining the licensed Intel microprocessor products with other components were not exhausted by the mere sale of the Intel microprocessor products. LGE entered into two contracts with Intel—the License Agreement and the Master Agreement. In the License Agreement, LGE authorized Intel to make and sell microprocessor products using the patented inventions. The License Agreement expressly stated that LGE granted no license to any third party for combining licensed products with other products (for example, for combining Intel microprocessor products with other parts of a computer). The License Agreement also provided, however:

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 exhaus-

tion that would otherwise apply when a party hereto sells any of its Licensed Products.

In the second contract, the Master Agreement, LGE required Intel to give its customers notice that the patent license to Intel does not extend to any product made by combining a licensed Intel microprocessor product with any other product (for example, to make a computer containing an Intel microprocessor). LGE was willing to allow Intel's customers to combine the patented microprocessors with products not licensed by LGE, but only upon payment of a further royalty to LGE for the right to do so.

Quanta purchased licensed Intel microprocessors and proceeded to manufacture computers containing them. In doing so, Quanta followed Intel's product specifications, which in turn automatically led to Quanta's practice of LGE's patented methods and to making the patented systems that LGE licensed to Intel—since that was the way Intel had designed its microprocessor products. (The trial court found that the Intel microprocessor products were without any reasonable noninfringing use.)

LGE sued Quanta for patent infringement when it refused to pay the further royalty. LGE prevailed in the Federal Circuit on appeal. The Federal Circuit held that the exhaustion doctrine did not apply, because of the statement in the Master Agreement concerning the non-licensure of combination products.<sup>6</sup> The Supreme Court then decided to hear Quanta's appeal.

### Supreme Court opinion

The Supreme Court unanimously reversed. In *United States v. Unisys Lens Co.*,<sup>7</sup> the most recent decision of the Court on exhaustion, patent rights were exhausted by a sale of an unpatented semifinished lens blank, which subsequent processing turned into a patented finished lens. The Intel microprocessor products were finished commercial articles of commerce, but in this case the trial court had found as a fact that the

microprocessor products had no non-infringing use, just as in the *Univis* case the semifinished lens blanks had no use but to be finished into the patented finished lenses. Therefore, the Court found *Univis* dispositive. In the *Quanta* Court's language, in *Univis* "exhaustion was triggered by the sale of the lens blanks because their only reasonable and intended use was to practice the patent and because they 'embodie[d] essential features of [the] patented invention.'"

The Court held that sales of the microprocessor products exhausted LGE's patent rights because "everything inventive about each patent is embodied in" the licensed Intel products, which "embody the essential features of the [licensed] patents because they carry out all the inventive processes when combined, according to their design, with standard components." Any point of novelty—that is, any respect in which the claimed invention departs from the prior art—is found in the licensed microprocessor products rather than in the combination product of which they are components. Therefore, the exhaustion determination must center on the microprocessors, where the invention is.

LGE tried to argue for the purple microprocessor paradigm. This meant that its separate patent rights in the computer systems were never exhausted by the sale of patented microprocessors as such. Without getting into any discussion about exhausted combinations, the Court simply insisted (without detailed explanation) that when the point of novelty of patent B (on computers containing purple microprocessors) is only that it contains a component covered by patent A (on purple microprocessors), the authorized sale of that component (purple microprocessor) exhausts both patents.

LGE made a further argument for non-exhaustion that sought to invoke the doctrine of *General Talking Pictures Corp. v. Western Electric Co.*<sup>8</sup> In that case, the patentee had granted no license for "commercial" amplifiers.

Therefore, when a manufacturer licensed only in the "noncommercial" field sold an amplifier to an accused infringer, who resold it in the commercial market, the manufacturer "could not convey to [the accused infringer] what both knew it was not authorized to sell." By parity of reasoning, LGE said, it had licensed Intel only in the field of manufacturing microprocessor products for combination with specified products and not with other products. Therefore, what Quanta did with the microprocessors it bought from Intel was not within the license. But the Court said that was not how LGE had drafted its license to Intel:

LGE overlooks important aspects of the structure of the...transaction. Nothing in the License Agreement restricts Intel's right to sell its microprocessors...to purchasers who intend to combine them with non-Intel parts. It broadly permits Intel to make, use, or sell products free of the patent claims. To be sure, LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents. But neither party contends that Intel breached the agreement in that respect.

