

COMMENTARY ON SELECT PATENT EXHAUSTION PRINCIPLES IN LIGHT OF THE LG ELECTRONICS CASES

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I. INTRODUCTION

On July 7, 2006, the United States Court of Appeals for the Federal Circuit (CAFC) rendered its opinion in *LG Electronics, Inc. v. Bizcom Electronics, Inc.*¹ *LG Electronics III* was appealed from a decision rendered by the United States District Court for the Northern District of California, captioned *LG Electronics, Inc. v. Asustek Computer, Inc.*,² which was decided in 2003. *LG Electronics II*, was a reaffirmation of a previously rendered decision by the same District Court in 2002.³ Both *LG Electronics I* and *LG Electronics II* included Bizcom Electronics as a defendant; therefore, despite the name difference in the captioning of the District Court cases and the CAFC case, the cases were essentially the same as they progressed to the appellate level. Amongst other issues, each of these cases dealt with various aspects of the doctrine of patent exhaustion. For example, in *LG Electronics I*, the District Court addressed issues relating to a purchaser of an *authorized article*⁴ asserting the exhaustion of a pat-

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¹ 453 F.3d 1364 (Fed. Cir. 2006) [hereinafter *LG Electronics III*].

² 248 F. Supp. 2d 912, (N.D. Cal. 2003) [hereinafter *LG Electronics II*] (reaffirming the original opinion).

³ 2002 U.S. Dist. LEXIS 25956 (N.D. Cal. Aug. 20, 2002), *reaffirmed*, 248 F. Supp. 2d 912 (N.D. Cal. 2003) [hereinafter *LG Electronics I*].

⁴ The term "authorized article" has been coined by the author for purposes of convenient reference and throughout this commentary is intended to mean an article that has been conveyed to an end user—typically by means of an outright sale—by the patent owner, or one acting under authorization of the patent owner, such as a licensee. By way of an illustrative example of an *authorized article*, in the *LG Electronics* cases the microprocessors and chipsets

entee's claims that read on a so-called higher level of assembly product comprised of the combination of the authorized article with other components.⁵ In *LG Electronics II* and *III*, the CAFC addressed issues concerning *conditional* sales and the effect that such a sale has on the application of the patent exhaustion doctrine.⁶ Additionally, in *LG Electronics II* and *III*, the courts addressed whether the sale of an authorized article could cause the exhaustion of a patentee's method claims.⁷ In view of these opinions, especially the CAFC's most recent pronouncement in *LG Electronics III*, the purpose of this commentary is to examine the law of patent exhaustion in connection with the three basic areas noted *supra*; namely, combination products that include authorized articles, conditional sales, and method claims.

The doctrine of patent exhaustion often plays a significant role in determining the rights of a patent holder, and, conversely, the potential liability of a party that acquires an authorized article in the marketplace. Since the CAFC infrequently issues opinions on the doctrine of patent exhaustion, those opinions that are issued deserve close attention because they have enduring implications for practitioners and academics alike.

This commentary begins by laying the ground work for a later discussion of the *LG Electronics* cases by first reviewing the status of the law of patent exhaustion in three focus areas: combination products, conditional sales, and method claims. A discussion of the *LG Electronics I–III* cases follows. Finally, this commentary concludes with an analysis and critique of the courts' opinions and some suggestions on how the law of patent exhaustion should be developed in the future.

II. SUMMARY OF SELECT PATENT EXHAUSTION CASES PRIOR TO THE LG ELECTRONICS CASES

The patent exhaustion doctrine, also referred to as the “first sale doctrine,” is by no means a new doctrinal tool for interpreting the scope of an au-

that Intel was licensed by LGE to make and sell to its customers would be considered an *authorized article*. *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *6–7.

⁵ See discussion *infra* Part III-A. Cases such as *LG Electronics I* are somewhat unusual in that they involve a patent owner who asserts patents that read on a system level product against a customer of the patent owner's licensee. In a sense, one could say the patent owner is thereby suing the customer of its own “customer.” This type of factual scenario can be contrasted with more typical patent infringement cases brought by patent owners against parties with whom they have no relationship.

⁶ See discussion *infra* Part III-B.

⁷ See discussion *infra* Part III-C.

thorization that may have been granted under a given patent.⁸ The earliest patent exhaustion cases dealt with issues such as whether a patent owner had the right to control a patented machine during an extension of the original patent term,⁹ whether a patent owner could control resales of a patented product outside a given geographic territory,¹⁰ and whether one who purchased a patented product had the right to use and resell that product.¹¹ Although the specific facts underlying such cases are interesting from a historical perspective, their greatest present significance is that they contain key passages that set forth the basic, theoretical foundation for the patent exhaustion doctrine. In one case, *Bloomer v. Millinger*,¹² the U.S. Supreme Court (Supreme Court) stated:

Patentees acquire the exclusive right to make and use, and vend to others to be used, their patented inventions for the period of time specified in the patent, but when they have made and vended to others to be used one or more of the things patented, to that extent they have parted with their exclusive right. They are entitled to but one royalty for a patented machine, and consequently when a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, or to construct and use and operate it, and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold or so authorized to be constructed and operated.¹³

Similar sentiments were expressed by the Supreme Court in *Adams v. Burke*,¹⁴ wherein the Court declared:

⁸ See *LG Electronics III*, 453 F.3d at 1369 (citing *Mitchell v. Hawley*, 83 U.S. 544, 547 (1873)); see also 5 *Moy's Walker on Patents* § 15:6 (4th ed. 2006) (discussing the origins of the first sale doctrine).

⁹ See *Bloomer v. Millinger*, 68 U.S. 340, 351–52 (1863) (holding that, during a second patent term extension, the estate of a patent owner did not have the right to assert the patent against a party that had been granted rights under the patent during an original patent term extension).

¹⁰ See *Adams v. Burke*, 84 U.S. 453, 456–57 (1873) (holding that a patent owner did not have the right to assert a coffin lid patent against one who had lawfully purchased coffin lids from a licensee who was authorized to sell coffin lids within a limited geographic territory, but then who took those lids outside the licensee's limited territory).

¹¹ See *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895) (holding that a party that had been assigned the inventor's "use" right within the state of Massachusetts under a patent relating to an improved wardrobe bedstead did not have the right to assert the patent against a party that had lawfully purchased bedsteads from the inventor in Michigan, and then sold and used them in Massachusetts).

¹² 68 U.S. at 350.

¹³ *Id.*

¹⁴ 84 U.S. at 456.

But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.¹⁵

In short, with respect to the conveyance of an article, the patent exhaustion doctrine is based on a fundamental notion that the patent owner gets only *one bite at the apple*.¹⁶ Once fair consideration has been paid to the patent owner, or to one who acts with the authorization of the patent owner, the patent owner no longer has any right to control the disposition or use of the article through the exclusive rights granted under the patent.

A. *Patent Exhaustion Cases Dealing With Combination Products*

As mentioned *supra*, the earliest patent exhaustion cases established that once the patent owner sold or authorized another to sell a given patented article, the patent owner forfeited any further rights over the article. Over time, more involved fact patterns have caused the courts to stretch the application of the patent exhaustion doctrine to cover not just the authorized article itself, but also higher level of assembly products in which the authorized article is a component. One such case is *Cyrrix Corp. v. Intel Corp.*,¹⁷ which dealt with the application of the patent exhaustion doctrine to patent claims that read on a product made up of an authorized microprocessor with an external memory device that had not been expressly authorized.

Before discussing the specifics of *Cyrrix*, however, it is necessary to consider *United States v. Unis Lens Co.*,¹⁸ because much of the reasoning used in *Cyrrix* regarding patent exhaustion was originally articulated by the Supreme Court in this earlier case. To be clear, *Unis Lens* did not directly focus on an alleged patent infringement and the application of the patent exhaustion doctrine to a combination product. Rather, the case principally arose under United States

¹⁵ *Id.*

¹⁶ “The patent exhaustion doctrine was articulated by the Supreme Court over a century ago. The doctrine is designed to prevent a patentee from receiving a double royalty on a single patented invention.” *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *11 (emphasis added and citations omitted).

¹⁷ 846 F.Supp. 522, 524 (E.D. Tex. 1994).

¹⁸ 316 U.S. 241 (1942).

antitrust law and was brought by the United States government against the defendants under the Sherman Act and the Miller-Tydings Act.¹⁹ The significant and lasting impact of *Univis Lens* in the area of patent exhaustion will be evident from the discussion in this commentary.

In *Univis Lens*, the Univis Corporation (Univis) owned a number of patents relating to multifocal lenses, typically used for eyeglasses.²⁰ Under an agreement with a related company, the Lens Company, Univis licensed the Lens Company to manufacture lens blanks and to sell them to specified licensees.²¹ Univis used the patents and trademarks that it owned to maintain a multi-class license program with wholesalers, finishing retailers, and prescription retailers.²² This allowed the wholesalers and finishing retailers to purchase lens blanks from the Lens Company and grind them to meet the prescription needs of the given consumer.²³ As part of its license program, Univis required that all licensees abide by a price maintenance program that was prescribed by Univis and that covered the finished and unfinished lenses.²⁴ It was because of this price maintenance program that the U.S. Government brought suit claiming that the program was a violation of the Sherman Act and did not fall within the exceptions established in the Miller-Tidings Act.²⁵

In its defense, Univis claimed that its ability to control the prices of the lenses was justified because the use of its patented inventions was required for finishing the lenses into a final product.²⁶ The Supreme Court did not agree with Univis on this point and ultimately found the price maintenance program violating the Sherman Act.²⁷ Notwithstanding that the core basis of the action against Univis was premised on antitrust law, the Supreme Court framed its opinion by articulating the nature of the rights under the patent laws that are inherent in the acquisition of an *unfinished* article.²⁸ The Supreme Court's statements have proven to be highly influential in shaping the patent exhaustion doctrine, as discussed *infra*.

¹⁹ *Id.* at 243.

²⁰ *Id.*

²¹ *Id.*

²² *Id.* at 244.

²³ *Id.*

²⁴ *Id.* 245.

²⁵ *Id.* at 248.

²⁶ *Id.* at 249.

²⁷ *Id.* at 252, 254.

²⁸ *Id.* at 250–51.

The thrust of the Supreme Court’s discussion on patent exhaustion in *Univis Lens* commenced with the observation that each lens blank had no practical utility until it was processed into a finished eyeglass lens.

But in any case it is plain that where the sale of the blank is by the patentee or his licensee—here the Lens Company—to a finisher, *the only use to which it could be put and the only object of the sale is to enable the latter to grind and polish it for use as a lens by the prospective wearer.*²⁹

Having established the context, the Supreme Court went on to say:

We think that all the considerations which support these results lead to the conclusion that *where one has sold an uncompleted article* which, because it embodies essential features of his patented invention, is within the protection of his patent, *and has destined the article to be finished by the purchaser in conformity to the patent*, he has sold his invention so far as it is or may be embodied in that particular article. The reward he [h]as demanded and received is for the article and the invention which it embodies and which his vendee is to practice upon it

Our decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold. In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant, . . . the particular form or method by which the monopoly is sought to be extended is immaterial. The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers. *Whether the licensee sells the patented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it*, he has equally parted with the article, and made it the vehicle for transferring to the buyer ownership of the invention with respect to that article. To that extent he has parted with his patent monopoly in either case, and has received in the purchase price every benefit of that monopoly which the patent law secures to him.³⁰

It is clear that the acquisition of an unfinished, authorized article carries with it the right to complete the article, at least in those cases where the article can be said to be “destined . . . to be finished by the purchaser in conformity with the patent.”³¹

Turning back to *Cyrrix*, which deals more strictly with the patent exhaustion doctrine in the context of an alleged patent infringement, the District Court

²⁹ *Id.* at 249 (emphasis added).

³⁰ *Id.* at 250–52 (emphasis added and citations omitted).

³¹ *Id.* at 250.

used the Supreme Court's reasoning to address the scope of rights inherent in the acquisition of an authorized, but incomplete, article.³² In *Cyrix*, Intel Corporation (Intel) had obtained United States patent number 4,972,338 (the '338 patent), entitled "Memory Management for Microprocessor System."³³ Claim 1 of the '338 patent (Claim 1 Microprocessor) covered a microprocessor device, which included a page table addressing means and a segment descriptor.³⁴ Claim 2 of the '338 patent covered the combination of a Claim 1 Microprocessor with an external memory that stored page table entries, and claim 6 covered the combination of a Claim 1 Microprocessor with an external memory that stored segment descriptors.³⁵

Intel had also entered into separate patent cross-licenses with Texas Instruments, Inc. (TI) and SGS-Thompson Microelectronics, Inc. (ST).³⁶ The express terms of those licenses allowed both TI and ST to make, use, and sell licensed products.³⁷ Additionally, those licensed products were sold to Cyrix Corporation (Cyrix).³⁸ Although the Intel-ST license did not include any express provisions disclaiming any type of authorization to ST's customers to create combination products using the components purchased from ST,³⁹ the Intel-TI license did contain such an express provision.⁴⁰

According to the trial stipulations of the parties, the integrated circuits, which were fabricated by both TI and ST, and which were covered by claim 1 of the '338 patent, were considered authorized sales under the '338 patent.⁴¹ As such, Intel conceded that its claim 1 patent rights were exhausted vis-à-vis Claim 1 Microprocessors. On the other hand, the thrust of Intel's case relative to the assertion of the '338 patent against Cyrix was that the so-called system level claims—namely claims 2 and 6 relating to the combination of the Claim 1

³² 846 F.Supp. 522, 540 (E.D. Tex. 1994).

³³ *Id.* at 526.

³⁴ *Id.* at 541–42.

³⁵ *Id.* at 542.

³⁶ *Id.* at 525.

³⁷ *Id.* at 541.

³⁸ *Id.*

³⁹ *Id.* at 535.

⁴⁰ *Id.* The specific provision in the Intel-TI agreement read: "Anything in this Agreement to the contrary notwithstanding, no release or license is granted by either party or any SUBSIDIARY sublicensed hereunder either directly or by implication, estoppel or otherwise under any patent licensed hereunder, to third parties acquiring products from either party or any SUBSIDIARY sublicensed hereunder for the combination of separate products licensed hereunder with each other or with any other product." *Id.* at 533.

⁴¹ *Id.* at 525.

Microprocessor with external memory—were not exhausted.⁴² In other words, Intel brought suit against the customer of its licensee claiming that the combination products made by the licensee's customer infringed Intel's combination product claims, even though the combination product contained the very article authorized by Intel.⁴³ The District Court disagreed with Intel and found that Intel's combination product claims were exhausted.⁴⁴ In so doing, the District Court thereby expanded the scope of the patent exhaustion doctrine.⁴⁵

Similar to *Univis Lens*, the District Court in *Cyrrix* reasoned that once having purchased the Claim 1 Microprocessors from an authorized source—namely a licensee of Intel—Cyrrix had no practical option but to form the combination of Claim 1 Microprocessor with external memory and thereby infringe claims 2 and 6.⁴⁶ The District Court clearly saw the parallels between the authorized sales of microprocessors in the *Cyrrix* case and the authorized sales of lens blanks in the *Univis Lens* case. As noted *supra*, the District Court in *Cyrrix* relied heavily upon the patent exhaustion rationale elaborated by the Supreme Court in *Univis Lens*,⁴⁷ eventually drawing the comparison in the following passage:

44. *Cyrrix's* microprocessors, although complete in and of themselves, are unfinished in the sense that they need to be combined with external memory to be used. *Cyrrix's* microprocessors thus are like the lens blanks in *United States v. Univis Lens Co.* which, although completed lens blanks, had no use other than to be ground into finished lenses in accordance with patents owned by the Lens Company. The Supreme Court's rationale in *Univis*, in support of its holding that the patent owner's rights in the lens blanks were exhausted, is thus fully applicable here with respect to *Cyrrix's* microprocessors⁴⁸

⁴² *Id.* at 528, 531. It should be noted that throughout this commentary the terms "system level" claims and "combination product" claims will be used interchangeably. In all instances the terms are intended to refer to those claims that read on a level of product assembly that is higher than simply the authorized article itself. Typically, such higher level of assembly product is comprised or the authorized article in combination with one or more other components.

⁴³ *Id.* at 531.

⁴⁴ *Id.* at 540.

⁴⁵ *Id.*

⁴⁶ *Id.* at 541.

⁴⁷ A review of the *Cyrrix* opinion reveals no less than seven separate citations to the *Univis* case.

⁴⁸ *Cyrrix*, 846 F. Supp. at 540 (citations omitted).

Having identified the perceived parallels, the District Court used a number of separate passages to render its holding on the issue of the exhaustion of the system level claims.⁴⁹ In the words of the court:

25. Cyrix’s microprocessors *have no uses* unless they are combined with external memory capable of holding page table entries and segment descriptors as described by claims 2 and 6. Thus, to the extent that Intel has asserted that claim 1 of the ’338 Patent covers Cyrix’s microprocessors—both as made and sold to Cyrix by ST and TI, and as used and re-sold by Cyrix and/or its customers—those microprocessors *cannot be used for any purpose* without necessarily forming the combination of, and infringing, claims 2 and 6.⁵⁰

....

46. Since the manufacture and sale of Cyrix’s microprocessors is licensed, Cyrix and its customers have the right to use those microprocessors for their *intended purposes* without infringement of the ’338 Patent. More particularly, because the intended use of Cyrix’s microprocessors is with external memory capable of storing page table entries and segment descriptors, neither Cyrix nor its customers can infringe claims 2 or 6 of the ’338 Patent either directly, or by actively inducing others to infringe.

The marketing and sale of a patented product automatically conveys to the purchaser an automatic right to use the patented product for its *intended normal purpose*.⁵¹

....