LGE points out that the License Agreement specifically disclaimed any license to third parties to practice the patents by combining licensed products with other components. But the question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion. And exhaustion turns only on Intel's own license to sell products practicing the...patents.

What that means may not be readily discerned from the opinion. But this subtle point is very important for those who write patent licenses. It can mean the difference between success and

failure if a dispute arises. The Court is saying that LGE simply licensed Intel to make, use, and sell microprocessor products; LGE expressly stated that no license was granted to any third party for combining licensed products with other products; and LGE made Intel tell its customers about the absence of a license. But LGE did not expressly say to Intel that LGE licensed Intel to make, use, and sell microprocessor products only in the field of microprocessor products combined with other LGE-licensed products (so-called Intel products). There was no explicit field-of-use limitation on Intel's manufacturing, using, and selling rights—no "magic words." LGE wrote all around that limitation, right, left, above, and below—it said it was not licensing third parties to combine licensed products with other products; it required Intel to notify customers of that—but LGE failed to go right through the center and in so many words deny Intel any license to make microprocessor products that would be combined with other products.

Furthermore, for some inexplicable reason the parties red-flagged the fact that there still was an exhaustion doctrine, and they waved the red flag in the bull's face:

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.

This is confirmed by the Court's final statements about this:

The License Agreement authorized Intel to sell products that practiced the patents. No conditions limited Intel's authority to sell products substantially embodying the patents....Intel's authorized sale to Quanta thus took its products outside the scope of the

patent monopoly, and as a result, LGE can no longer assert its patent rights against Quanta.

Thus, the exhaustion doctrine governed what Quanta could lawfully do with what it bought from Intel. The failure to give third parties a license to combine Intel microprocessor product with other products had no legal significance here, because the exhaustion doctrine obviated any need for such a license. To paraphrase the words of the bandit chief in *The Treasure of Sierra Madre*, "We are the exhaustion Federals—we don't need no stinkin' license."<sup>9</sup>

Just before closing, the Court added a final enigmatic note. It pointed out that the case did not raise, and the Court did not decide, whether LGE could have enforced a contractual restriction. In footnote 7, the Court commented:

We note that the authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.

### Issues that the Court did not consider

The huge omission in the *Quanta* opinion is the Court's failure to say anything about other possible forms for this transaction—such as a sale by a manufacturing licensee that has limitations on its license grant, or a sale by the patentee with explicit restrictions imposed on the customer. A typical exhaustion case occurs when a patentee-manufacturer or its licensee sells a patented product with a use restriction or other restriction on what the buyer may do with the product. For example, the owner of patents on motion picture projectors sells the projectors subject to

the requirement that the customer must screen only films licensed by the seller,<sup>10</sup> or the owner of patents on a mimeograph machine sells the machine subject to the requirement that the customer must buy necessary ink and paper from the seller.<sup>11</sup> The exhaustion doctrine makes such post-sale restrictions unenforceable—at least under patent infringement law. The product is said to have passed outside the monopoly, or the patent monopoly is said to be exhausted by the sale.<sup>12</sup> Hence, violation of a post-sale restraint is not patent infringement.<sup>13</sup> Whether contract law may be used to enforce post-sale restrictions is often a matter of antitrust law.<sup>14</sup> When they are not antitrust violations, post-sale restraints if "reasonable" are typically enforceable by way of contract remedies.<sup>15</sup>