49. Cyrix’s microprocessors cannot be used for *any commercially viable purpose* without necessarily forming the combination covered by—and without necessarily infringing—claims 2 and 6 of the ’338 Patent.⁵²

Having found that the Claim 1 Microprocessors had no use other than in forming system level combinations with external memory, the District Court ultimately held:

50. The sale or other transfer by ST or TI to Cyrix of a claim 1 microprocessor exhausts Intel’s patent rights in the ’338 Patent, including without limitation in claims 1, 2 and 6. Intel thus may not, by virtue of the ’338 Patent, control the further use or disposition of such microprocessors. As a result, neither Cyrix nor any direct or indirect customer of Cyrix can infringe claims 1, 2 or 6

⁴⁹ *Id.* at 537, 540. It will be noted that, in its Cyrix opinion the District Court has elected to present its findings of law, as well as facts, in a series of consecutively numbered paragraphs. Hence the author has chosen to present the courts findings of law on the issue of patent exhaustion and combination products in simple chronological order.

⁵⁰ *Id.* at 537 (emphasis added).

⁵¹ *Id.* at 540 (emphasis added and citations omitted) (quoting *Elkay Mfg. Co. v. Ebco Mfg. Co.*, No. 92 C 2487, 1993 U.S. Dist. LEXIS 3074 at *5–7 (N.D.Ill. Mar. 9, 1993)).

⁵² *Id.* at 541 (emphasis added).

of the '338 Patent—either directly or indirectly. Intel is barred by the doctrine of patent exhaustion from asserting claims 2 and 6 of the '338 Patent against Cyrix or Cyrix's customers.⁵³

In this regard, the District Court's finding was apparently unaffected by the clause in the Intel-TI license stating that TI's customers, such as Cyrix, did not have any type of express or implied authorization to make combination products.⁵⁴ As far as the Court was concerned, the terms of both agreements, including the Intel-TI agreement that had the express disclaimer of any such customer authorization, were considered "consistent with the Patent Exhaustion Doctrine."⁵⁵

It is clear that a principle theme of the Supreme Court's opinion in *Univis Lens* was embraced by the District Court in *Cyrix*. That is to say, like the Supreme Court, the District Court looked to the inevitable *destiny* of the authorized article and the role the patent holder played in that destiny.⁵⁶ In both of these cases, the patent holder implemented licensing programs in which a licensee was authorized to manufacture a given article—lens blanks in the case of *Univis Lens* and microprocessors in the case of *Cyrix*.⁵⁷ Moreover, in both cases, each respective product had an inevitable destiny, and if the products did not follow their respective destinies, they would have no practical use. In the case of *Univis Lens*, the blanks had to be ground and polished into finished lenses,⁵⁸ while in the case of *Cyrix*, the microprocessors had to be combined with external memory, otherwise each product was apparently good for nothing other than being a proverbial, expensive, paper weight.⁵⁹

The *Cyrix* opinion perceptibly advances the patent exhaustion doctrine beyond what is expressed in *Univis Lens* by holding that Cyrix was authorized under Intel's patents, not simply with regard to the Claim 1 Microprocessors themselves, but also with regard to *combination products* formed of the Claim 1 Microprocessors and another component not necessarily furnished by Intel's licensees.⁶⁰ Hence, under at least some conditions, the patent owner can be found to have forfeited rights to control not only the specifically authorized arti-

⁵³ *Id.*

⁵⁴ *Id.* at 533, 541.

⁵⁵ *Id.* at 539.

⁵⁶ *Id.* at 538.

⁵⁷ *United States v. Univis Lens Co.*, 316 U.S. 241, 241 (1942); *Cyrix*, 846 F.Supp. at 525.

⁵⁸ *Univis Lens*, 361 U.S. at 244.

⁵⁹ 846 F.Supp. at 537. In view of each products respective form factor, however, it is doubtful they would have been useful for even that purpose.

⁶⁰ *Id.* at 541.

cle, but also a combination product (higher level of assembly product) having the specifically authorized article as one of its constituent components.

In another very recent case, *Minebea Co. v. Papst*,⁶¹ the United States District Court for the District of Columbia confronted another situation in which the authorized sale of a component gave rise to the assertion that the patent owner's system level claims in a combination product were exhausted. Because the *Minebea* case is, as the District Court of the District of Columbia understatedly characterized it, a "complex patent case,"⁶² certain generalizations are necessary in order to discuss the opinion in the context of this commentary. In *Minebea*, the defendant, Papst, had authorized the plaintiff, Minebea, to manufacture and sell spindle motors that Minebea's customers would eventually integrate into a hard disk drive (HDD).⁶³ Papst used its patents that read on the HDD product and asserted them against Minebea's customers.⁶⁴ Therefore, *Minebea* is yet another case in which the patent owner sought to assert combination product claims against the customer of its licensee, bearing in mind that a key component in the combination product was the article authorized by Papst, namely the spindle motors.⁶⁵

Similar to the terms of the Intel-TI license in *Cyrix*, Papst established through various written agreements that Minebea was authorized to make the spindle motors. However, Papst licenses did not authorize Minebea's customers with regard to any product of the customer that directly infringed a Papst patent, if the acts of the customer first caused direct infringement of that patent.⁶⁶ As is apparent by reading further in the opinion, one such act of the customer that might first cause direct infringement would be the combination of the authorized spindle motors with other components to form an HDD.⁶⁷

As in *Cyrix*, Minebea raised the patent exhaustion argument on behalf of its customers claiming that there was no *reasonable use* for the spindle mo-

⁶¹ No. 97-0590 (PLF), 2006 U.S. Dist. LEXIS 58053 (D. D.C. Aug. 17, 2006). The opinion in this case was issued *after* the issuance of the CAFC's opinion in *LG Electronics III*, and, as will be discussed in Part IV-B *infra*, the CAFC's opinion in *LG Electronics III* formed the basis for the District Court's reversal of itself on an issue relating to conditional sales.

⁶² *Id.* at *9. The opinion itself is over 130 printed pages and has an index to the opinion that is more than 5 pages.

⁶³ *Id.* at *58.

⁶⁴ *Id.* at *65–66.

⁶⁵ *Id.*

⁶⁶ *Id.* at *121. There were actually a number of agreements that established Minebea's rights vis a vis the Papst patents. See *Minebea*, 2006 U.S. Dist. LEXIS 58053 at *168–77.

⁶⁷ *Id.* at *16.

tors other than in the combination product, namely the HDD.⁶⁸ According to the District Court of the District of Columbia, the test of patent exhaustion had to rely upon just such a factor:

Minebea's motors infringe Papst's drive patents only when combined with certain other components and assembled into hard disk drives. The sale of an article that 'can only be used in [a] patented combination' which 'must be completed by the purchaser' may exhaust the patent-holder's right to the patented article. The sale of Minebea's motors cannot exhaust Papst's patents if they could be put to *some reasonable use* other than being assembled into the 'patented combination,' that is, a hard disk drive.⁶⁹

Later in the opinion, in a summary statement regarding its findings, the District Court stated:

In sum, the Court agrees with Minebea that because of the extremely specialized design and construction of each HDD motor, Minebea's HDD motors have *no reasonable use* other than to be incorporated into hard disk drives.⁷⁰

Accordingly, the District Court appeared to understand that the test relative to patent exhaustion should be based upon what were perceived to be the *reasonable uses* of the spindle motors. It should be noted, however, that the court also used the *reasonable noninfringing uses* test in yet a different part of its opinion.⁷¹

B. Patent Exhaustion Cases Dealing with "Conditional" Sales

Although the patent exhaustion doctrine is premised on the broad principle that the patent owner is entitled to only *one bite at the apple*,⁷² the right of the patent owner to establish limits and conditions relative to authorizations granted under the patent is well established. One could say that, within certain important limitations noted *infra*, the patent owner is entitled to break down that one bite into a number of smaller *nibbles*, with that behavior fully sanctioned under the patent laws. The legal underpinnings for this approach can be found in early patent exhaustion law. For example, in *Bloomer v. Millinger*⁷³ the Supreme Court stated:

⁶⁸ *Id.* at *184.

⁶⁹ *Id.* at *260–61 (emphasis added and citations omitted)) (quoting *Anton/Bauer, Inc. v. PAG, Ltd.*, 329 F.3d 1343, 1351 (Fed. Cir. 2003)).

⁷⁰ *Id.* at *267 (emphasis added).

⁷¹ *Id.* at *273 (emphasis added).

⁷² See *supra* note 16 and accompanying text.

⁷³ 68 U.S. 340 (1863).

The owner of a patent may make any agreement with regard to its enjoyment that he may make in regard to any other species of property. It is competent, therefore, for the owner of a patent right to carve out of his entire monopoly such fractional interest therein, either as to absolute right, or as to territorial extent, or as to duration of right, as he may see fit.⁷⁴

Additional cases include the general principle that the patent owner may fractionalize the property interest inherent in the patent and convey only limited pieces of that interest to other parties. These cases deal with patent owners that have sold, or authorized others to sell, products subject to stated conditions that restrict the purchaser's rights with respect to the products.

One such early case that was decided by the Supreme Court is *General Talking Pictures Corp. v. Western Electric Co.*⁷⁵ In that case, a patent pool owned certain patents relating to vacuum tube amplifiers, which could be used in different technical fields ranging from motion pictures to home radio.⁷⁶ The patent pool established a licensing program that authorized some licensees under the patents in the commercial field (covering motion pictures), and others in the home field (covering home radio broadcast reception).⁷⁷ The Transformer Company had been licensed to make and sell the amplifiers in only the home field, but, in spite of that limitation, it made and sold the amplifiers to Pictures Corporation for use in the commercial field.⁷⁸ Pictures Corporation knew that Transformer Company did not have a license to make and sell amplifiers for use in the motion picture field but purchased and used the amplifiers for that purpose anyway.⁷⁹ One of the licensees in the commercial field was Western Electric, and it brought suit against Pictures Corporation for infringing the patents by using them in the commercial motion picture field.⁸⁰

The Supreme Court made fairly short work of the issues presented, finding that the license restrictions should be given full effect. The following statements by the Court reflect its position in this regard:

If where a patented invention is applicable to different uses, the owner of the patent may legally restrict a licensee to a particular field and exclude him from others, Transformer Company was guilty of an infringement when it made the amplifiers for, and sold them to, Pictures Corporation. And as Pic-

⁷⁴ *Id.* at 346.

⁷⁵ 305 U.S. 124 (1938).

⁷⁶ *Id.* at 125–26.

⁷⁷ *Id.*

⁷⁸ *Id.* at 126.

⁷⁹ *Id.*

⁸⁰ *Id.* at 125–26.

tures Corporation ordered, purchased and leased them knowing the facts, it also was an infringer.

The question of law requiring decision is whether the restriction in the license is to be given effect. That a restrictive license is legal seems clear. As was said in *United States v. General Electric Co.*, the patentee may grant a license ‘upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.’ The restriction here imposed is of that character.⁸¹

Interestingly, the Supreme Court made a comment in its opinion that it had “no occasion” to consider the effect of a “‘licensee’s notice’ which purports to restrict the use of articles lawfully sold,” but that opportunity would be presented to other courts in the future.⁸²

One such case that dealt with the effect of a notice that purported to restrict the use of articles lawfully sold was *Mallinckrodt, Inc. v. Medipart, Inc.*⁸³ In that case, Mallinckrodt owned five patents that read on various aspects of an apparatus that was used for delivering radioactive or therapeutic material in an aerosol mist to the lungs of a patient undergoing medical tests.⁸⁴ The inhaler device was sold by Mallinckrodt to hospitals, and each sold device was marked with an inscription stating that the device was for “Single Use Only.”⁸⁵ Additionally, the package insert for each device likewise stated “For Single Patient Use Only” and provided instructions on disposing of the entire apparatus after usage in accordance with biohazard waste procedures.⁸⁶ In spite of these notices after usage by a patient, the hospitals sent certain inhaler components to Medipart for reconditioning, and after appropriate testing, the inhalers were packaged for reuse.⁸⁷ Mallinckrodt contended that the restriction on reuse was a valid “label license” and that the label license established a specified field of use for the hospitals, that being the field of a “single use.”⁸⁸ There was no dispute between the parties on whether they had actually gotten notice of the single use limitation; rather, the dispute centered on whether the restriction was enforceable by means of a suit for patent infringement.⁸⁹

⁸¹ *Id.* at 126–27 (citations omitted).

⁸² *Id.* at 127.

⁸³ 976 F.2d 700 (Fed. Cir 1992).

⁸⁴ *Id.* at 701–02.

⁸⁵ *Id.* at 702 (internal quotations omitted).

⁸⁶ *Id.* (internal quotations omitted).

⁸⁷ *Id.*

⁸⁸ *Id.* at 703.

⁸⁹ *Id.*

Prior to reaching the CAFC on appeal, the United States District Court for the Northern District of Illinois granted defendant's motion for summary judgment. It was in response to this grant of summary judgment that Mallinckrodt appealed its case to the CAFC. The District Court's reasoning was highly influenced by a line of cases referred to as the "Bauer trilogy and Motion Picture Patents."⁹⁰ The CAFC characterized the District Court's reliance on these cases, and the impact they had on the single use restriction, by stating:

The district court described the cases sustaining field of use and other restrictions as 'in tension' with the cases prohibiting restrictions such as price-fixing and tying [*Bauer trilogy* and *Motion Picture Patents*], and with the cases holding that the patent right is exhausted with the first sale. *The court stated that policy considerations require that no conditions be imposed on patented goods after their sale and that Mallinckrodt's restriction could not 'convert[] what was in substance a sale into a license.'* As we shall discuss, on the premises of this summary judgment motion the court erred in its analysis of the law, for not all restrictions on the use of patented goods are unenforceable.⁹¹

For unknown reasons, the District Court felt that it was the *policy* of patent law and patent exhaustion that *no conditions* could be imposed on patented goods after their sale.⁹² The CAFC, however, stated that the District Court "erred in its analysis of the law" and ultimately reversed the District Court's grant of summary judgment to Medipart.⁹³

As will be seen immediately *infra*, in stepping through its analysis, the CAFC distinguished the *Bauer trilogy* and *Motion Picture Patents* cases on the basis that those cases dealt with factual situations in which the conditions imposed on the party acquiring the patented article were ones which ran afoul of antitrust law. In the three cases comprising the *Bauer trilogy*, the patent owner attempted to set minimum resale prices on patented products through the use of license wording.⁹⁴ These arrangements were seen as attempts at price fixing in violation of the antitrust law, which led the respective courts in those cases to hold that the restrictions were unenforceable.⁹⁵ In the *Motion Picture Patents*

⁹⁰ *Id.* at 704 (referring to the *Bauer trilogy* and *Motion Picture Patents* as consisting of the following cases: *Bauer & Cie. v. O'Donnell*, 229 U.S. 1 (1913); *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490 (1917); *Boston Store of Chi. v. Am. Graphophone Co.*, 246 U.S. 8 (1918); and *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)).

⁹¹ *Id.* at 703 (emphasis added).

⁹² *Id.* at 704.

⁹³ *Id.* at 703, 709.

⁹⁴ *Id.* at 704.

⁹⁵ *Id.*

case, a license notice had been attached to movie projectors stating that the machine could only be used with films that were leased by the patentee.⁹⁶ This practice was likewise held to be a violation of the antitrust laws, albeit the antitrust prohibition on illegal tie-ins.⁹⁷ Based on these cases, the CAFC's opinion in *Mallinckrodt* did not dispute that certain conditions or restrictions imposed on a patented article may be unenforceable, but it did make clear that not *all* such conditions or restrictions are unenforceable.

A significant portion of the CAFC's opinion in *Mallinckrodt* contains a review of the early exhaustion cases—such as *Adams*, *Bloomer*, *Keeler*, *General Talking Pictures*, and other cases as well.⁹⁸ In a summary type paragraph, the CAFC tried to pull out of the cases a general guiding principle:

Viewing the entire group of these early cases, it appears that the Court simply applied, to a variety of factual situations, *the rule of contract law that sale may be conditioned*. *Adams v. Burke* and its kindred cases do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article. It was error for the district court to derive that proposition from the precedent. *Unless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law, e.g., United States v. Unis Lens Co.) private parties retain the freedom to contract concerning conditions of sale*. As we have discussed, the district court cited the price-fixing and tying cases as reflecting what the court deemed to be the correct policy, viz., that no condition can be placed on the sale of patented goods, for any reason. However, this is not a price-fixing or tying case, and the per se antitrust and misuse violations found in the Bauer trilogy and Motion Picture Patents are not here present. The appropriate criterion is whether *Mallinckrodt's* restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.

Should the restriction be found to be reasonably within the patent grant, i.e., that it relates to subject matter within the scope of the patent claims, that ends the inquiry. However, should such inquiry lead to the conclusion that there are anticompetitive effects extending beyond the patentee's statutory right to exclude, these effects do not automatically impeach the restriction. Anticompetitive effects that are not per se violations of law are reviewed in accordance with the rule of reason. Patent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade.⁹⁹

⁹⁶ *Id.*

⁹⁷ *Id.*

⁹⁸ See *id.* at 704, 706–07 (referring to *Adams v. Burke*, 84 U.S. 453 (1874); *Bloomer v. McQueen*, 55 U.S. 539 (1852); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)).

⁹⁹ *Id.* at 708 (emphasis added and citations omitted).

Based on the District Court's error in interpreting the law, the CAFC reversed the summary judgment motion and remanded the case back to the District Court, presumably for the purpose of having the District Court determine whether the single use restriction was "reasonably within the patent grant."¹⁰⁰

Though not a case dealing strictly with the issue of a conditional sale, *B. Braun Medical, Inc. v. Abbott Laboratories and NP Medical, Inc.*¹⁰¹ is nonetheless another CAFC case that adds to the law relating to the application of the doctrine of patent exhaustion. Specifically, this case relates to situations where a sale of a product has been made subject to restrictions or conditions. In this case, plaintiff B. Braun Medical (Braun), owned a patent directed to a reflux valve that attached to an intravenous line to permit the injection or aspiration of fluids through a needleless syringe.¹⁰² Braun entered into an arrangement with the defendant, Abbott Laboratories (Abbott), to sell the valves to Abbott, subject to the condition that the valves were only to be used on Abbott's primary line and piggyback sets, but not on Abbott's extension sets.¹⁰³ When Braun and Abbott were later unable to agree on terms relative to Abbott's use of the valves on the extension sets, Abbott secured a substitute valve from codefendant, NP Medical (NP). Subsequently, Braun sued Abbott and NP for patent infringement.¹⁰⁴

In the lower court proceedings at the United States District Court for the Eastern District of Pennsylvania, the jury found that Braun misused its patent. The jury based its finding on a jury instruction that said:

[A] patent holder is not allowed to place restrictions on customers which prohibit resale of the patented product, or allow the customer to resell the patented product only in connection with certain products. . . . If you find, by a preponderance of the evidence, that Braun placed such restrictions on its customers, including Abbott, you must find that Braun is guilty of patent misuse.¹⁰⁵

Such a blanket statement in the jury instructions, regarding the restrictions that a patent owner may place on a patented product, was ripe for challenge given the existing legal precedent. The jury instruction issue, amongst others, formed the basis of the appeal to the CAFC. On appeal, Braun argued to the CAFC that the jury instruction essentially created per se liability for *any*

¹⁰⁰ *Id.*

¹⁰¹ 124 F.3d 1419 (Fed. Cir. 1997).

¹⁰² *Id.* at 1421.

¹⁰³ *Id.* at 1422.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 1426.

conditions that Braun placed on its sales of the patented valves.¹⁰⁶ The CAFC agreed with Braun and found the jury instruction to be improper.¹⁰⁷ In finding this, the CAFC cited the direct applicability of its earlier *Mallinckrodt* holding.

The resolution of this issue is governed by our precedent in *Mallinckrodt, Inc. v. Medipart, Inc.* In that case, we canvassed precedent concerning the legality of restrictions placed upon the post-sale use of patented goods. As a general matter, we explained that an unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter. *Id.* The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. *This exhaustion doctrine, however, does not apply to an expressly conditional sale or license.* In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld. See *Mallinckrodt*; cf. *General Talking Pictures Corp. v. Western Elec. Co.* ('That a restrictive license is legal seems clear.'). Such express conditions, however, are contractual in nature and are subject to antitrust, patent, contract, and any other applicable law, as well as equitable considerations such as patent misuse. *Mallinckrodt.* Accordingly, conditions that violate some law or equitable consideration are unenforceable. On the other hand, violation of valid conditions entitles the patentee to a remedy for either patent infringement or breach of contract. See *Mallinckrodt.* This, then, is the general framework.¹⁰⁸

Aside from reconfirming the basic holding in *Mallinckrodt*, the CAFC in *Braun* also elaborated upon what types of license restrictions will pass muster as valid, and thereby enforceable, conditions. The CAFC further stated:

In *Mallinckrodt*, we also outlined the framework for evaluating whether an express condition on the post-sale use of a patented product constitutes patent misuse. The patent misuse doctrine, born from the equitable doctrine of unclean hands, is a method of limiting abuse of patent rights separate from the antitrust laws. The key inquiry under this fact-intensive doctrine is whether, by imposing the condition, the patentee has 'impermissibly broadened the 'physical or temporal scope' of the patent grant with anticompetitive effect.' *Windsurfing Int'l, Inc. v. AMF, Inc.*; see also *Mallinckrodt.* Two common examples of such impermissible broadening are using a patent which enjoys market power in the relevant market, see 35 U.S.C. § 271(d)(5) (1994), to restrain competition in an unpatented product or employing the patent beyond its 17-year term. In contrast, field of use restrictions (such as those at issue in the present case) are generally upheld, see *General Talking Pictures*, and any

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *Id.* (emphasis added and citations omitted).

anticompetitive effects they may cause are reviewed in accordance with the rule of reason. *See Mallinckrodt*.¹⁰⁹

Through its holding, the CAFC added to the list of impermissible restrictions that can be imposed on product sales, as set forth in the *Bauer trilogy* and *Motion Picture Patents* cases,¹¹⁰ by making patent term extensions unenforceable. One notable aspect of the CAFC's analytical framework was that field of use restrictions were generally permissible and enforceable under the patent law.

Interestingly, the field of agriculture has afforded fertile ground for the growth of the *conditional sales* doctrine.¹¹¹ One case in particular, *Pioneer Hi-Bred International, Inc. v. Ottawa Plant Food, Inc.*,¹¹² provides an extensive treatment of the law in this area, particularly as it applies to so-called *label licenses*.¹¹³ The District Court gave extensive treatment to each of the defendants' separate challenges on the validity of the label license, and it examined and discussed each challenge separately before rendering specific findings for each challenge. Through this discussion, many arguments and counter arguments relevant to the doctrine of patent exhaustion as related to conditional sales were addressed. Following the statement of facts below is a brief, and hopefully fair, summary of the various issues dealt with by the court in connection with patent exhaustion and conditional sales.

The plaintiff, Pioneer Hi-Bred International, Inc. (Pioneer) owned patents that covered certain hybrid and inbred seed corn.¹¹⁴ Pioneer had established a *dual* distribution system through which its seed corn was conveyed through licensed sales representatives and licensed dealers.¹¹⁵ There was no dispute that Pioneer ever licensed defendant Ottawa Plant Food, Inc. (Ottawa), however, Ottawa did purchase Pioneer's seed corn from Pioneer sales representatives and licensed dealers.¹¹⁶ The label license was in the form of license wording that

¹⁰⁹ *Id.*

¹¹⁰ *See supra* notes 95–98 and accompanying text.

¹¹¹ *See also* *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1333–34 (Fed. Cir. 2006); *Monsanto Co. v. Trantham*, 156 F. Supp.2d 855, 865–66, 868 (D. Tenn. 2001); *Chemagro Corp. v. Universal Chem. Co.*, 244 F. Supp. 486, 490 (D. Tex. 1965).

¹¹² 283 F. Supp. 2d 1018 (D. Iowa 2003).

¹¹³ A “label license” is, as its name implies, a set of license provisions that are typically included on a label pasted on the product, or a tag that is affixed to the product.

¹¹⁴ *Id.* at 1023–24.

¹¹⁵ *Id.* at 1024.

¹¹⁶ *Id.*

appeared on each bag of seed corn, or on a bag tag.¹¹⁷ Although the precise wording of the label license changed over time, the critical wording was essentially the same throughout the relevant time period. That wording said that the customer of the seed corn acquired no rights to the “parental line” of the seed for any purpose other than “production of forage or grain for feeding or processing.”¹¹⁸ Ottawa did not produce grain or forage, which was clearly licensed, but rather it resold the seed corn that it acquired to other dealers or corn producers.¹¹⁹ It was based on this alleged unauthorized sale that Pioneer sued Ottawa for patent infringement.

In response to the allegation of patent infringement, Ottawa advanced multiple lines of defense. The first such defense was that once Pioneer sold the seed corn, Pioneer’s patent rights were exhausted by reason of a *first sale*.¹²⁰ In other words, Ottawa contended that, through Pioneer’s pricing of the seed corn product, it obtained full compensation for the value of its invention (i.e.: its one bite at the apple); therefore, it could not further control the product or collect damages for resale of the product.¹²¹ Pioneer countered with the position that the rules of first sale and patent exhaustion do not apply because there was no *unconditional sale*.¹²² In supporting this position, Pioneer argued that:

any price it received for transfers of the seed corn prior to the resale by Ottawa reflected only the value of the limited license to use the seed corn to produce grain or forage, not the full value of the patented invention or the retained patent rights. Pioneer points out that Ottawa admits that it was never granted a license to resell Pioneer(R) brand seed corn, so that Ottawa never acquired that ‘stick’ from Pioneer’s ‘bundle’ of patent rights.¹²³

The Iowa District Court cited numerous other cases, including *Malinckrodt* and *Braun*, to establish that patent exhaustion is based on an unconditional or unrestricted sale of a product.¹²⁴ If the sale is conditional, then patent exhaustion does not generally apply.¹²⁵ Based on the law and the facts, the District Court held that Pioneer was entitled to summary judgment with respect to the *patent exhaustion* defense because there was no persuasive evidence that

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ *Id.* at 1031.

¹²¹ *Id.*

¹²² *Id.* at 1031–32.

¹²³ *Id.* at 1032.

¹²⁴ *Id.* at 1032–33.

¹²⁵ *Id.* at 1033.

there was any issue of material fact relating to whether all of the sales had been conditional.¹²⁶

A second line of defense offered by Ottawa was that express conditions placed on the sale of a product were subject to “basic contract principles.”¹²⁷ In connection with this point, Ottawa took the position that the express statements in the label license related to the limited *uses* for the seed corn—namely that the corn could only be used for the production of forage or grain for feeding or processing—were ambiguous as to the issue of a purchaser’s right to *resell*.¹²⁸ More interesting still, was Ottawa’s further argument that Pioneer failed to take reasonable steps to insure that purchasers had actual notice of the restrictions on resale by having an express prohibition against resale on the label license or by having purchasers execute a written license agreement.¹²⁹ Pioneer, for its part, argued that the bag labels were an acceptable means of communicating license terms to a purchaser and that any claim that Ottawa’s employees did not read the label license was not credible.¹³⁰ After a detailed review of rules of contract interpretation, the District Court rendered the holding that:

The court finds that the meaning of the clear, unambiguous language of the bag labels at issue in this case is that the *only* right granted to a buyer was the right to use the seed to produce forage or grain, *thereby reserving all other rights to the patentee*, including the right to sell or resell.¹³¹

With respect to the issue of whether a label license is legally sufficient for purposes of providing notice, the court discussed several previous cases, including *General Talking Pictures* and *Mallinckrodt*. The court seemed to conclude that prior decisions were not completely decisive on whether the purchaser had to have *actual* notice of the conditions of sale or whether *constructive* notice was adequate for those conditions to apply.¹³² If actual notice did occur, then it would be sufficient; however, the question was whether something less than actual notice would be sufficient. The court found that that there had

¹²⁶ *Id.*

¹²⁷ *Id.* at 1035.

¹²⁸ *Id.*

¹²⁹ *Id.* at 1035–36. It should also be noted that Ottawa had claimed that, even though the label licenses and bag tags had been on the seed corn the purchased, Ottawa’s employees did not read them, at least not thoroughly. In this sense, it appears Ottawa was reinforcing the theme that it really did not get notice of the license limitations. *Id.* at 1042.

¹³⁰ *Id.* at 1035.

¹³¹ *Id.* at 1040 (emphasis in original).

¹³² *Id.* at 1041.

been, at least, constructive notice.¹³³ To cover all bases, the court went on to postulate that, even if the law requires that actual notice be provided to Pioneer, the fact that Ottawa's employee's admitted selective reading of the label was adequate to remove any genuine issue of material fact that the label was designed to come to the attention of any reasonable purchaser.¹³⁴ Based on the combination of factors, the District Court found that Ottawa had "sufficient notice" and granted Pioneer summary judgment on that specific issue.¹³⁵

A third line of defense offered by Ottawa was that the restrictions Pioneer sought to impose were anticompetitive and unreasonably beyond the scope of the patent grant.¹³⁶ Pioneer's response was that the CAFC had recognized that not all restrictions on resale are illegal, and that its restrictions were similar to limited licenses granted in the biotechnology field and software shrink-wrap licenses, which had been upheld by the courts.¹³⁷ With respect to the issue of whether the label license was unenforceable because it exceeded the scope of the patent rights and had an anticompetitive effect, the District Court recounted the cases defining the law in this area, including *Mallinckrodt* and *Braun*.¹³⁸ With these precedents providing guidance, the court turned to an analysis of the specific label license restrictions and whether they fell within the scope of the patent grant. On this particular point the court found:

Thus, Pioneer's express limitation on any use other than production of grain or forage, which reserves to Pioneer the right to sell the invention, as stated, falls squarely within the patent grant. To put it another way, the restrictions in the Pioneer 'limited label license' are 'field of use restrictions,' and such restrictions 'are generally upheld.'¹³⁹

Ottawa had not claimed that the label license constituted any attempt to extend the subject patent beyond its statutory term nor was there any evidence of any attempt at price fixing or illegal product tying.¹⁴⁰ Hence, the court concluded that the label license was not unenforceable due to any supposed anticompetitive effects.¹⁴¹

¹³³ *Id.* at 1042.

¹³⁴ *Id.*

¹³⁵ *Id.*

¹³⁶ *Id.* 1042–43.

¹³⁷ *Id.*

¹³⁸ *Id.* at 1043–45.

¹³⁹ *Id.* at 1045 (citing *B. Braun Medical, Inc.*, 124 F.3d at 1426; *Mallinckrodt, Inc.*, 976 F.2d at 705 (“[A] restrictive license to a particular use is permissible.”)).

¹⁴⁰ *Id.*

¹⁴¹ *Id.* at 1046.

Yet a fourth line of defense offered by Ottawa was that the provisions in the label license violated basic contract principles because they were undisclosed, and they materially altered the terms of the contract under which Ottawa purchased the seed corn.¹⁴² In response, Pioneer contended that the label license was enforceable because Ottawa failed to object to its terms and return the corn seed.¹⁴³ On this particular issue the District Court noted that the CAFC had not addressed the impact of UCC § 2-207(2)(b) on the enforceability of a limited license for a patented product.¹⁴⁴ Section 2-207(2) of the UCC states in relevant part as to “additional” contract terms:

The additional terms are to be construed as proposals for addition to the contract. Between merchants such terms become part of the contract unless:

- a. the offer expressly limits acceptance to the terms of the offer;
- b. they materially alter it; or
- c. notification of objection to them has already been given or is given within a reasonable time after notice of them is received.¹⁴⁵

In this segment of the court’s opinion, it examined the specific UCC wording, as well as the relevant Official Comments.¹⁴⁶ In connection with this review, the court found Official Comment 4 to § 207(2) to be instructive, in that the Comment judges ‘materiality’ in subparagraph (b) based on whether the added terms would “result[] in surprise or hardship if incorporated without express awareness by the other party.”¹⁴⁷ Applying the guidance of the Official Comment to the case before it, the court stated:

Here, a limitation on the use of the Pioneer (R) brand seed corn to produce grain or forage, which prohibits resale, would neither ‘surprise’ nor cause ‘hardship’ to the vast majority of purchasers of such seed corn, who are farmers who intend nothing other than using the seed corn to produce grain or forage. Nor would the restrictions imposed by the ‘limited label license’ cause ‘surprise’ or ‘hardship’ to the only other usual ‘purchasers’ of Pioneer (R) brand seed corn, Pioneer licensed dealers, who were separately licensed to sell or resell only to persons who would use the seed corn to produce grain or forage or to other licensed dealers. The only persons who could profess to be

¹⁴² *Id.* at 1043.

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ *Id.* at 1046–47.

¹⁴⁷ *Pioneer Hi-Bred Int’l, Inc. v. Ottawa Plant Food, Inc.*, 283 F. Supp. 2d 1018, 1048 (N.D. Iowa 2003) (quoting UCC § 2-207 cmt. 4 (2002)).

‘surprised’ or subjected to ‘hardship’ by the restriction on resale in the ‘limited label license’ are persons or entities, like Ottawa, who purchased the seed corn for the purpose of reselling it, but *who were never supposed to be allowed to purchase the seed corn in the first place*, under the undisputed facts concerning Pioneer’s dual distribution system.¹⁴⁸

Having found that there was no material alteration of the original contract terms through the label license, UCC § 2-207(2)(b) (2002) did not apply.¹⁴⁹ On the other hand, UCC § 2-207(2)(c) (2002) did apply, and because Ottawa failed to object to the terms in the label license, those terms applied to the sale of the seed corn product.¹⁵⁰ Hence, Pioneer was entitled to summary judgment too.¹⁵¹

Turning back now to further consider the *Minebea* case discussed above, the agreements between Papst and Minebea had provisions that established that Minebea’s customers were granted no authorization with regard to any product of the customer that directly infringed a Papst patent, provided the customer first directly infringed the patent.¹⁵² Additionally, in several relevant agreements there was express wording that stated that Minebea was not entitled to grant any sublicenses under the Papst patents to its customers.¹⁵³ To counter Minebea’s claim that Papst’s patents were exhausted, Papst argued that the patent exhaustion doctrine did not apply because there was no unconditional sale of the spindle motors.¹⁵⁴ Notwithstanding Papst’s argument that the sales were conditional, there was no contractual obligation on the part of Minebea to notify its customers of any sales conditions, nor did Minebea send any such notice to its customers.¹⁵⁵ After reviewing the various agreements, the District Court for the District of Columbia framed the question relative to conditional sales as “whether Papst’s express disclaimer of sublicenses to Minebea customers in the relevant agreements rendered Minebea’s sale of its motors under those agreements ‘conditional.’”¹⁵⁶ In other words, the court posed the question whether the mere presence of a license limitation in a license agreement between two parties—a licensor and a licensee—can establish the terms of a conditional sale

¹⁴⁸ *Id.* (emphasis in original).

¹⁴⁹ *Id.* at 1048–49.

¹⁵⁰ *Id.* at 1049.

¹⁵¹ *Id.*

¹⁵² *See supra* note 66 and accompanying text.

¹⁵³ *Minebea Co. v. Pabst*, 2006 U.S. Dist. LEXIS 58053, at *247–48 (D. D.C. Aug. 17, 2006).

¹⁵⁴ *Id.*

¹⁵⁵ *Id.* at *253.

¹⁵⁶ *Id.* at *249.

between the licensee and its customers in spite of the fact that the licensee's customers have no notice whatsoever relating to the limitation. It is interesting to note that in one of the District Court's earlier *Minebea* opinions, the court expressly held that Papst's failure to require a notification to Minebea's customers of the relevant conditions resulted in the sales of the spindle motors by Minebea being considered *unconditional*.¹⁵⁷ As the court stated:

Minebea's motor sales to its customers were unconditional and the fact that they were unconditional was not in violation of Minebea's rights under the 1995 Settlement Agreement. Although Papst could have imposed conditions on Minebea's sales to its customers, it did not do so.

The Court agrees with Papst that such a conclusion seems unfair given the express language in the contract reserving the right to sue Minebea's customers for infringement of the Papst Drive Patents. The Court has no doubt, given the language of the contract, that Papst fully intended to preserve to itself the right to sue customers of Minebea in connection with their infringement of these patents, and the Court is hard-pressed to see how Minebea could not have been aware of Papst's intent. Given the doctrine of patent exhaustion, however, because Papst failed to condition Minebea's sales of motors to its customers, the Court cannot conclude that the sale of those motors could not exhaust the Papst Drive Patents despite language evidencing a contrary intent.