In the early 1990s, the Federal Circuit undertook a vast retrenchment of the exhaustion doctrine, in *Mallinckrodt, Inc. v. Medipart, Inc.*<sup>16</sup> In that case, Mallinckrodt, the patentee, sold patented devices to customers with a restriction that the device must be used only once and not then refurbished for further use. The Federal Circuit held that the restriction made the sale "conditional,"<sup>17</sup> rather than "outright" or "unconditional," and therefore the sale did not exhaust the patentee-seller's patent rights. When customers sold used devices to a refurbisher, who refurbished them and caused them to be reused, the patentee sued the refurbisher for infringement and prevailed in the Federal Circuit. In its decision, the Federal Circuit distinguished prior contrary Supreme Court precedents on rather flimsy grounds. In effect, the Federal Circuit simply overruled the Supreme Court decisions.

Under the *Mallinckrodt* precedent, it became feasible for patentees to impose all kinds of distribution restrictions on customers—such as field-of-use, anti-repair, anti-enhancement, anti-modification, preventing arbitrage, and limiting channels of distribution<sup>18</sup>—so long as the patentee-seller is careful to make

the sale “conditional” rather than “out-right.” The *Mallinckrodt* doctrine limited the effect of the exhaustion doctrine essentially to a prohibition against resale price fixing and tie-ins. In effect, it expanded the doctrine of the *General Talking Pictures* case into almost all of the exhaustion doctrine—leaving subject to the exhaustion doctrine only cases involving price fixing or tie-ins and cases in which the patentee failed to use proper language of restriction in connection with the sale. Because the Federal Circuit had, in effect, overruled the Supreme Court in the *Mallinckrodt* decision, many observers thought that the Supreme Court had granted review in the *Quanta* case in order to overturn the *Mallinckrodt* decision.

Yet, the Supreme Court’s *Quanta* opinion does not even mention the *Mallinckrodt* decision. Considerable tension exists between the *Quanta* and *Mallinckrodt* decisions, although the fact patterns are arguably different—particularly because the Supreme Court stubbornly refused to interpret LGE’s contracts with Intel to impose any restriction on the microprocessors that Intel sold. The Court did so despite the presence of contract provisions such as Intel’s obligation to tell its customers (as it in fact told Quanta) that they enjoyed no license to combine the licensed Intel products with other products. Surely, if the Court had wanted to, it could have found the License Agreement “instinct with obligation” on Intel’s part not to make or sell goods to Quanta, a known combiner of Intel microprocessors with other components to make computers.<sup>19</sup> The Court’s insistence on magic words is a triumph of formalism over intent.

It is fair to conclude that the *Quanta* opinion was unanimous because its rationale embodies a least common denominator. Moreover, the assignment of the opinion to Justice Thomas, on the Court’s far right wing, reflects the importance of the power of the Chief Justice, under Supreme Court custom, to assign the task of authorship of an

opinion whenever he is in the majority. By assigning the opinion to Justice Thomas, rather than, say, to Justice Stevens or Breyer, the Chief Justice made sure that the opportunity to obliterate *Mallinckrodt* would be passed by. It nonetheless seems to be on very shaky ground, since it seems to be in conflict, at least in principle, with *Quanta*.

### Rewriting the license per *General Talking Pictures*

The Court, in indicating what LGE had neglected to put into its license agreement, did not opine on what the outcome would have been if LGE had written its license differently. Suppose, for example, that the red flag for the bull about the exhaustion doctrine had not been waved, and that LGE had read the Supreme Court’s opinion in *General Talking Pictures* more diligently. In that case, the Supreme Court held that it is legally effective for a patentee to grant to a manufacturer a patent license that is limited to only certain products, customers, uses, or markets. Such a license is typically called a “field-of-use license.”

Suppose we rewrite the LGE–Intel license as follows:

- *Definitions.* *Defined Field* means microprocessor products combined with other products that have been licensed by LGE, and does not include microprocessor products combined with products not licensed by LGE.
- *Grant.* LGE licenses Intel to make, use, and sell microprocessor products in the Defined Field only.
- Intel acknowledges that it is not licensed outside the Defined Field, and it undertakes and covenants not to sell Licensed Products knowingly to any person that will use or is likely to use the products outside the Defined Field.

Although the Court did not consider this kind of language, at least arguably—assuming the continuing vitality of the *General Talking Pictures* case—it would

be willful patent infringement for any Intel customer with notice to combine Intel microprocessor products with other products, as Quanta did. By the same token, Intel would be liable as an infringer if it sold to such a customer—certainly if the sale were made knowingly, and in that case there would be a breach of contract as well. The Federal Circuit’s opinion had interpreted the contract as if it had been written in such terms, but the Supreme Court interpreted the contract to have failed to include such terms, and simply did not address what the legal result of such terms would have been.

### Contracting around exhaustion?

Footnote 7 of the *Quanta* opinion said that the Court was not expressing any opinion about whether “the authorized nature of the sale to Quanta” would limit LGE’s “contract rights.” Are there limits to the extent to which one can contract around the exhaustion doctrine, footnote 7 of *Quanta* notwithstanding?

Recall the provision in the LGE–Intel License Agreement stating:

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.

Suppose that instead the parties wrote:

Being firm believers in freedom of contract, the contracting parties hereby agree that the so-called exhaustion doctrine shall be null, void, and entirely without effect when a party hereto sells any of its Licensed Products.

Suppose, further, that the agreement required Intel to mark its goods and invoices (and it did so) with a notice saying that “the exhaustion doctrine

does not apply to these goods," or perhaps "buyer agrees and acknowledges by not returning these goods that the exhaustion doctrine does not apply to these goods." What would courts say to this? The *Quanta* opinion simply says that "we express no opinion" on that.

The answer may depend on whether the exhaustion doctrine is just a default rule for settling rights as between licensors and licensees, when their contract is silent, or a rule about the rights of the public or end users. If the exhaustion doctrine exists to protect the

public, an agreement between the licensor and licensee bargaining away the public's rights might have very limited weight. But if the doctrine is without policy content, freedom of contract might well prevail. (For more on the policy aspects of the exhaustion doctrine, see the sidebar, "Policies Underlying the Exhaustion Doctrine.")

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## Policies Underlying the Exhaustion Doctrine

The historical basis of the exhaustion doctrine is that the owner of personal property has an inherent right to use his property as he sees fit, and it is contrary to the "fitness of things" or their "essential nature" to place, and for courts to enforce, limitations on that right. The common-law doctrine against restraints on alienation of chattels (post-sale restraints on goods) dates back at least to the 15th century.<sup>20</sup> Thus, in *Adams v. Burke*,<sup>21</sup> the Court refused to enforce a geographic restriction on use of patented coffin lids, declaring that the applicable principle was:

[I]n 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.<sup>22</sup>

Subsequent commentary has pointed to additional policy reasons for having an exhaustion doctrine. The existence of such "servitudes" on chattels interferes with free trade and the efficiency of commerce. While deed registers exist for real estate covenants that run with the land, so that it is feasible for would-be buyers to consult them, no comparable registers exist or would be practical for goods. Buyers would therefore have no feasible means for determining whether particular goods were subject to such a servitude, and transaction costs would increase with little or no compensating benefit for the public.

Given the exhaustion doctrine, however, manufacturers at various stages of a production chain can negotiate and operate without fear of interference from owners of patents on components. It is also said that the exhaustion doctrine fosters competition by permitting the creation of rental markets and markets for second-hand products. Another policy concern is that "businessmen should have the freedom to dispose of the goods they own as they see fit."<sup>23</sup> That concern actually reflects two policies: one is a bias in favor of maximizing exercise of individual volition, and the other is that letting the free market determine what buyers do with goods they purchase leads to more satisfactory results for the public than does acceding to, and having the courts enforce, sellers' judgments of what the buyers should do.

Consistent with this view, such decisions as *Univis* broadly declare:

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.<sup>24</sup>

Similarly in *Aro Mfg. Co. v. Convertible Top Replacement Co.*,<sup>25</sup> the Court said that "it is fundamental that sale of a patented article by the patentee or under his authority carries with it an implied license to use."