As this Court already said in its ruling denying Papst's earlier motion for partial summary judgment:

[M]y reaction upon reading the contract was that it was not at all clear that this was a conditional contract, and that it was pretty clear to me that it was unconditional. That's why I asked Mr. Lutzker why he didn't move for summary judgment. I read this contract, and sure it says no license is granted to Minebea customers, but it doesn't condition Minebea's right to do anything with what it got.

One could have written an agreement that placed limits on the right to sell or to have made any sale like the ones that Minebea made to its customers unauthorized. It [sic] may even under [*Braun*] and [*Mallinckrodt*] have been written to require Minebea to only sell what it sold with conditions. But my reading of the contract suggested nothing that restricted Minebea from selling hard disk drive motors without restrictions.

....

Minebea didn't place conditions on its sales to its customers, but this agreement didn't require it to. Minebea's sales to its customers, it seems to me, are within the scope of authority that it received.

...

¹⁵⁷ *Minebea Co. v. Papst*, 374 F. Supp. 2d 202, 212 (D. D.C. 2005).

It seems to me as I read the contract that Minebea was completely free to sell any product that it itself manufactured. There was no provision in the agreement that provided that Minebea had to condition its sales to its customers. Papst could have included in the agreement, rather than express reservation of a right to sue Minebea's customers, or rather than a statement that it wasn't granting license rights, it could have included a requirement that Minebea's sale to its customers had to be conditioned in some way.

...

Papst could have placed limitations on the rights of Minebea to sell to customers, but I don't think [there are such limitations] in this contract. I don't see anything in the contract that restricts Minebea from selling hard disk drive motors without restriction.

Transcript of October 19, 2004 hearing at 48–55.

As the Court concluded last fall, the 1995 Settlement Agreement expressly warrants that Minebea's motor sales do not infringe the Papst Drive Patents and waives Minebea's liability for contributory infringement or inducement of infringement under the Papst Drive Patents. This combination gives Minebea the authority to sell its HDD motors. There is absolutely no language in the contract requiring Minebea to condition its sales of these motors to its customers, and the Court therefore concludes that Minebea had the unconditional authority to sell motors that would contribute to the infringement of the Papst Drive Patents under the 1995 Settlement Agreement.¹⁵⁸

Based on this detailed reasoning, it is clear that in its earlier (June 24, 2005) opinion the District Court found the absence of any express notification to the customer to be decisive in the determination that the sales to the customer were not conditional.¹⁵⁹ In its most recent (August 17, 2006) opinion, however, the District Court for the District of Columbia effectively reversed itself on this point and ultimately held that the sales were *conditional*, wherein the condition was that the customer would not assemble the motors into HDD's that would infringe Papst's patents.¹⁶⁰ Accordingly, in the opinion of the District Court for the District of Columbia, a conditional sale can be established without the purchaser ever being notified of the conditions.¹⁶¹ Surprisingly, the *condition* in the conditional sale can be that the purchaser of the authorized article is not authorized to combine the article into an infringing combination product, even though the only *reasonable use* for the authorized article is to make that infringing combination product. A close examination of reasoning behind the court's reversal

¹⁵⁸ *Id.* at 211–12.

¹⁵⁹ *Id.*

¹⁶⁰ *Minebea Co. v. Papst*, 2006 U.S. Dist. LEXIS 58053, at *256 (D. D.C. August 17, 2006).

¹⁶¹ *Id.* at *253.

of its own opinion on this point will have to be postponed until the Analysis and Commentary section *infra*,¹⁶² but, without delving into details, the reversal was expressly based upon the CAFC's opinion in *LG Electronics III*.

As can be seen from the review of the cases from *General Talking Pictures* to *Minebea*, much ground has been covered over the years by the courts in sorting through the inter-relationship between the rules relating to the patent exhaustion doctrine and those relating to conditional sales. The patent exhaustion rules generally hold that the unconditional, authorized sale of an article cuts off the patent owners right to further control the disposition of the article. On the other hand, the conditional sales rules generally hold that a patent owner can impose upon the sale of the authorized article conditions or restrictions such that patent owners rights are not necessarily and completely cut off. When taken together, the cases establish an analytical framework for judging whether a given condition or restriction is, or is not, enforceable.

More specifically, the framework first asks whether the given restriction is “reasonably within the patent grant.”¹⁶³ If the restriction is reasonably within the patent grant, then it is enforceable.¹⁶⁴ If it is determined, however, that there are anticompetitive effects extending beyond the patentee's exclusionary right, then the condition has to be tested to determine whether it is illegal per se or subject to the rule of reason.¹⁶⁵ Existing case law has made clear that certain conditions that impermissibly broaden the physical or temporal scope of the patent—such as using a patent that enjoys market power to restrain competition in an unpatented product through tying, price fixing, or effectively extending the patent term—are not enforceable.¹⁶⁶ On the other hand, field of use limitations are generally permissible.¹⁶⁷

Additionally, existing cases make clear that there are practical factors that are relevant to an analysis of a conditional sale. Of considerable significance is the issue whether the terms of the conditional sale have been made known to the purchaser.¹⁶⁸ It would appear that a notice conspicuously placed

¹⁶² See *infra* Part IV.

¹⁶³ See *Mallincrodt, Inc.*, 976 F.2d at 708; see also *Talking Pictures Corp.*, 305 U.S. 124, 126–27; *supra* note 97–100 and accompanying text.

¹⁶⁴ See *Mallincrodt, Inc.*, 976 F.2d at 708.

¹⁶⁵ See *id.*

¹⁶⁶ See *id.*; *B. Braun Medical, Inc.*, 124 F.3d at 1426; see also *supra* note 101–109 and accompanying text.

¹⁶⁷ See *B. Braun Medical, Inc.*, 124 F.3d at 1426.

¹⁶⁸ See *Pioneer Hi-Bred Int'l*, 283 F. Supp. 2d at 1042–43; see also *supra* note 129–135 and accompanying text.

on the article, in the form of a label or a tag, may suffice as a form of constructive notice.¹⁶⁹ It also appears that a court will more readily find conditions or restrictions enforceable if there is clear evidence that the purchaser had actual notice of them.¹⁷⁰ Presumably, actual assent to the conditions—such as in the form of a written and signed agreement—would be fully conclusive on the issue of notice and enforceability. On the other hand, at least one court has held that notification to the purchaser of the conditions is not relevant, even in a situation in which the purchaser has no reasonable use for the authorized article other than to create a combination product in violation of the unknown condition.¹⁷¹

C. *Patent Exhaustion Cases Dealing With the Sale of an Article and Method Claims*

On two separate occasions prior to the *LG Electronics* cases, the CAFC treated the issue of whether the sale of an article could have the effect of causing an exhaustion of method claims in a patent. The first case was *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*,¹⁷² which largely dealt with trademark issues, but it also included an implied license issue that caused the court to articulate a position on patent exhaustion and method claims.¹⁷³ The plaintiff in the case, Bandag Inc. (Bandag), was engaged in the business of tire retreading (recapping).¹⁷⁴ In connection with this business Bandag sold retreading materials and retreading equipment to a large network of franchisees.¹⁷⁵ The defendant, Al Bolser's Tire Stores, Inc. (Bolser) was mainly engaged in the wholesale and retail distribution of new and recapped tires.¹⁷⁶ As a result of one of Bandag's franchisees going out of business, Bolser purchased some tire retreading equipment that had been

¹⁶⁹ See *Pioneer Hi-Bred Int'l*, 283 F. Supp. 2d at 1042–43.

¹⁷⁰ See *id.*

¹⁷¹ *Minebea*, 2006 U.S. Dist. LEXIS 58053, at *256.

¹⁷² 750 F.2d 903 (Fed. Cir. 1984).

¹⁷³ *Id.* at 909–16, 922–925. It should be noted that there is a difference between patent exhaustion, on the one hand, and an implied license, on the other. The patent exhaustion doctrine is derived from the statutory grant of exclusivity to the patentee, while the implied license doctrine is derived from principles of equity—such as equitable estoppel—not a statute. These doctrines, which are often similar in terms of their effect, may yield different results in a given factual situation. See generally *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *8–9.

¹⁷⁴ *Bandag*, 750 F.2d at 906.

¹⁷⁵ *Id.*

¹⁷⁶ *Id.*

manufactured by Bandag.¹⁷⁷ Bandag knew that the recapping equipment was for sale by the franchisee, and had actually bid on it, but its bid was lower than Bolser, and thus Bolser ultimately purchased the equipment.¹⁷⁸ Bandag owned the Carver patent, which covered the process (method) of recapping tires; however, because it was only a process patent, it did not cover the actual recapping equipment itself.¹⁷⁹ After Bolser purchased the equipment and commenced using it, Bandag brought suit alleging infringement of the process claimed in the Carver patent.¹⁸⁰

The main defense offered by Bolser against the assertion of the Carver patent was that he had acquired an implied license to use the recapping equipment in a manner that infringed the method patent.¹⁸¹ This implied license was based in part on the fact that Bandag had failed to purchase the equipment from the defunct franchisee—thus knowing the equipment would be sold to someone else—and based on the fact that some of the equipment had been “designed for the specific purpose of enabling” the practice of the method described in the Carver patent.¹⁸² Before getting to the issue of the implied license, the CAFC addressed the issue whether the Carver patent could be considered exhausted by reason of the sale of the equipment.¹⁸³ With respect to this issue, the CAFC stated:

The doctrine that the first sale by a patentee of an article embodying his invention exhausts his patent rights in that article, *is inapplicable here*, because the claims of the Carver patent are directed to a ‘method of retreading’ and cannot read on the equipment Bolser used in its cold process recapping.¹⁸⁴

Further examination of this specific passage from the *Bandag* opinion shall be provided *infra*, but for the moment it should be noted that the court summarily concluded that the sale of an article does not trigger the exhaustion of method claims.¹⁸⁵ In view of this holding, the court effectively foreclosed any discus-

¹⁷⁷ *Id.*

¹⁷⁸ *Id.* at 923.

¹⁷⁹ *Id.* at 922.

¹⁸⁰ *Id.* at 923.

¹⁸¹ *Id.* at 925.

¹⁸² *Id.* at 923–24.

¹⁸³ *Id.* at 924.

¹⁸⁴ *Id.* (emphasis added and citations omitted).

¹⁸⁵ *Id.*

sion of a patent exhaustion defense.¹⁸⁶ Additionally, the court found against Bolser on the issue of implied license.¹⁸⁷

*Glass Equipment Dev., Inc. v. Besten, Inc.*¹⁸⁸ was the second case, prior to the *LG Electronics* cases, in which the CAFC addressed the issue of patent exhaustion and method claims.¹⁸⁹ In *Glass Equipment* the defendant, Simonton Windows Co. (Simonton), used a linear extruding machine, which it had purchased from co-defendant Beston, Inc. (Beston), to make “spacer frames,” which are components used to make thermally insulated glass.¹⁹⁰ In making the spacer frames, Simonton used a component called a “locking corner key,” which Simonton had purchased from a licensee of plaintiff Glass Equipment Development Incorporated (GED).¹⁹¹ GED sued Simonton for direct infringement of several method claims, and GED sued Beston for contributory infringement.¹⁹² Beston’s main defense, relative to contributory infringement, was that Simonton had an implied license under the method claims because there were no uses for the corner keys purchased from the licensee that did not result in infringement of the method patent.¹⁹³ Before getting into the implied license analysis, the CAFC made clear that patent exhaustion could not apply to the plaintiff’s method patent because there was a sale of an article.¹⁹⁴ The CAFC stated:

Here, where the articles sold were corner keys, which are not themselves patented (they are merely embodiments of an unpatented element of the '195 patent claims), and the license issue concerns GED’s right to exclude concerning the *method* patent, not the *apparatus* patent, the first sale doctrine is inapplicable to the analysis of the facts.¹⁹⁵

Thus, both *Bandag* and *Glass Equipment* made clear the CAFC’s position that the sale of an authorized article does not cause the exhaustion of the patentee’s method claims.

¹⁸⁶ *Id.* at 926.

¹⁸⁷ *Id.*

¹⁸⁸ 174 F.3d 1337 (Fed. Cir. 1999).

¹⁸⁹ *Id.* at 1342.

¹⁹⁰ *Id.* at 1340.

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ *Id.* at 1342.

¹⁹⁵ *Id.* (citing *Bandag, Inc.*, 750 F.2d at 924 (holding first sale doctrine inapplicable where equipment was sold and license/infringement issue concerned patent claiming method of using equipment)).

III. THE LG ELECTRONICS CASES I–III

LG Electronics I was decided by the United States District Court for the Northern District of California in 2002, while *LG Electronics II* was a reconsideration by the same District Court of its own earlier opinion in 2003. As noted *supra*, after the United States District Court for the Northern District of California reconsidered and reaffirmed its prior opinion through *LG Electronics II*, the case was then appealed to the CAFC, and the CAFC's rendered its opinion in *LG Electronics III* in mid-2006. A brief review of the relevant facts underlying these cases follows, and, as will be seen, certain of these facts are quite similar to the facts in the *Cyrix* case.

LG Electronics (LGE) was the owner of several patents that read on computer devices, such devices necessarily being in the nature of combination products that are made up of multiple, assembled subcomponents.¹⁹⁶ LGE had also entered into a patent license agreement with Intel allowing Intel to make microprocessors and chipsets.¹⁹⁷ As in *Cyrix* and *Minebea*, the license included an express disclaimer of any implied license for Intel's customers, which were essentially computer manufacturers (such as Bizcom), to combine authorized products purchased from Intel with non-Intel products.¹⁹⁸ Furthermore, even before entering into the license agreement with LGE, the computer manufacturers were notified via letter from Intel that they had no express or implied rights under the LGE-Intel license to any combination products containing Intel and non-Intel components.¹⁹⁹ Therefore, unlike the parties that acquired Claim 1 Microprocessors in *Cyrix*, who had no advance notice that they had no authorization to combine those microprocessors with external memory, the parties that acquired Intel microprocessors and chipsets in *LG Electronics I* were given advance notice. More specifically, they were given notice in advance of their pur-

¹⁹⁶ *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *7.

¹⁹⁷ *Id.* at *6.

¹⁹⁸ *Id.*

¹⁹⁹ *Id.* According to the Declaration of David M. Morris, the letter to Intel's customers stated in relevant part that "while this 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." *Id.* at *41. Also, it is interesting to note that, although the reasoning behind Intel's sending of the letter was not expressly stated in *LG Electronics I*, in *LG Electronics III* the CAFC states: "Moreover, this conditional agreement [the LGE-Intel License Agreement] required Intel to notify its customers of the limited scope of the license, which it did." *LG Electronics III*, 453 F.3d at 1371. Thus, it appears the sending of the notice to the customers was done not just because Intel elected to keep its customers informed about this important license limitation, but rather it was under contractual compulsion to do so.

chases that they had no authorization to create combination products. On the other hand, Intel also furnished to these computer manufacturers technical specifications that instructed the manufacturer how to incorporate Intel's components into their computer products.²⁰⁰ In spite of the notice of the conditional sale, but in accordance with the technical specifications, the computer manufacturers used the authorized articles—microprocessors and chipsets—in combination with other non-Intel components to create computer devices.²⁰¹ LGE brought suit against the manufacturers claiming the computer devices (combination products) infringed five LGE patents.²⁰² In connection with the suit, both the defendants and the plaintiffs filed motions for summary judgment.²⁰³ It was in response to these motions that the District Court rendered its opinion extensively discussing the patent exhaustion doctrine.²⁰⁴

A. Patent Exhaustion and Combination Products in the LG Electronics Cases

In response to LGE's requested summary judgment, the computer manufacturers made both patent exhaustion and implied license arguments.²⁰⁵ The patent exhaustion argument was developed along lines similar to that made by the defendant in *Cyril*.²⁰⁶ Namely, the computer manufacturers claimed that the only reasonable use they could make of the authorized articles purchased from Intel was to make combination products that would infringe LGE's computer device patents.²⁰⁷ In summarizing the manufacturers' defense in *LG Electronics I*, the District Court stated:

[The defendants] contend that the licensing of the microprocessor and chipset exhausted the patents in suit because the microprocessor *must be combined with other computer components in an a manner that allegedly infringes LGE's patents in order to function*. Defendants point out that simply by installing the microprocessor in a computer in accord with its *intended and sole*

²⁰⁰ *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *33.

²⁰¹ *Id.* at *6–7.

²⁰² *Id.* at *8. To be clear, LGE did not contend that the Intel microprocessors or chipsets *alone* infringed any LGE patents, but rather the patents that were alleged to be infringed were ones that read on the combination of those authorized components with other non-Intel components. *LG Electronics III*, 453 F.3d at 1368.

²⁰³ *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *2.

²⁰⁴ *Id.* at *8.

²⁰⁵ *Id.*

²⁰⁶ *Id.* at *22.

²⁰⁷ *Id.*

purpose, Defendants allegedly infringed LGE's five patents. *In other words, the Intel microprocessor has no non-infringing use.* Consequently, the LGE-Intel License not only exhausted LGE's rights in the Licensed Products, but also exhausted LGE's right to claim infringement against any device that uses the licensed microprocessor and chipset *for its intended purpose* in the manner recommended by Intel.²⁰⁸

Ultimately, the District Court agreed with the defendants' position on patent exhaustion and largely adopted the defendants' reasoning.²⁰⁹

In reaching its opinion relative to defendants' motion for summary judgment, the District Court surveyed the rationale developed in *Univis Lens* and *Cyrrix*, and quoted extensively from both.²¹⁰ After doing so, the court stated:

To succeed on their motion for summary judgment, Defendants have the burden of presenting undisputed facts sufficient to show that the Intel microprocessor and chipset *have no reasonable non-infringing use.* As noted above, it is undisputed that the microprocessors and chipsets purchased by Defendants are Licensed Products within the meaning of the LGE-Intel License. It is also undisputed that Intel or its authorized agent sells microprocessors and chipsets to Defendants. Incident to the sale of the Licensed Products, Intel provides to Defendants technical specifications necessary to incorporate the microprocessors and chipsets into Defendants' products. The failure to follow Intel's design specification would render Defendants' computers inoperable.