On the other hand, decisions such as *General Talking Pictures* state that patent holders, as part of their rights as owners of patent property, may justifiably license use and manufacture under the patent separately, and place limitations on use and other disposition of goods manufactured under a patent license. Thus we have a conflict of Property v. Property.

## The *General Talking Pictures–Univis* anomaly

The *Quanta* case could have provided an opportunity for the Court to explore (and perhaps clarify) the curious anomaly existing between the competing regimes of the *Univis* and *General Talking Pictures* decisions: *Univis* prohibits (makes legally ineffective) post-sale restraints on a patentee's sale of goods (and on the patentee's authorized licensee's such sales), under the exhaustion doctrine; *General Talking Pictures* permits a patentee to place post-sale limitations on the disposition of patented goods by a manufacturer with a "limited license" from the patentee—if the license to manufacture the patented goods uses the right, magic words.

This point is reflected in the two different briefs that the US Solicitor General filed in *Quanta*, first in support of the petition for certiorari and later on the merits. In the first brief, the Solicitor General stated:

More recently, in *General Talking Pictures*, the Court held that when a licensee makes and sells a patented article in violation of the field-of-use terms of its license, "the effect is precisely the same as if no license whatsoever had been granted," and the patentee could sue both the licensee and the purchaser (who was on notice of the restriction) for infringement of the patent. In *Univis Lens*, by contrast, where the sale of the lens blanks was authorized (albeit expressly subject to limitations on resale), the patent-exhaustion doctrine applied, because "the autho-

alized 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." *Although there is a seeming anomaly in allowing a patentee to achieve indirectly—through an enforceable condition on the licensee—a limitation on use or resale that the patentee could not itself impose on a direct purchaser, the distinction is a necessary and explicable result of the Court's decision in General Talking Pictures.*<sup>26</sup>

In the merits brief, submitted after the Supreme Court decided to hear the appeal, the emphasized language is stricken.<sup>27</sup> For some reason, the Administration decided not to point out to the Court in the merits brief that the 1938 *General Talking Pictures* decision and its progeny mandate a result seemingly diametrically different to that which the 1942 *Univis* decision and its progeny (and predecessors) require in regard to limitations placed on what a customer may do with a patented product. And of course the Administration did not suggest to the Court that it try to conflate the two regimes.

The tension and anomaly is heightened if we consider the rights of buyers of goods to use them as the owners of property in them. On the other hand, recognition of that right, as a right, may conflict with patent owners' rights to exploit their patents. The conflict between these policies causes the anomaly that the brief of the Solicitor General recognized in the passage quoted earlier. The Supreme Court's *Quanta* opinion does nothing to clarify or resolve this anomaly.

### Is there an authorization loophole?

Decisions at times suggest a rationalization of the anomaly between the competing regimes of *Univis* and *General Talking Pictures* on the basis that the freedom of use under *Univis* occurs only when an "authorized" sale occurs,

and that when a given use or disposition of the goods is not authorized then *General Talking Pictures* applies. Thus, it is said that the postulated "outside the monopoly" sale of the *Univis* doctrine is one that has been made without conditions or reservations, while the contemplated limited or restricted license of the *General Talking Pictures* doctrine is one made with explicit reservations on use. Potential "wriggle room" under *Univis* is supplied by the Court's use there of the weasel word "authorized." Authorization of a sale need not be explicit under *Univis*, but it must be explicit for *General Talking Pictures* to apply. Silence about restriction or limitation constitutes "authorization," for—as the Court's requirement of magic words in *Quanta* makes clear—the default rule is that of *Univis*. Silence about restrictions is constructive authorization.