....

This evidence, taken together, establishes that the Intel microprocessors and chipsets *are designed and intended by Intel to be used in computers in accordance with Intel's technical specification and that such use is the sole contemplated use for the devices.* This is sufficient to satisfy Defendants' prima facie case that there are *no reasonable non-infringing uses* and the burden, therefore, shifts to LGE to refute this showing.²¹¹

In its defense, LGE argued that there were two non-infringing uses for the licensed microprocessors and chipsets.²¹² The first argument was that these components could be used outside the geographic territories in which LGE had patent protection.²¹³ The second argument was that the components could be

²⁰⁸ *Id.* at *13–4 (emphasis added and citations omitted).

²⁰⁹ *Id.* at *31.

²¹⁰ *Id.* at *14–31.

²¹¹ *Id.* at *33–35 (citations omitted) (citing *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 687).

²¹² *Id.* at *35.

²¹³ *Id.* at *35.

sold as replacement parts.²¹⁴ The court, however, rejected both of these arguments.²¹⁵

As will be discussed *infra*, on appeal the CAFC reversed the District Court on the pivotal issue of whether the sales of the microprocessors and chipsets were, in fact, conditional.²¹⁶ Because the CAFC held that the sales were conditional, the CAFC found that patent exhaustion did not apply.²¹⁷ In view of this holding, the CAFC had no reason to discuss whether the computer manufacturers were authorized to make combination products in light of the options they may, or may not, have had after purchasing the microprocessors and chipsets. Hence, the non-infringing use argument that was discussed in such detail in *LG Electronics I* was not considered at all by the CAFC in *LG Electronics III*, and thus *LG Electronics III* provides no further elaboration on this particular patent exhaustion topic.

B. Patent Exhaustion and “Conditional” Sales in the LG Electronics Cases

In addition to the non-infringing uses defenses proffered by LGE, there was yet another defense against the application of patent exhaustion available to LGE. This other defense, which was based on the limited license grant from LGE to Intel and the conditional sales notice provided to Intel’s customers, was briefly hinted at in *LG Electronics I*.²¹⁸ This defense, however, was not fully

²¹⁴ *Id.* at *38.

²¹⁵ *Id.* at *36, *39.

²¹⁶ *LG Electronics III*, 453 F.3d at 1370.

²¹⁷ *Id.*

²¹⁸ In *LG Electronics I* the District Court made a number of summary statements about patent exhaustion generally and about the terms of the LGE-Intel License Agreement in particular. For example, in discussing patent exhaustion generally, the court stated: “In sum, the patent exhaustion doctrine applies when a patentee has, in essence, sold its statutory right to exclusivity through the *unrestricted sale or license* of the patent.” *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *10–11 (emphasis added). It further stated:

The patent exhaustion doctrine was articulated by the Supreme Court over a century ago. *Adams*, 84 U.S. at 456. The doctrine is designed to prevent a patentee from receiving a double royalty on a single patented invention. To this end, ‘*an unconditional sale* of a patented device exhausts the patentee’s right to control the purchaser’s use of the device thereafter.’

Id. at *11–12 (emphasis added and citations omitted) (quoting *B. Braun Medical Inc. v. Abbott Lab.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)). Ultimately, the court stated matter of factly that the license between the LGE and Intel was “unrestricted,” without offering details on why that was the case in view of the fact that the license contained restrictions and conditions relative to combination products, and in view of the fact that the customers of Intel were noti-

developed in the case until the District Court entertained a reconsideration of its original opinion in *LG Electronics II*.²¹⁹ Through this reconsideration, the District Court explored, in detail, the argument that the license between LGE and Intel was limited, that sales to Intel's customers were subject to the conditions stated in the letter notification, and, consequently, that the patent exhaustion doctrine should not apply.²²⁰ In brief, LGE's argument was that the patent exhaustion doctrine did not apply because the *predicate requirement* of an unconditional sale was not met.²²¹ In surveying the law in this area, the District Court agreed that LGE could impose conditions on the sale of its patented products, but it concluded that Intel's notice to its customers did not make the sale a conditional or restricted one.²²² According to the court:

[T]he mere fact that LGE is entitled to impose conditions on the sale of the essential components of its patented products does not mean that it actually did so here. To the contrary, Defendants' purchase of the microprocessors and chipsets from Intel was unconditional, in that Defendants' purchase of microprocessors and chipsets from Intel was in no way conditioned on their agreement not to combine the Intel microprocessors and chipsets with other non-Intel parts and then sell the resultant products. Nor does the fact that Intel informed its customers that its license with LGE 'does not extend, expressly or by implication to any product that [they] may make by combining an Intel product with any non-Intel product' render conditional the sales from Intel to Defendants. . . . However, this letter is not sufficient to transform what would otherwise be the unconditional sale of the microprocessors and chipsets into a conditional one. This letter from Intel to its customers does not demonstrate that Defendants agreed as a condition of sale not to combine the microprocessors and chipsets purchased from Intel with non-Intel parts and not to sell the resultant products. Therefore, LGE's licensee's unconditional sale of the essential components of the patented devices to Defendants exhausted LGE's patent rights.²²³

Although the court does not elaborate on what *would* demonstrate a defendant's agreement to the conditions of sale, one would think that a signed acknowledgement by the customer would be about as good as one could expect to get. According to the District Court, mere notice in advance of actual sales to

fied of the same. *Id.* at *12. This specific issue is, however, much more fully dealt with in the *LG Electronics II* case, as it appears, according to the court, that that is the first time the issue was raised to it for detailed consideration. *LG Electronics II*, 248 F. Supp. 2d. at 915.

²¹⁹ *Id.*

²²⁰ *Id.* at 916–17.

²²¹ *Id.* at 916.

²²² *Id.* at 916–17.

²²³ *Id.* (citation omitted).

the Intel customers was not adequate to establish a conditional or restricted sale, thus those customers were entitled to the full benefits of patent exhaustion.²²⁴

Included amongst the issues taken on appeal to the CAFC from the District Court was whether the sale of the microprocessors and chipsets by Intel to its customers constituted a *conditional* sale.²²⁵ The CAFC was relatively laconic in its review and dispensation of the District Court's holding on this point.²²⁶ After a brief summary of the District Court's finding that the sales of the microprocessors and chipsets were *unconditional*, the CAFC flatly stated: "We disagree."²²⁷ The core rationale for the CAFC's reversal of the District Court on this specific point is found in the following two passages:

It is axiomatic that the patent exhaustion doctrine, commonly referred to as the first sale doctrine, is triggered by an unconditional sale. '[A]n unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter. The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. This exhaustion doctrine, however, does not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee.'

. . . .

The LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did. Although *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. Cf. N.Y. U.C.C. Law § 2-202* (allowing contracts to be supplemented by consistent additional terms unless the writing is intended to be complete and exclusive). The 'exhaustion doctrine . . . does not apply to an expressly conditional sale or license,' so LGE's rights in asserting infringement of its system claims were not exhausted.²²⁸

On the basis of the foregoing language, it would appear that the CAFC was of the opinion that the sale of the microprocessors and chipsets were, in fact, conditional. On the other hand, the CAFC concluded the opinion by affirming in-part, reversing in-part, and vacating in-part the District Court's ruling

²²⁴ *Id.* at 917.

²²⁵ *LG Electronics III*, 453 F.3d at 1370.

²²⁶ *Id.*

²²⁷ *Id.*

²²⁸ *Id.* at 1369–70 (emphasis added and citations omitted) (quoting *B. Braun Medical v. Abbott Lab.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)).

and then remanding to the district court for further proceedings in accord with the CAFC's opinion.²²⁹ In addition to various issues relating to patent exhaustion, in its opinion the CAFC raised a significant number of issues relating to the trial court's construction of specific claim wording.²³⁰ Therefore, remanding the case back to the trial appears to have been for the purpose of having the trial court address those claim interpretation issues. Whether the CAFC also intended the remand to include further deliberations on the conditional sales issue was not absolutely clear; however, the CAFC's plainly worded statement that "those sales were conditional" does not create the impression that the issue was open for further consideration by the District Court.²³¹

C. *Patent Exhaustion and Method Claims in the LG Electronics Cases*

In addition to the substantive issues addressed in *LG Electronics I* and *II*, relative to patent exhaustion and combination products and conditional sales, the court also addressed the substantive issue regarding the extent to which LGE had the right to assert method claims.²³² Although it was not entirely clear that LGE raised the issue of the inapplicability of patent exhaustion to method claims based on the sale of an article in *LG Electronics I*,²³³ in *LG Electronics II* that particular issue was dealt with in an express manner.²³⁴ Specifically, in *LG Electronics II*, the court makes clear that at that phase of the litigation LGE did

²²⁹ *Id.* at 1381.

²³⁰ *Id.* at 1372–81.

²³¹ *Id.* at 1370. The impression that the CAFC fully resolved whether the sales were conditional was certainly the one taken by the District Court for the District of Columbia in *Minebea*. See *infra* notes 286–288 and accompanying text.

²³² *LG Electronics II*, 248 F Supp. 2d. at 918.

²³³ See *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *25–32 (LGE cited both *Bandag, Inc. v. Al Bolser's Tire Store, Inc.*, 750 F.2d 903 (Fed. Cir. 1984) and *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337 (Fed. Cir. 1999) for purposes of convincing the court that since the *Univis Lens* opinion (in 1942) these more recent holdings refined the distinctions between the patent exhaustion doctrine and the implied license doctrine.). More specifically, LGE argued based on these cases that patent exhaustion did not apply to "unpatented elements" of the patents in suit. *Id.* at *27. Thus, it appears that in *LG Electronics I* *Bandag* and *Glass Equipment* were cited more for LGE's argument relative to "unpatented elements", than for their holdings in connection with patent exhaustion and method claims.

²³⁴ *LG Electronics II*, 248 F Supp. 2d. at 918. It appears that the first time LGE squarely raised the issue that its method claims were not exhausted by the sale of an authorized article—because patent exhaustion does not apply to method claims—was in the District Court's reconsideration of its original opinion. *Id.* at 915.

argue to the court that patent exhaustion should not prevent it from asserting its method claims against Intel's customers.²³⁵ In view of the statements made by the District Court in its original *LG Electronics I* opinion, it is surprising that this proposition might have been in doubt.²³⁶ In any case, in its reconsideration, the District Court reaffirmed its original statements in this regard by stating:

LGE argues that the patent exhaustion doctrine does not preclude it from alleging infringement of its method claims. In this, LGE is correct, as the Court stated in its August 20 Order. August 20 Order at 18–20 (noting that *Bandag, Inc.* and *Glass Equip. Dev., Inc.* hold that the sale of a device cannot exhaust the patentee's rights under a separate patent teaching a method of accomplishing a specific function).²³⁷

The issue whether the sale of an article could cause the exhaustion of a patentee's method patents was advanced on the appeal to the CAFC.²³⁸ In view of its previous holdings in *Bandag* and *Glass Equipment*, it is not surprising that the CAFC affirmed the holding of the District Court on this point and condensed this part of its opinion into a short paragraph.

Conversely, the trial court declined to find LGE's asserted method claims exhausted. Several defendants contest this ruling on cross-appeal, and we reject their challenge. Based on the above reasoning, even if the exhaustion doctrine were applicable to method claims, it would not apply here because there was no unconditional sale. *However, the sale of a device does not exhaust a patentee's rights in its method claims.* The court was correct.²³⁹

As is evident from the citations, the CAFC used this occasion to reaffirm its holdings in *Bandag* and *Glass Equipment* that method claims are not exhausted by the sale of an article.

IV. ANALYSIS AND COMMENTARY

In the three *LG Electronics I–III* cases, each of the court's opinions address at least one of the three aspects of the doctrine of patent exhaustion that have been the focus of this commentary. That is, they address the rights of a purchaser of an authorized article to use the article in a combination product.

²³⁵ *Id.*

²³⁶ *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *28 (“the sale of a device, whether patented or unpatented, could not exhaust the patentee's rights under a separate patent teaching a method of accomplishing a specific function.”)

²³⁷ *LG Electronics II*, 248 F Supp. 2d. at 918 (citations omitted).

²³⁸ *LG Electronics III*, 453 F.3d at 1370.

²³⁹ *Id.* (emphasis added) (citing *Glass Equip. Dev., Inc.*, 174 F.3d at 1341 n.1 (citing *Bandag, Inc.*, 750 F.2d at 924)).

They address the issue of a *conditional* sale of an authorized article. Additionally, they address the inability of the sale of an authorized article to cause exhaustion of method claims. In the balance of this commentary, each of these three issues will be discussed with the principle focus being on the impact that the *LG Electronics* cases have had on these aspects of patent exhaustion and on some perceived problems with the *LG Electronics* opinions.

A. The Patent Exhaustion Doctrine Relative to Combination Products

As noted *supra*, the CAFC concluded in *LG Electronics III* that patent exhaustion did not apply to the sales of microprocessors and chipsets, due to the conditional nature of the sales.²⁴⁰ Consequently, the court did not need to discuss whether purchasers of those products were entitled to create combination products without threat of infringement of LGE's system level claims.²⁴¹ Other courts, such as the courts in *Cyrrix*, *Minebea*, and *LG Electronics I and II*, did have to grapple with that particular issue however.²⁴² Moreover, although *Univis Lens* was not directly concerned with the right of a purchaser of an authorized article to manufacture combination products, it did articulate the logical underpinnings of this overall doctrine. Therefore *Univis Lens* contributes to this body of law as is readily evident by its ubiquitous citation in the cases that have directly dealt with the combination product and patent exhaustion issue.

Clearly cases such as *Univis Lens*, *Cyrrix*, *Minebea*, and *LG Electronics I* do much to advance the understanding of the scope of protection afforded by the patent exhaustion doctrine in combination product cases. Regrettably, however, they do not set forth a uniform test for determining the precise conditions under which the patent owner should be viewed as having forfeited rights to control combination products made, in part, of an individual article sold with the

²⁴⁰ See *supra* notes 222–228 and accompanying text.

²⁴¹ See *id.* Although the reference throughout this commentary is to the patent owners system level claims or combination product claims, it should be recognized that not *all* such claims of the patent owner are vulnerable to the threat of patent exhaustion. Rather, it is only those system level claims or combination product claims that read on an authorized article combined with another component (or components), and wherein the party making the combination can reasonably claim it had no practical alternative other than to make the combination. It is recommended that this point be kept in mind in connection with the discussion in this commentary.

²⁴² *Cyrrix* was decided by the United States District Court for the Eastern District of Texas, Sherman Division. *Menebea* was decided by the United States District Court for the District of Columbia. *LG Electronics I and II* were decided by the United States District Court for the Northern District of California.

patent owner's authorization. Basic logic and fairness mandate that the patent owner should be regarded as having forfeited such rights only when the owner has authorized *some* activity related to the creation of the combination product. In *Cyrux*, for example, Intel had authorized TI and ST to make and sell the Claim 1 Microprocessors that were sold to Cyrix. Hence, Intel had a hand in contributing to the circumstances under which its combination product claims—system level claims 2 and 6—were alleged to be exhausted. In *Minebea*, Papst authorized Minebea to make and sell spindle motors that were sold to its customers and integrated into HDD products, so it too had a hand in contributing to the infringement of its HDD product claims. Similarly, in *LG Electronics I*, LGE had authorized Intel to make and sell the microprocessors and chipsets that were sold to Intel's customers so LGE likewise had a hand in contributing to the circumstances under which its system level claims were alleged to be exhausted.²⁴³ Although it was a necessary condition for Intel to authorize the sale of Claim 1 Microprocessors, Papst to authorize the sale of spindle motors, and LGE to authorize the sale of microprocessors and chipsets, these conditions alone were the not fully sufficient conditions for patent exhaustion to apply. Instead, according to the court's reasoning, all cases need a further condition. The precise conditions under which patent exhaustion applies in the context of combination products is left a bit murky in the wake of these cases.

Specifically, what remains unclear is: just how limited do the options of a party in the position of a Cyrix customer, a Minebea customer, or an Intel customer have to be in order for patent exhaustion to apply to patents reading on combination products made using an authorized article as a component?²⁴⁴ In

²⁴³ It should be noted at this point that, although the CAFC reversed the District Court holding in *LG Electronics II* relative to the issue of whether the sales of the microprocessors and chipset sales were "unconditional," there is no evidence that the CAFC disagreed with the District Court holding in *LG Electronics I* relative to the issue of combination products and whether patent exhaustion would have precluded LGE from asserting patents covering the combination products had the sales not been conditional. Accordingly, for purposes of this commentary it is going to be presumed that the District Court's analysis on this point is "good law," particularly in light of the fact that its analysis is fully consistent with the prior *Univis Lens* and *Cyrux* holdings.

²⁴⁴ For example, if a party, such as Cyrix, purchased a given authorized microprocessor, and had two alternative uses for the article, one of which would infringe an Intel combination product patent and the other of which would not infringe any Intel patents, would patent exhaustion apply if that party elected to make the infringing combination? It would seem the party is not "limited" to infringing activity since the non infringing alternative exists. But, what if both of the alternatives were considered technically feasible, but only one of them was considered adequately profitable and therefore attractive from a business perspective? Should the party be considered "limited" in that case in view of the fact that they are most likely in business to maximize profits? What if there was only one alternative, which would infringe an Intel

other words, the holding in *Univis Lens*, and most especially the holdings in *Cyrix*, *Minebea*, and *LG Electronics I*, make clear that an analysis under the patent exhaustion doctrine will look to the alternative courses of action available with respect to the usage of an authorized article. How compelling does a given course of action leading to a given combination product have to be in order for the patent owner to be considered to have forfeited rights relative to a patent that reads on that combination product?

The degree of compulsion is currently a murky factor because *Univis Lens*, *Cyrix*, *Minebea*, and *LG Electronics I* each have a number of formulations that have been set forth for consideration in a patent exhaustion analysis related to combination products. In *Univis Lens* the Supreme Court established one standard by making reference to “*the only use*”²⁴⁵ to which the lens blank could be put. In a later segment of the opinion, however, it also made reference to one who has “*destined*”²⁴⁶ an article to be finished in a particular way, and one who sells an article before completion “*for the purpose*”²⁴⁷ of enabling the buyer to finish it. Obviously, in the *Univis Lens* opinion alone there are these different wording formulations: the *only use* of the given article, the *destiny* of the article, the *purpose* for which the article was sold. Even if one could conclude that the meanings of these particular terms are *close*, other court pronouncements need to be accounted for as well. In *Cyrix* the formulations offered by the court are at least as numerous and are not uniform in meaning. There the court made reference to the fact that *Cyrix* has the right to use the Claim One Microprocessors for “*their intended purpose*”²⁴⁸ though later the court also made reference to purchasers of a patented product having the automatic right to use the product for its “*intended normal purpose*.”²⁴⁹ Later still, the court said the Claim One Microprocessors could not be used for “*any commercially viable purpose*”²⁵⁰ without necessarily infringing Intel’s system level claims. Obviously, there is no point pondering the slight difference, if any, between the meaning of an *intended purpose* and an *intended normal purpose*. Neither of these can be con-

combination product patent, but the relevant patent was set to expire six months after the acquisition of the authorized microprocessors? Should the party be considered “limited” in view of the fact that they would not want to delay offers for sale until after the patent expires?

²⁴⁵ United States v. Univis Lens Co., 316 U.S. 241, 249 (1942) (emphasis added).

²⁴⁶ *Id.* at 251 (emphasis added).

²⁴⁷ *Id.* at 252 (emphasis added).

²⁴⁸ *Cyrix Corp. v. Intel Corp.*, 846 F. Supp. 522, 541 (E.D. Tex. 1994). (emphasis added).

²⁴⁹ *Id.* at 540 (emphasis added).

²⁵⁰ *Id.* at 541 (emphasis added).

sidered synonymous with the term *any commercially viable purpose*, since the later invokes an entirely different reference point, namely the realities of the market place. In *Minebea* the District Court of the District of Columbia framed the test in terms of what would be a *reasonable use* and a *reasonably non-infringing use*.²⁵¹ In *LG Electronics I* there is yet another array of varying phraseology relative to the degree of compulsion standard. There the court makes reference to the fact that the microprocessors and chipsets “*are designed and intended by Intel to be used in computers in accordance with Intel’s technical specification and that such use is the sole contemplated use for the devices.*”²⁵² In that same section of the opinion the court also makes reference to the fact that there are “*no reasonable non-infringing uses*”²⁵³ for the microprocessors and chipsets other than to put them in the computer devices.

Hence, it is clear that these opinions offer several different formulations on how compelling a given course of action leading to a given combination product needs to be for the patent owner to be considered to have forfeited rights relative to a patent that reads on that combination product. For example, can the purchaser of the authorized article make an infringing combination if that combination was intended at the time of purchase? If yes, *whose* intent should be controlling in the analysis—the patent owner who authorized the sale of the article, the licensee who sold the article, or the customer who purchased the authorized article? Can the purchaser of the authorized article make an infringing combination if there are no reasonable non-infringing uses? Does such a test seem to comprehend *all* factors influencing the decision, such as commercial and technical factors? Alternatively, can the purchaser of the authorized article make the infringing combination if there is no commercially viable alternative, a test which seems to focus more narrowly on market place realities? Can the purchaser of the authorized article make the infringing combination only if the seller of the article provided specific instructions—possibly by way of a technical specification—directing the purchaser to make the combination, and that combination was the sole use contemplated for the device?

Each of the foregoing questions is based specifically on the wording formulations used in the courts’ opinions, and each of the wording formulations frame the test for when the combination product is authorized in meaningfully different ways. Depending upon the different test used, different results are likely to follow, thereby yielding ambiguity and uncertainty relative to what is,

²⁵¹ *Minebea Co. v. Pabst*, 2006 U.S. Dist. LEXIS 58053, at *190, *262 (D. D.C. August 17, 2006) (emphasis added).

²⁵² *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *34 (emphasis added).

²⁵³ *Id.* at *35 (emphasis added).

or is not, sanctioned by the reach of the patent exhaustion doctrine. Such ambiguity and uncertainty can be reduced if the CAFC, or any other court confronting fact patterns like those in *Cyrrix*, *Minebea*, or *LG Electronics I*, were to adopt a single, uniformly applied formulation for when patent exhaustion applies in such combination product cases.

It is submitted for consideration that the formulation that makes the most sense is one that is based expressly on testing the authorized article to determine whether the article is *a staple article or commodity in commerce suitable for substantial, non-infringing use*. This formulation is, of course, based on the statutory test for contributory infringement set forth in 35 U.S.C. § 271(c). This statute states:

Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, *and not a staple article or commodity of commerce suitable for substantial noninfringing use*, shall be liable as a contributory infringer.²⁵⁴

The specific language of § 271(c) is very well suited as the basis for the patent exhaustion test because § 271(c) is expressly designed to address precisely this type of factual situation. However, § 271(c) addresses it from the vantage point of the potential liability of the seller of an article, instead of the vantage point of the purchaser of the article. The statute basically establishes, in relevant part, that one who sells a component, which is not a staple article or commodity suitable for substantial noninfringing use, has set in motion a chain of events that are *destined* to lead to infringement. Based on this pre-destination of future events, § 271(c) makes the *prime mover* or *architect* of the events that inevitably lead to infringement liable as a contributory infringer. Thus, it logically follows that, if a patent owner conveys an article, or authorizes another to convey an article, which is not a staple article or commodity suitable for a substantial use that would not infringe the patent owner's patents, then the patent owner is the *prime mover* or *architect* of the events that inevitably lead to infringement. If those events inevitably lead to the infringement of the patent owner's patent on a combination product, the patent owner should be deemed to have exhausted the right to assert the combination product claims against the purchaser.²⁵⁵ It should be noted that, in suggesting that the test for patent ex-

²⁵⁴ 35 U.S.C. § 271(c) (emphasis added).

²⁵⁵ To be clear, the suggestion here is not that *all* of the patent owners combination product claims (system level claims) should be exhausted, merely because the authorized article is a component within the given combination product. Exhaustion should apply to only those

haustion relative to method claims should be based on the express wording of § 271(c), not all of the concepts of § 271(c) should be imported into the test. For example, § 271(c) includes a knowledge or scienter component that may be appropriate for a test aimed at determining whether one is culpable for contributory infringement, but it is not appropriate for a test aimed at determining whether one has exhausted patents relative to combination product claims. The test for exhaustion should not focus on what the seller of the article knew, but rather on what the patent owner has authorized. Accordingly, the critical wording of § 271(c) that should form the test in the context of patent exhaustion and combination product claims is the phrase: “staple article or commodity in commerce suitable for substantial, non-infringing use.”²⁵⁶

The adoption of a patent exhaustion test based on the specifically identified verbiage of § 271(c) is both sensible and convenient. Although the courts have not expressly referenced § 271(c) in their opinions, the various wording formulations that they have used in many instances are quite close to the wording of the statute. This suggests that something like the § 271(c) statutory test may well have been in the judges minds when they framed their opinions in combination product cases. What would be helpful, would be for the courts, particularly the CAFC, to expressly adopt a test that is based on the precise wording of § 271(c). By this, it is meant that instead of asking whether the given product is *destined* or *normally intended* to be used in the combination, or whether it has *any commercially viable purpose* other than in the combination, in addition to the other conditions discussed *supra*, the formal test would be: is the authorized article a staple article or commodity in commerce suitable for

claims that read on the authorized article in combination with another component (or components), wherein the authorized article has no substantial, noninfringing purpose other than being put in that particular infringing combination. To the extent the authorized article can be put in any other type of combination that is non infringing, the patent owner’s patents that read on that combination product should not be considered exhausted. In order to narrow the scope of the patent owner’s combination product claims that may be subject to an assertion of exhaustion, parties may look to whether the “essential features” of the given combination product claim are present in the authorized article. See *Minebea*, 2006 U.S. Dist. LEXIS 58053, at *257. In other words, if the essential features of the combination product claim are not present in the authorized article, then there is no chance for the combination product claim to be exhausted. Such an approach can be useful in narrowing the field of patents that may be subject to the threat of exhaustion, but the essential elements test hardly seems to be its own “stand alone” analytical tool since it is difficult to imagine—after considerable effort—any situation in which there is no use for a given article other than in an infringing combination product, but the given article *does not* contain the essential elements of the patent that reads on the combination product.

²⁵⁶ 35 U.S.C. § 271(c).

substantial noninfringing use? If it is, then there should be no exhaustion of combination product claims because the patent owner has not predestined infringement; by definition, the purchaser has noninfringing alternatives. On the other hand, if it is not, and the only use of the authorized article is in a combination product that infringes the patent owner's combination product claims, then exhaustion should apply to those claims.

The formal adoption of such a test would bring uniformity to the wide array of language formulations that have been used in previous cases that have either addressed the combination product issue directly or have influenced this aspect of the patent exhaustion doctrine. More specifically, such an adoption would make clear the standard by which one measures how compelling a given course of action leading to a given combination product has to be in order for the patent owner to be considered to have forfeited rights relative to a patent that reads on that combination product. One further advantage to adopting the specific wording of § 271(c) as the basis of the test would be that existing case law interpretations of the *no substantial, noninfringing use* terminology of the contributory infringement statute would be available to guide future interpretations of that standard in the patent exhaustion context.

B. The Patent Exhaustion Doctrine Relative to “Conditional” Sales

Although some of the courts that have dealt with conditional sales issues have tended to avoid making a clear statement on what constitutes adequate notice relating to a *conditional* sale,²⁵⁷ the CAFC in *LG Electronics III* appears to have taken a more decisive stand on that issue. Recalling that the District Court in *LG Electronics I* and *II* held that the letter notice sent to Intel's customers did not make the sales conditional because it failed to show their actual agreement with the terms,²⁵⁸ the CAFC expressly disagreed with the District Court on this point and stated:

Although 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. *Cf.* N.Y. U.C.C. Law § 2-202 (allowing

²⁵⁷ See *Pioneer Hi-Bred Int'l, Inc. v. Ottawa Plant Food, Inc.*, 283 F. Supp. 2d 1018, 1041 (N.D. Iowa 2003). The court discusses how the courts in both *General Talking Pictures* and *Mal-linckrodt* found no need to consider key issues relative to whether *actual* notice is required in a conditional sales case, and whether a “label license” is an adequate form of notice for a conditional sale. In this respect, important issues relative to what constitutes an enforceable condition of sale were not fully resolved by those cases.).

²⁵⁸ *LG Electronics II*, 248 F. Supp. 2d at 917; see *supra* note 223 and accompanying text.

contracts to be supplemented by consistent additional terms unless the writing is intended to be complete and exclusive).²⁵⁹

Considering this part of the CAFC's opinion only, it would seem that the CAFC has taken the position that actual assent to the conditions of the sale by the party to be affected, perhaps in the form of a signed writing, is not a requirement for a conditional sale. Instead, it would seem that unilateral notification is perfectly adequate for establishing the conditions, and thereby rendering patent exhaustion inapplicable. On the other hand, the very terse manner in which the CAFC dealt with the conditional sales issue in its opinion regrettably leaves unclear quite a number of considerations. Compounding the lack of clarity on this point, the CAFC made the broad statement at the end of the opinion that the case was being remanded to the District Court for further proceedings consistent with the CAFC's opinion.²⁶⁰ It is not, however, clear from this remand instruction whether the District Court is chartered to reopen the conditional sales issue for reconsideration, or whether the CAFC has fully resolved that issue with the finding that the sales were conditional.

It would be both surprising and troubling if the CAFC did in fact conclude that the sales were conditional and no further inquiry or examination beyond what was done in its *LG Electronics III* was needed. To begin with, in the *LG Electronics III* opinion, the CAFC did not exercise the issue whether the conditions that applied to the sales of the microprocessors and chipsets were "reasonably within the patent grant."²⁶¹ As discussed *supra*, according to the CAFC, use restrictions have to be tested to determine whether they impermissibly broaden the physical or temporal scope of the patent.²⁶² If the restriction is reasonably within the patent grant, then the restriction is enforceable.²⁶³ If it is not, because there are anticompetitive effects that extend beyond the patentee's statutory right, the restriction has to be further tested to determine whether it is illegal per se or subject to the rule of reason.²⁶⁴

²⁵⁹ *LG Electronics III*, 453 F.3d at 1370 (emphasis added).

²⁶⁰ *Id.* at 1381 ("Accordingly, the judgment of the United States District Court for the Northern District of California is affirmed in-part, reversed in-part, and vacated in-part. The case is remanded for further proceedings in accordance with this opinion.")

²⁶¹ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992). The precise wording of the "reasonably within the patent grant" test is first articulated in *Mallinckrodt*, see *supra* note 99 and accompanying text, but the basic concept—though not the exact wording—was first stated in *General Talking Pictures*, see *supra* note 81 and accompanying text.

²⁶² See *supra* note 163–168 and accompanying text.

²⁶³ See *id.*

²⁶⁴ See *id.*

Also recall that the condition that was conveyed to Intel's customers was that they were not licensed to combine microprocessors and chipsets manufactured by Intel with other non-Intel components.²⁶⁵ Is such a restriction "reasonably within the patent grant?" Such a restriction does not attempt to extend the term of LG's patents, nor does it attempt to establish any type of price fixing or traditional product *tie-in* arrangement.²⁶⁶ In this sense, it is not one of the types of sales conditions that court precedent has already established is unenforceable.²⁶⁷ On the other hand, it is also not clear that this condition falls neatly into the category of a *field of use* restriction that court precedent has established is generally upheld.²⁶⁸ Perhaps if LGE had Intel advised its customers that they were not permitted to use the microprocessors or chipsets in high powered, main frame computers but could use them only in laptop or desktop computers, that would be a more easily recognized *field of use* limitation.²⁶⁹ Such a *field* carve out, however, is not the type of condition LGE imposed on these products. Instead, there was an outright restriction on the ability to form combinations of the authorized articles with other components that did not come from Intel.²⁷⁰ In some respects this restriction may be akin to the "Single Use Only" condition in *Mallinckrodt*, which was not a traditional field carve out despite the plaintiff's contention that the *field of use* was *single use*.²⁷¹ One fairly significant difference between the condition in the LG Electronics cases and the condition in *Mallinckrodt*, however, was that the purchasers of the inhaler devices in *Mallinckrodt* had the authorization to use the devices for at least some commercially

²⁶⁵ *LG Electronics III*, 453 F.3d at 1368.

²⁶⁶ It is possible to view this as a type of "tie-in" considering that Intel's customers did not have a license to create combinations with non-Intel products thereby implying that the purchaser did have a license to create combinations with *other* Intel products. In this sense, one might contend that the purchaser would be tied into using Intel's products in creating the combinations. However, there is no evidence that Intel even offered the other components that were necessary to form the infringing combination. Accordingly, it seems most sensible to conclude that the sales condition did not constitute an unlawful "tie in" as that term is used in antitrust law.

²⁶⁷ See *supra* notes 99, 109–10 and accompanying text.

²⁶⁸ See *id.*

²⁶⁹ Such a limitation would be similar to the field of use limitation that was found to be enforceable in *General Talking Pictures*, wherein the Transformer Company was licensed to make and sell amplifiers in the field of home radio broadcast reception, but not the field of commercial motion pictures. 305 U.S. at 126.

²⁷⁰ *LG Electronics III*, 453 F.3d at 1368.

²⁷¹ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992); see *supra* notes 88 and accompanying text.

practical use, that being at least one use on a patient.²⁷² With respect to the condition imposed on Intel's customers, it is not as clear what the commercially practical use of the microprocessors or chipsets would be if they could not be used in combination with other non-Intel products. Admittedly, the customers appeared to have the right to combine the microprocessors and chipsets with other Intel products, but such an option may be totally meaningless unless it is known that Intel actually offered complementary computer components that could be used to create combination products, a fact that is not discussed in any of the LG Electronics cases.

When LGE argued in *LG Electronics I* that Intel's customers had two non-infringing use options—one being the ability to use the microprocessors or chipsets in geographic territories where LGE had no patent protection, and the other being the ability to use them as replacement parts—the District Court rejected both of these arguments.²⁷³ This provides some insight into whether a restriction in a sales agreement, which effectively limited the purchaser of an authorized article to only using that article for replacement parts or in limited territories, would be considered a restriction that was “reasonably within the patent grant.” After all, if the condition or restriction results in the purchaser having no meaningful options, can the imposition of such a condition or restriction be considered “reasonably within the patent grant”? The *LG Electronics I* opinion tends to imply that the District Court thinks that a sales contract restriction that left the purchaser with only the options of using the article for replacement parts or in limited territories might not be “reasonably within the patent grant.” On the other hand, in *Bandag* the CAFC found that the defendant was not entitled to an implied license because one of the noninfringing uses for the tire recapping equipment was as replacement parts.²⁷⁴ In *Bandag* the CAFC also

²⁷² *Mallinckrodt*, 976 F.2d at 703.

²⁷³ *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *39. Recall that LGE raised this argument for the purpose of countering the argument that its combination product patents should be exhausted because Intel's customers had no reasonable noninfringing uses for the authorized articles other than to infringe the combination product patents. *Id.* at *35. See *supra* notes 212–215 and accompanying text.

²⁷⁴ *Bandag, Inc. v Al Bolser's Tire Store, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984). It must be emphasized that *Bandag* was not a patent exhaustion case, but rather an implied license case. In *Bandag*, the CAFC examined whether Bolser met his burden of proof in establishing that he had an implied license under *Bandag's* patents. *Id.* at 925. *Bandag* failed to meet this burden in two respects, the first of which was that the equipment could be used as replacement parts. *Id.* Therefore, at least one substantial non-infringing use was available to Bolser. Hence, although the CAFC's opinion in this regard was rendered relative to an implied license theory, it is nonetheless instructive in considering whether such an option would be

found that Bolser had available other alternatives that would not cause infringement of Bandag's method claims, such as selling the recapping equipment in its entirety, modifying the equipment so that it would not cause infringement, and refraining from use of the equipment until the expiration of the patent term.²⁷⁵ The *Bandag* opinion therefore tends to imply that the CAFC would think that a sales contract restriction that left the purchaser with only those particular options only might be "reasonably within the patent grant." Is a purchaser's ability to use an authorized article for the limited purpose of a replacement part a reasonable alternative for avoiding infringement, as suggested by the CAFC, or was the District Court correct in suggesting that it is not? If nothing else, such possible differences of opinion on what are reasonable alternatives for avoiding infringement illustrate the point that what constitutes a condition or restriction that is "reasonably within the patent grant" is by no means self evident or perfectly straight-forward.