But *Quanta* may have tilted the balance to some extent against applying the authorization loophole even when the contract uses magic words. *Quanta* can be read to have abolished the wriggle room whenever the patented product has no reasonable use but in practicing the invention and the patented products used in different markets are physically indistinguishable. Assume, for example, that Intel's microprocessors used for FM radio receivers and FM broadcast transmitters are identical, but let us assume that LGE wants to charge a higher royalty in the broadcast market and therefore provides in its agreement with Intel that it must sell patented microprocessors only to licensed FM broadcasters or licensed FM transmitter manufacturers, whom LGE will have charged an appropriate royalty for the license. This is essentially the pattern of the licensing system that characterized *General Talking Pictures* and the FM broadcasting patent infringement litigation cases under Major Armstrong's FM patents.<sup>28</sup>

In rejecting LGE's argument that Intel's authorized sales of patented microprocessors exhausted LGE's microprocessor patents but did not exhaust LGE's computer system patents

(the paradigm of computers containing purple microprocessors), the *Quanta* opinion emphasized the fact that the patented microprocessors that Intel sold "embodie[d the] essential features of [the] patented invention." It explained that "everything inventive about each patent is embodied in" the microprocessors, and "the inventive part of the patent is not the fact that [other items] are combined with a microprocessor"; the other parts are just background to support the operation of the microprocessors. The other parts are perhaps analogous to the electric plug and the wall socket, relative to the computer to which they supply power. Concerns over the opinion's emphasis on the point of novelty being located in the microprocessor products, the Court's refusal to bow to the usual mysticism of "the invention considered as a whole," and its seemingly unreasonable refusal to find an implied field limitation in the license all heighten fears that this is the edge of the slippery slope—an edge on which *Mallinckrodt* and *General Talking Pictures* teeter. Given an exhausted combination—a far from uncommon type of patent—even magic words may not help.

Are these fears (or hopes) well supported? The Court did make a major point of LGE's failure to use the right magic words to create a *General Talking Pictures* license, even though the Court did not expressly say that they would have worked their magic if properly incanted. That counts for something. The opaqueness of the Court's opinion, however, makes it impossible to be sure whether the magic words would make any difference in a future case. We simply do not know whether there are at least five votes to demolish or uphold *Mallinckrodt*, although it does seem shaky at the moment, and by the same token we do not know whether *General Talking Pictures* may soon be limited by a resurgent *Univis*.

One factor in the crystal ball gazing deserves mention. The *Quanta* case had an unattractive or unfortunate fact pattern for the patentee. The fact pattern

was colored (and pushed toward *Univis*) by several equitable factors. One was the trial court's finding that the only reasonable use of the microprocessor products is that to which Quanta put them. A related fact is that Intel designed its microprocessors so that infringement of LGE's system patents was inevitable. In addition, it is not clear that the value of the end product (computer) on which LGE wanted to charge a separate royalty was so completely attributable to the value of the licensed invention that it was legitimate for LGE to charge a royalty based on the price (value) of the computer; it may have seemed like gouging. A different fact pattern might cause a different result.

### Notes

1. "Supreme Court to Hear Semiconductor Chip Patent 'Exhaustion' Case," *IEEE Micro*, vol. 27, no. 6, Nov./Dec. 2007, p. 11. The last time the Court had issued a significant opinion interpreting the effect of the so-called exhaustion doctrine on patent license agreements was in 1942, in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).
2. *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008).
3. See, for example, *Lincoln Engineering Co. v. Stewart Warner Corp.*, 303 U.S. 545, 549–50 (1938) ("the improvement of one part of an old combination gives no right to claim that improvement in combination with other old parts which perform no new function in the combination").
4. See *Radio Steel & Mfg. Co. v. MTD Products, Inc.*, 731 F.2d 840, 845 (Fed. Cir. 1984). The Federal Circuit's predecessor court, the Court of Customs and Patent Appeals, had made similar suggestions. See, for example, *In re Bernhardt*, 417 F.2d 1395 (Ct. Cus. & Pat. App. 1969).
5. See *Minebea Co. v. Papst*, 444 F. Supp. 2d 68 (D.D.C. 2006).
6. *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), reversed sub nom. *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008).
7. 316 U.S. 241 (1942).
8. 304 U.S. 175, 182 (1938) (upholding as legitimate field-of-use limitations on scope of patent licenses to make and sell amplifiers only in "non-commercial" field), affirmed on rehearing, 305 U.S. 124 (1938).
9. For the fussy, the exact words were: "'We are the Federales. You know.... Badges? We ain't got no badges. We don't need no badges! I don't have to show you any stinkin' badges!'" See [http://en.wikipedia.org/wiki/The\\_Treasure\\_of\\_the\\_Sierra\\_Madre\\_\(film\)](http://en.wikipedia.org/wiki/The_Treasure_of_the_Sierra_Madre_(film)).
10. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).
11. *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912).
12. See, for example, *Motion Picture Patents*, 243 U.S. at 516 ("the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it"); *Bloomer v. McQuewan*, 14 How. 539, 549 (1853) ("when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly").
13. See, for example, *Motion Picture Patents*, 243 U.S. at 516.
14. See, for example, *United States v. Glaxo Group Ltd.*, 410 U.S. 52 (1973). But see *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977) (unpatented goods).
15. Restrictions are enforceable under contract law when they are ancillary to the lawful main purpose of a contract and are reasonably necessary to the accomplishment of the purpose. See, for example, *Rothery Storage & Van Co. v. Atlas Van Lines, Inc.*, 792 F.2d 210, 224 (D.C. Cir. 1986); *Los Angeles Mem'l Coliseum Comm'n v. NFL*, 726 F.2d 1381, 1395 (9th Cir. 1984) ("some agreements which restrain competition may be valid if they are subordinate and collateral to another legitimate transaction and necessary to make that transaction effective"). See also *Restatement (Second) of Contracts* §§ 187–188.
16. 976 F.2d 700 (Fed. Cir. 1992).
17. The Federal Circuit used the term "conditional sale" to mean a sale in which title passed, but was subject to a condition—a restraint on alienation or post-sale restraint. The more conventional sense of the term "conditional sale" is an installment sale transaction in which title does not pass; the buyer gets possession of the goods but the seller retains title, because the buyer has not yet made full payment, and the seller conveys title only when the buyer pays the last installment on price that is due.
18. See Richard H. Stern, "Post-Sale Patent Restrictions After *Mallinckrodt*—An Idea in Search of Definition," *Albany Law J. Science and Tech.* vol. 5, no. 1, 1994.
19. The doctrine that a contract can be instinct with an obligation that a party perform certain things, even though the contract does not say so in so many words, comes from the decision in *Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88 (1917). In this case, New York's highest court, per Judge (later Supreme Court Justice) Cardozo, found a promise to use best efforts in promoting a line of fashion goods to be implied by the rest of the relevant contractual document, saying: "A promise may be lacking, and yet the whole writing may be 'instinct with an obligation,' imperfectly expressed." *Id.* at 91.
20. See *Dr. Miles Medical Co. v. John D. Park & Sons*, 220 U.S. 373, 404 (1911) ("The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious to public policy, which is best subserved by great freedom of traffic in such things as pass from hand to hand."). The opinion then goes on to discuss the commentary of Lord Coke on 15th century property law (*Coke on Littleton*).
21. 84 U.S. (17 Wall.) 453 (1873).
22. *Id.* at 456.
23. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 67 (1977) (White, J., concurring).

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24. *Univis*, 316 U.S. at 249.
25. 377 U.S. 476, 484 (1964) [citing *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873)] internal quotation marks omitted.
26. Brief of U.S. Solicitor General in support of certiorari in *Quanta* at 13-14 (emphasis added), 2007 WL 2425785.
27. See Brief of U.S. Solicitor General on merits in *Quanta* at 17-18, 2007 WL 3353102.
28. See *Armstrong v. Motorola, Inc.*, 374 F.2d 764, 774-75 (7th Cir. 1967); *Armstrong v. Emerson Radio and Phonograph Corp.*, 179 F. Supp. 95, 128 (S.D.N.Y. 1959).