In view of the fact that the reasonableness of sales conditions is not necessarily self evident or perfectly straight-forward, it was even more important for the CAFC to provide much more detailed guidance on the reasoning behind its opinion that sales in the LG Electronics cases were conditional. Unfortunately, nowhere in the CAFC's opinion does it discuss whether the condition imposed on the sale of the microprocessors and chipsets was "reasonably within the patent grant." One would think that the *reasonableness* of the restriction would have to be judged in light of the realistic and practical options that Intel's customer's had after purchasing the authorized articles. If the CAFC believed that Intel's customers did, in fact, have some realistic and practical options—such as purchasing complimentary components from Intel, selling the authorized articles as replacement parts, selling them in geographic territories where LGE had no patent protection, and so forth—it would have been most helpful for the CAFC to clarify this point. Likewise, it would have been helpful for the CAFC to provide at least some indication that it stepped through a consideration of the types of factors that were deemed relevant in other conditional sales cases. Alternatively, the CAFC could have expressly committed this task to the District Court on remand, but there is no evidence in its opinion of that actual intent.

Aside from the CAFC not providing any insight into whether it tested the sales condition in the *LG Electronics* cases to determine if it was "reasonably within the patent grant," there are still other troubling aspects to the courts'

considered a reasonable alternative for the purchaser of an authorized article under a patent exhaustion theory.

²⁷⁵ *Id.*

opinions on the conditional sales issue. Assuming for the sake of discussion that the sales condition was “reasonably within the patent grant,” did the CAFC hold that the letter notification to the Intel customers was, without any further consideration, adequate for establishing an enforceable sales condition? It would be surprising if the letter notification had the ability to supersede the terms of a written and signed product sales agreement between Intel and its customers, especially if the terms of the letter notification materially altered the terms of that product sales agreement. Likewise, it would be surprising if the letter notification had the ability to supersede the terms of a written agreement that said there could be no amendments, except by another writing signed by both parties.²⁷⁶ A relevant piece of factual information that is absent from the *LG Electronics I* and *III* opinions, is any discussion of what the terms and conditions of sale were between Intel and its customers, other than the letter notification. In view of what is customary in industry, it is very likely that there was a written and signed product sales agreement, or possibly signed product purchase orders. Additionally, it is very probable that the sale of the microprocessors and chipsets (i.e. goods) would fall within the scope of the Uniform Commercial Code adopted in the given jurisdiction in which the sales took place. Hence, relevant provisions of the UCC, or other statutory or common law rules, may well control whether the terms unilaterally proposed by Intel should be tested in light of applicable principles of contract law to determine if they are enforceable.²⁷⁷ Moreover, one would have expected that the CAFC would specifically consider the enforceability of additionally proposed contract terms in light of the CAFC’s statement in *Braun* that “express conditions . . . are contractual in nature and are subject to antitrust, patent, *contract*, and *any other applicable law*”²⁷⁸

The CAFC in *LG Electronics III* appeared to be aware of the impact that the UCC may have on the enforceability of unilaterally proposed conditions. This is evident in the CAFC’s citation to the UCC in the following passage:

The LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel’s licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did. Although Intel was free to sell its microprocessors and chipsets, those sales were condi-

²⁷⁶ Such a provision is fairly typical in a written contract.

²⁷⁷ Recall that in *Pioneer* the Iowa District Court wrestled with UCC § 2-207, and especially the question of whether the label license on the seed corn may have “materially” altered previously agreed upon terms of sale, in which case UCC § 2-207 would seem to preclude enforceability. 283 F. Supp. 2d at 1048; *see supra* notes 142–151 and accompanying text.

²⁷⁸ *Braun Med. Inc. v. Abbot Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (emphasis added).

tional, and Intel's customers were expressly prohibited from infringing LGE's combination patents. Cf. N.Y. U.C.C. Law § 2-202 (*allowing contracts to be supplemented by consistent additional terms unless the writing is intended to be complete and exclusive*). The 'exhaustion doctrine . . . does not apply to an expressly conditional sale or license,' so LGE's rights in asserting infringement of its system claims were not exhausted.²⁷⁹

On the other hand, it is not clear what the CAFC intended by making this reference to the New York UCC. Is it saying that the New York UCC § 2-202 is the statutory law that applies to the sales of the microprocessors and chipsets to the defendant, Bizcom? Is it saying that this is the only UCC provision that applies to these sales? Is it saying that it has determined that the conditions proposed for addition by Intel are *consistent* with whatever contract the parties had and that that contract was not intended to be complete and exclusive? Because none of these issues are elaborated upon by the CAFC in *LG Electronics III*, it is difficult to see how the CAFC could have concluded that the sales were conditional and that patent exhaustion did not apply to LGE's system level claims. Wouldn't such a holding be premature before there is a complete determination whether the terms set forth by Intel in the notification letter were or were not enforceable in view of any controlling written contracts between the parties and the controlling statutory law—such as the UCC—or common law? There is no evidence that this particular issue was remanded to the lower court for further consideration. Further, it seems unlikely that the CAFC's intended further consideration of this issue by the District Court in light of its plain statement that the sales "were conditional."²⁸⁰ However, that will be for the District Court to determine.

It is interesting to note that in *Pioneer* the tests for whether a proposed additional contract term would be considered to *materiality alter* the contract was based in part on whether the added term would cause surprise or hardship if incorporated into the sales relationship without the other party's (Ottawa's) express awareness.²⁸¹ Although it cannot be determined from the *LG Electronics* cases what UCC provisions, if any, might have governed the sale of goods between Intel and its customers, one wonders: what would be the outcome if that type of test of 'materiality' were applied in the *LG Electronics* cases? Recall that LGE, as the licensor, authorized Intel to make and sell the microprocessors

²⁷⁹ *LG Electronics III*, 453 F.3d at 1370 (emphasis added) (quoting *B. Braun Med. Inc.*, 124 F.3d at 1426).

²⁸⁰ *Id.*

²⁸¹ *Pioneer Hi-Bred Int'l, Inc. v. Ottawa Plant Food, Inc.*, 283 F. Supp. 2d 1018, 1049 (N.D. Iowa 2003).

and chipsets.²⁸² Moreover, Intel provided instructions to its customers on making the very combinations that were alleged to infringe LGE's system level claims.²⁸³ Therefore, it seems highly likely that one of Intel's customers—such as Bizcom—would be able to persuasively argue that they were surprised that they were not authorized to make the very combination products that LGE's licensee instructed them how to make. This seems to be the type of issue that the CAFC should have addressed in its opinion in *LG Electronics III* or should have expressly remanded to the District Court for further investigation.

Yet another troubling aspect of the CAFC's opinion with respect to the conditional sales issue in *LG Electronics III* is the extent to which the CAFC's holding was dependent upon the specific facts in the case.²⁸⁴ More particularly, it is unclear whether the CAFC's decision that the sales were conditional was predicated on the fact that the LGE-Intel license expressly disclaimed any authorization of Intel's customers making combination products *and* they were given notification to that effect, or whether the disclaimer *on its own* was sufficient to establish the conditional sale. As will be seen from the discussion immediately *infra*, according to the District Court for the District of Columbia, the CAFC's opinion in *LG Electronics III* establishes that Intel's notice to its customers was not really necessary for establishing a conditional sale. It further establishes that the only decisive factor was that the LGE-Intel license agreement expressly disclaimed the customers' right to make combination products.

Recall that in the earlier discussion it was noted that the District Court for the District of Columbia originally held that Papst's failure to require Minebea to notify its customers that they were not authorized to create HDD combination products formed the basis of the finding that the sales of the spindle motors were unconditional.²⁸⁵ It was also noted that the District Court later reversed its own opinion because of the CAFC's opinion in *LG Electronics III*.²⁸⁶ Apparently, the District Court in *Minebea* found the facts underlying *LG Electronics III* to be "analytically almost indistinguishable" from those in *Minebea*, noting that in both cases the patent owners had expressly disclaimed any sublicense right on the part of the licensees/manufacturers.²⁸⁷ One key difference

²⁸² *LG Electronics III*, 453 F.3d at 1368.

²⁸³ *Id.*

²⁸⁴ The troubling aspects were attributable, in part, to the brevity of the court's opinion.

²⁸⁵ *Minebea Co. v. Pabst*, 2006 U.S. Dist. LEXIS 58053, at *190, *252 (D. D.C. August 17, 2006); see *supra* notes 157–159 and accompanying text.

²⁸⁶ *Minebea*, 2006 U.S. Dist. LEXIS 58053, at *351; see *supra* notes 160–162 and accompanying text.

²⁸⁷ *Id.* at *252.

between the cases, however, was that in *LG Electronics III* there was the requirement that the customers be given notice, and that notice did in fact get sent.²⁸⁸ Despite the District Court's apparent admission that the CAFC's *LG Electronics III* opinion was not completely clear, the District Court was nonetheless convinced that the CAFC found the disclaimer to be the decisive factor, as is evident from the following passage:

*Although the Federal Circuit's LGE opinion may be open to interpretation on this point, in this Court's judgment the decision in LGE turned on the existence of an express disclaimer of sublicenses, not on the presence or absence of a notice requirement; it is the former, not the latter, that determines whether an authorized sale is conditional or unconditional.*²⁸⁹

The court goes on to explain its finding based on the subordinate nature of the CAFC's statement regarding the importance of the notice given to the customers, as contrasted with the importance of the disclaimer. The court also explained that the bargain struck for the value of the patent rights would be based on the limited license granted and not on the notice requirement.

That notice is not the crucial factor is apparent first from the language used by the Federal Circuit in LGE: 'The LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license[.]' The order and structure of these sentences strongly suggest that a notice requirement (or the lack thereof) is of secondary importance. Moreover, it would make no sense to afford dispositive weight to the presence or absence of a notice requirement in view of the reasoning underlying the unconditional sale requirement of the patent exhaustion doctrine: 'The theory behind this rule is that in [an unconditional sale], the patentee has bargained for, and received, an amount equal to the full value of the goods.' The exhaustion doctrine does not apply to an expressly conditional sale or license because '[i]n such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee.' While it is reasonable to believe that an express disclaimer of sublicenses in a licensing agreement could substantially affect the value of the license—and thus, that a patent holder selling a license incorporating such a disclaimer might not receive as compensation 'an amount equal to the full value' of the patent—the Court cannot imagine that the presence or absence of a notice requirement would have any effect whatsoever on the price the parties negotiated. A notice requirement is unlikely to affect whether the patentee

²⁸⁸ *Id.* at *252–53.

²⁸⁹ *Id.* at *253 (emphasis added).

'has bargained for, and received, an amount equal to the full value of the goods.'²⁹⁰

The District Court for the District of Columbia went on to explain that, in spite of its previous holding that the sales were unconditional, the CAFC's decision in *LG Electronics III* is "controlling."²⁹¹ Therefore the District Court decided to reverse itself and hold that the sales were, in fact, conditional.²⁹²

If the CAFC has truly adopted the position that a conditional sale can be established based solely upon a license agreement disclaimer (i.e., without any notice of the conditions to the licensee's customers),²⁹³ that position would be difficult to reconcile with prior case law. For example, in *Cyrix* the Texas District Court established that the Intel-TI license expressly stated that TI's customers (namely Cyrix) did not have an authorization under Intel's patents to form combination products.²⁹⁴ If such a license provision was decisive in establishing that the sale of the Claim One Microprocessors were *conditional*, then the District Court would not have needed to go on to analyze the effects of the patent exhaustion doctrine, because patent exhaustion would not apply in the case of a conditional sale. Likewise, in the *LG Electronics* cases the license provisions stated that Intel's customers obtained no authorization under LGE's patents to form combination products.²⁹⁵ In light of that fact, why did the District Court and the CAFC even make an issue out of the notice to the customers if the mere presence of the disclaimer was all that was needed to establish a conditional sale to Intel's customers?

It is beyond the scope of this commentary to determine whether the *Minebea* court is correct in maintaining the position that a disclaimer in a license agreement is sufficient to establish that sales are *conditional* even if the purchaser has no opportunity to access the conditions. On the other hand, such a proposition seems incorrect when applied to the specific facts in *Minebea*, which are similar to the facts in *Cyrix* and the *LG Electronics* cases. One must keep in mind that in all of these cases the purchaser of the authorized article acquired an item that had no substantial use other than to be put in a combination product that would infringe the system level claims of the patent owner. In such a specific case, it is difficult to rationalize how the patent owner should be

²⁹⁰ *Id.* at *254–55 (quoting *LG Electronics III*, 453 F.3d at 1369–70 (emphasis added)).

²⁹¹ *Id.* at *255.

²⁹² *Id.* at *256.

²⁹³ In spite of the District Court's opinion in *Minebea*, whether this was indeed the position and intent of the CAFC seems, at the least, debatable.

²⁹⁴ *Cyrix Corp. v. Intel Corp.*, 846 F. Supp. 522, 539 (E.D. Tex. 1994).

²⁹⁵ See *supra* note 197 and accompanying text.

permitted to expressly disclaim any authorization for a combination product through *undisclosed* conditions set forth in a license agreement. The legal sanctioning of such an approach seems to be tantamount to allowing the patent owner to set a trap for the purchaser of the authorized article. The point is, in the specific instance where the purchaser of the authorized article has no substantial noninfringing use for the article and is thereby into making the combination product, the overall circumstances have established a legitimate expectation interest on the part of the purchaser. Importantly, that expectation interest is not one that is unilaterally developed by the purchaser because the patent owner has most certainly had a hand in cultivating the expectation interest by authorizing the sale of the article that has the specifically limited use. Therefore, it seems rational that where the authorized article has no substantial noninfringing use, timely notice of the limited rights of the purchaser must be made accessible to the purchaser in order to counteract the expectation interest. As long as the purchaser has been given timely notice (i.e., notice *before* the purchase of the authorized article), then the purchaser should have no reason to expect that the combination product is authorized or that it is entitled to claim the patent owner's combination product claims are exhausted.

Obviously, the court in *Minebea* did not embrace the rationale described immediately above, since it found the sales of the spindle motors to be conditional,²⁹⁶ and therefore patent exhaustion did not apply.²⁹⁷ As noted *supra*, this finding was expressly done in the name of the CAFC's holding in *LG Electronics III*, although the District of Columbia District Court admitted the CAFC's opinion was open to interpretation on this point.²⁹⁸ For the reasons discussed *supra*, it seems such an interpretation of the law of conditional sales and patent exhaustion is an incorrect one. It must be admitted, however, that the CAFC's opinion in *LG Electronics III* left unclear its position on the specific point.

Another troubling aspect of the brevity of the CAFC's discussion of the importance of the specific facts in the case is that it leads to numerous other questions. For example, was the timing of the notification a decisive factor in so far as the letter was sent to Intel's customer *before* the LGE-Intel patent license was signed? This would imply that all customers receiving licensed products knew, or at least should have known, of the sales conditions *before* they made any purchases of licensed products. Was it decisive that the notification was sent in the form of a letter, which may imply that the import of the message was delivered to someone in the buyer's organization that is most

²⁹⁶ *Minebea*, 2006 U.S. Dist. LEXIS 58053, at *256.

²⁹⁷ *Id.*

²⁹⁸ *Id.* at *253; see *supra* note 289–292 and accompanying text.

likely to give the notification serious attention?²⁹⁹ Was it decisive that the letter notification, being in the nature of a personally directed communication, would obviate any questions or doubts relative to conspicuousness? Did it matter to the court whether the notification to the customers constituted actual notice, or was it adequate if the notification was simply constructive notice? Answers to these questions are not found in the CAFC's *LG Electronics III* opinion, despite the fact that they are the very issues that other courts have wrestled with in considering the enforceability of sales conditions in the context of patent enforcement. All that is made clear is that the notification sent by Intel was considered by the CAFC to establish that the sales of the microprocessors and chipsets were conditional.³⁰⁰

In the absence of any pre-existing, written, and signed product sales agreement between a buyer and seller, logic and fairness dictate that a buyer who is given conspicuous notice, *in advance of a sale of products*, is subject to enumerated conditions and should be bound by those conditions. This approach is essentially consistent with the notion that parties should be free to contract to whatever terms and conditions they choose.³⁰¹ On the other hand, if a seller and the buyer have entered into written terms and conditions of sale, and sometime after that written agreement additional conditions are unilaterally proposed by the seller—as in the case of a later provided notification in the form of a letter or a label on a product—the enforceability of those conditions should be tested based on contract law considerations. Existing case law makes clear that any attempt to enforce the conditions of sale by means of a patent enforcement action, regardless of whether the parties had a written contract prior to the proposed conditions of sale, will have to address whether the conditions are consid-

²⁹⁹ It seems plausible that the court might have considered a letter notification to the buyer's organization to be more effective than a label actually placed on an article. The letter notification, if delivered to the right person in the buyer's organization may prompt the buyer to seriously consider the conditions imposed on the sale, and possibly refuse to purchase the product if its limited use is not consistent with the buyer's business plans. On the other hand, a label placed on a product—such as the “Single Use Only” label on the inhaler device and the label license on the seed corn—is a form of notification that is likely to be seen by the person who is actually working with the product, like a medical technician or farmer. Moreover, the technician or farmer is likely to first see the notice at the very moment in time that the person is poised to commence using the product, and therefore the person would not be ideally situated to evaluate the legal significance of the notice.

³⁰⁰ *LG Electronics III*, 453 F.3d at 1370.

³⁰¹ A buyer who is displeased with the terms being proposed by the given seller is free to take her business elsewhere. In a similar vein, a seller who conveys products subject to conspicuously stated conditions should not suffer the threat of the modification of those conditions or their complete eradication due to the patent exhaustion doctrine.

ered to be “reasonably within the patent grant.” Cases such as *General Talking Pictures*, *Mallinckrodt*, *Braun*, and *Pioneer* provide the basic framework by which such conditions are tested for enforceability in view of both contract law principles and patent law principles. For reasons that are not readily apparent, however, in *LG Electronics III*, the CAFC made no meaningful attempt to use the analytical framework set up by these cases to assess the enforceability of the sales conditions imposed on Intel’s customers.

Regardless whether the CAFC’s opinion on the conditional sales issue is well reasoned, one positive aspect of the CAFC’s ruling is that it did correct some of the excesses of the District Court in the area of patent exhaustion. Following the *LG Electronics I* opinion in 2002, the patent exhaustion doctrine was imbued with a certain potency. More specifically, the patent exhaustion doctrine was potent enough to entitle Intel’s customers to make combination products, in spite of the contrary notifications they had gotten *before* they even purchased licensed products. Thus, the patent exhaustion doctrine had the strength to extend an authorization to do something under the patent owner’s patents that the patent owner had expressly advised, in a timely manner, was not permissible. By holding that the sales to Intel’s customers were conditional, the CAFC has, at the very least, reset a balance between the ability of patent exhaustion to secure rights for the purchaser of an authorized article and the ability of the patent owner to fractionalize the ownership interest under the patent and convey only a limited part of that interest through a given authorized transaction. In this sense, the CAFC has reemphasized the strength and enforceability of sales conditions through patent law. Because the balance was reset through an opinion that lacks important, explanatory details, the opinion is open to interpretations—such as the interpretation rendered by the court in *Minebea*—that do not seem reasonable or fair.

One final point, with respect to the status of conditional sales and patent law, is intended as a practical suggestion to practitioners. The debatable cases in this area seem to center around factual situations in which a seller provided no notification to the purchaser that the sale was subject to conditions, or the seller unilaterally proposed conditions to a purchaser. Such approaches leave the seller open to the assertion that the conditions were never seen or accepted by the purchaser. The better practice in establishing *enforceable* conditions, therefore, would be to include those sales conditions in a written and signed agreement between the seller and the purchaser of the article. Such agreements make it very clear that the buyer has assented to the terms and eliminates any uncertainty—which may have to be settled through expensive litigation—over whether unilaterally proposed terms are truly enforceable in light of statutory or common law rules governing such terms. Of course, the conditions will have to be tested to determine whether they are “reasonably within the patent grant.”

They should not be vulnerable on the ground that they unilaterally and materially alter an existing contract or that they otherwise violate some other contract law principle. Additionally, if the patent owner is not the seller of the authorized article itself, but has instead licensed another party to sell authorized articles under the patent owner's patents, a similar strategy should be employed. In the first instance, the patent owner should establish the conditions of the license in the license agreement itself. To insure the appropriate notification to the purchasers of the authorized articles, the patent owner should also have express provisions in the license agreement requiring the seller (licensee) to include in its written sales agreement with the purchaser a notification setting forth the sales conditions. If such practices are followed, it is hard to imagine that a court would find the conditions to be unenforceable against the purchaser, provided, of course, that they are "reasonably within the patent grant."

C. *The Patent Exhaustion Doctrine Relative to Method Claims*

As discussed *supra*, since 1984 the CAFC has, in at least three separate opinions, clearly stated that the sale of an authorized article will not cause the exhaustion of the patent owner's method claims.³⁰² The CAFC's position in this regard has been approvingly cited and followed by other courts confronting that very issue.³⁰³ What is troubling about this position, however, is that the CAFC has never offered a reasoned explanation for the position. Moreover, as has been observed by other commentators, the position seems to be at odds with the Supreme Court's discussion of patent exhaustion in the *Univis Lens* case.³⁰⁴

The CAFC's first pronouncement of this rule was in *Bandag*, wherein the court stated:

The doctrine that the first sale by a patentee of an article embodying his invention exhausts his patent rights in that article, is inapplicable here, because the

³⁰² See *LG Electronics III*, 453 F.3d at 1370; *Glass Equipment Dev. Inc. v. Besten, Inc.*, 174 F.3d 1337, 1342 (Fed. Cir. 1999); *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984).

³⁰³ *LG Electronics II*, 248 F. Supp. 2d at 918; *LG Electronics I*, 2002 U.S. Dist. LEXIS 25956, at *10.

³⁰⁴ John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J., 643, 667–671 (2004) (discussing concerns about the CAFC's position that patent exhaustion is inapplicable to method claims, and the difficulty with reconciling the CAFC's position in this regard vis-à-vis *Univis Lens*).

claims of the Carver patent are directed to a ‘method of retreading’ and cannot read on the equipment Bolser used in its cold process recapping.³⁰⁵

Curiously, the CAFC offers no citation support for its statement establishing that the doctrine of first sale is inapplicable because the claims are directed to a method. In this passage, the court does cite *Univis Lens* and *Masonite*, but these citations are in support of the first part of the statement, namely that a first authorized sale of an article exhausts patent rights in the article. They are not in support of the second, and seemingly more controversial, part of the statement that patent exhaustion is inapplicable because the subject claims covered a method. For all intents and purposes, the CAFC appears to have created this rule relating to patent exhaustion out of *whole cloth*, and the rule has been repeated by the CAFC—with appropriate citation to itself—and other courts on several occasions thereafter.

That the CAFC has ‘interpreted’ the law of patent exhaustion through these cases is not at all troubling in so far as it is the responsibility of the judiciary to render its opinions on what the law is. On the other hand, what is troubling is that the CAFC has never offered any type of doctrinal justification for its summarily stated holding that the sale of an article cannot cause the exhaustion of method claims. Since such a holding may have a very significant impact on a patent owner’s rights under its method patents, and correspondingly a purchaser’s potential liability under those method patents, it seems fitting that the court would provide such a justification.

Upon consideration, the defensibility of the court’s holding in this regard is questionable in light of a number of factors. First, it is clear from cases such as *Cyril* and *LG Electronics I* that in certain circumstances the purchaser of an authorized article may have no reasonably available alternatives (i.e., no substantial noninfringing uses) other than to use the article in some higher level of product assembly that infringes combination product claims of the patent owner.³⁰⁶ Additionally, in such circumstances the patent owner’s system level claims are deemed to be exhausted.³⁰⁷ It is also clear that the CAFC is aware of this application of the patent exhaustion doctrine.³⁰⁸ Considering the patent owner authorized the activities that put the purchaser in that particular predicament—typically the patent owner sold the article or authorized another to do so—and that the purchaser has no viable (substantial noninfringing) alternatives,

³⁰⁵ *Bandag*, 750 F.2d at 924 (citing *United States v. Univis Lens Co.*, 316 U.S. 241, 250–52 (1942); *United States v. Masonite Corp.*, 316 U.S. 265, 277–78 (1942)).

³⁰⁶ See *supra* notes 205–209 and accompanying text.

³⁰⁷ See *supra* notes 210–212 and accompanying text.

³⁰⁸ See *LG Electronics III*, 453 F.3d at 1370.

it seems eminently fair to conclude that the patent owner has gotten the single bite at the apple. Having gotten that single bite at the apple, the patent owner should be deemed to have forfeited rights relative to system level claims. In view of this basic patent exhaustion principle, why does the CAFC not see the logical extension of the principle to method claims? That extension would be, if the purchaser of an authorized article has no substantial noninfringing uses available other than one that would result in the infringement of the *method claim*, then should the method claim not also be exhausted? Just like the exhaustion of system level claims, here too the patent owner has authorized the activities that put the purchaser in a predicament in which the purchaser has no viable alternatives. To not hold the method claims exhausted essentially entitles the patent owner to a second bite at the apple by permitting the patent owner to assert against the purchaser the method claim that has been *unavoidably* infringed. The Supreme Court, in *Masonite*, recognized that this did not seem to be a fair result in connection with its evaluation of the patent owner's scope of power: "The test has been whether or not there has been such a disposition of the article that it may *fairly* be said that the patentee has received his reward for the use of the article."³⁰⁹

To the extent that *fairness* is a factor in judging rights under patents, the same rules of fairness that dictate that the purchaser of the authorized article should be able to make a given combination product, if the purchaser has no substantial noninfringing alternative but to do that, should likewise dictate that the purchaser of the authorized article should be able to practice a given method, if the purchaser has no substantial noninfringing alternative but to do that.

Second, there is already a decided nexus between the logical underpinnings of the patent exhaustion doctrine and 35 U.S.C. § 271(c), the contributory infringement statute.³¹⁰ Based on that nexus, it has been suggested herein that the terminology of the test for patent exhaustion in the context of combination products should be expressly based on the terminology of § 271(c).³¹¹ With this nexus in mind, it is noteworthy that under § 271(c) one who sells "a material *or apparatus* for use in practicing a *patented process*" can be liable for contributory infringement, provided of course that the other criteria in § 271(c) are satisfied.³¹² Thus, the contributory infringement statute apparently recognizes the

³⁰⁹ United States v. Masonite Corp., 316 U.S. 265, 278 (1942) (emphasis added) (citing *Straus v. Victor Talking Machine Co.*, 243 U.S. 490 (1917); *Boston Store v. American Graphophone Co.*, 225 F. 785 (N.D. Ill. 1915)).

³¹⁰ See *supra* note 254 and accompanying text to the end of Part IV-A.

³¹¹ See *id.*

³¹² 35 U.S.C. § 271(c) (emphasis added).

potential culpability of one who sells an article that has no substantial noninfringing use other than infringement of a *patented process*.³¹³ Given the fact that § 271(c) covers contributory infringement of a *process*, and knowing the close connection between the logical underpinnings of § 271(c) and certain aspects of the patent exhaustion doctrine, should the application of the patent exhaustion doctrine not apply equally to combination products *and processes*? To the extent the CAFC categorically endorses the rule that the sale of an article cannot cause the exhaustion of method claim, its position is out of step with the logic of the contributory infringement statute.³¹⁴

A third factor that raises questions about the CAFC's position regarding patent exhaustion and method claims has to do with the relationship between apparatus claims and method claims. In *Bandag*, the CAFC made a relevant observation regarding claim drafting, by stating:

*It is commonplace that the claims defining some inventions can by competent draftsmanship be directed to either a method or an apparatus. The inventor of such an invention has the option as to the form the claims in his patent will assume. There is nothing improper in this state of affairs, however, and the exercise of that option is to be respected in interpreting such claims as do ultimately issue from prosecution. Thus, the Carver patent is not a patent on equipment for performing the method disclosed, even if its claims could have been so drafted.*³¹⁵

Hence, the court reveals that it too knows what drafters of patent claims learn fairly early in their claim drafting careers, namely, that it is a fairly simple drafting exercise for one to convert apparatus claims to method claims, or vice versa. Typically one can make the conversion of apparatus claims to method claims by simply *gerundizing* nouns in the apparatus claims or introducing gerunds at the beginning of each claim element in an already drafted apparatus claim. In view of the acknowledged simplicity of such an exercise, it seems surprising that there should be a rule of law—the sale of an article *cannot exhaust method claims*—that decisively pivots on the issue whether the claim happens to be in the apparatus claim or method claim format. Such an approach truly exalts form over substance, and it again calls into question the *fairness* doctrine that is implicit in interpreting the scope of patent rights.³¹⁶

³¹³ This potential liability is obviously in addition to the potential liability one may have for contributory infringement as a result of selling an article has no substantial noninfringing use other than to be put into a combination *product*. See *supra* note 254 and accompanying text.

³¹⁴ See Osborne, *supra* note 304, at 678–79.

³¹⁵ *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 922 (Fed. Cir. 1984) (emphasis added) (citing *In re Johnston*, 502 F.2d 765, 772 (CCPA 1974) (Rich, J., dissenting)).

³¹⁶ See *supra* note 308–309 and accompanying text.

Setting aside the questionable basis for the CAFC's rule on method patents, in light of the above mentioned factors, the most troubling aspect of the rule is that it seems to be contrary to the holding of the Supreme Court in *Univis Lens*. To fully appreciate the Supreme Court's opinion in this regard, however, it is necessary to very briefly consider the opinion of the United States District for the Southern District of New York, from which the appeal was taken in the Supreme Court case. In *United States v. Univis Lens Co.*,³¹⁷ the District Court makes clear that at least one of the patents that Univis was claiming gave it the right to set resale prices contained method claims. More specifically, in its sequential review of all of the patents at issue and the scope of their coverage, the District Court stated: "The claims of patent No. 1,879,769 to Silverman cover only a method for producing a lens to eliminate prismatic imbalance."³¹⁸ As seen through the discussion immediately below, the appeal that was taken to the Supreme Court involved not only apparatus claims but also some method claims.

In the Supreme Court's opinion, there is wording that reflects that the Supreme Court understood that at least some method claims were included in the patents underlying Univis Lens' position that it was not liable for a Sherman Act violation.³¹⁹ Specifically, the Supreme Court said:

Of the sixteen patents owned by the Corporation, three are unrelated to the issues of the present case; five are for methods of producing lenses utilized by the Lens Company in manufacturing blanks and do not concern any method or process employed by the licensees who finish the lens blanks. Each of the remaining eight patents relates to the shape, size, composition and disposition of the pieces of glass of different refractive power in the blanks into which they are fused.³²⁰

This particular reference to the "disposition" of the pieces of glass is not without its ambiguities. It seems sensible, however, that the reference is to processes or methods since the other physical features of the pieces of glass—namely, the shape, size, and composition—were already mentioned. Regardless of that particular ambiguity, later wording in the court's opinion makes much clearer that the Supreme Court intended for the principles of patent exhaustion to apply to method claims.³²¹ According to the Supreme Court:

³¹⁷ 41 F. Supp. 258 (S.D.N.Y. 1941).

³¹⁸ *Id.* at 262.

³¹⁹ *Id.*

³²⁰ *Id.* (emphasis added).

³²¹ *Id.* at 249–50.

But in any case it is plain that where the sale of the blank is by the patentee or his licensee—here the Lens Company—to a finisher, *the only use to which it could be put and the only object of the sale is to enable the latter to grind and polish it* for use as a lens by the prospective wearer. An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it, and upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold. Sale of a lens blank by the patentee or by his licensee is thus in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, *and a license to practice the final stage of the patent procedure*. In the present case the entire consideration and compensation *for both* is the purchase price paid by the finishing licensee to the Lens Company.³²²

It is highly significant that the Supreme Court opined that, through paying the consideration, the purchaser of the lens blank acquired *both* the complete rights to the blank itself and the rights to “practice the final stages of the patent procedure.” Of course, the right to practice the final procedure has to be judged in the context of that procedure being the “only use to which [the lens blank] could be put.” Assuming that condition is met, the Supreme Court confers upon the purchaser of the product the right to practice that method without threat of an infringement charge, because the patent owner is deemed to have already gotten his bite at the apple for both apparatus and method claims.

It would seem, therefore, that the rationale of *Univis Lens*, which has been so integrally adopted by the courts in patent exhaustion cases dealing with claims reading on combination products, is equally applicable to claims reading on methods or processes. This is not merely an extrapolation of the Supreme Court’s reasoning to an area not discussed by the court in its opinion; rather, it is an application of the very rule the Supreme Court articulated relative to method claims in *Univis Lens*. In view of this, the CAFC’s categorical position that the sale of an article cannot cause the exhaustion of method claims—expressed since 1984³²³ and as recently as July, 2006³²⁴—runs contrary to the Supreme Court’s guidance on this issue. This is not to say that the CAFC could not have a rational reason for distinguishing its holding from the apparent holding of the Supreme Court. Such a possibility, however, seems questionable in light of the relatively clear wording of the Supreme Court on the point. If the CAFC, or any other court that confronts this issue in the future, has rational grounds for distinguishing the CAFC’s rule relative to method claims from the Supreme Court’s

³²² *Id.* (emphasis added and citations omitted) (citing *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 460–61 (1938); *B. B. Chem. Co. v. Ellis*, 314 U.S. 495 (1942)).

³²³ *Bandag, Inc.*, 750 F.2d 903 (Fed. Cir. 1984).

³²⁴ *LG Electronics III*, 453 F.3d 1364 (Fed. Cir. 2006).

holding in *Univis Lens*, the doctrinal justification for the rule should be explained in detail.

V. CONCLUSION

In view of the CAFC's finding that the sales of the microprocessors and chipsets in *LG Electronics I* and *II* were conditional, it had no reason to examine the California District Court's findings that Intel's customers had no real choice but to create the combination products that infringed LGE's system level claims. Consequently, in *LG Electronics III*, the CAFC did not address the issue of the degree of compulsion the purchaser of an authorized article needs to be under to make a particular combination product before patent exhaustion applies against system level claims reading on that combination product. As discussed *supra* in this commentary, the standard used for measuring that degree of compulsion is currently subject to notable variability. Unfortunately, because of its finding on the conditional sales issue, the degree of compulsion issue was simply not ripe for the CAFC's consideration. On the other hand, it can be anticipated that this issue will come up in other cases, whether taken to the CAFC or elsewhere. When that happens, this commentary has suggested that courts confronting the issue make a conscious effort to standardize the test that gets applied to determining how compelling the given course of action needs to be in order for the purchaser of an authorized article to be authorized under system level claims. More specifically, the standardized test should be one based on the express wording of 35 U.S.C. § 271(c). Namely, the test should be whether 'the article is a staple article or commodity suitable for substantial noninfringing use.' Such conscious uniformity will bring greater predictability to the scope of the patent owner's rights and the purchaser's potential liability.

On the other hand, the CAFC did miss two important opportunities in its *LG Electronics III* opinion to shed light on two other aspects of the patent exhaustion doctrine. One aspect is the law of conditional sales, and more particularly the issue of whether the given condition imposed on Intel's customers was reasonable in light of the patent grant and otherwise enforceable based on relevant contract law principles. With respect to the reasonableness of the condition, the CAFC failed to elaborate on how it reached the conclusion that the sales were conditional. This, presumably, would have entailed some consideration of the options open to Intel's customers for using the authorized microprocessors and chipsets, understanding that they were expressly not authorized to use those devices with non Intel components. Likewise, the CAFC failed to address whether there was any written agreement between Intel and its customers and how the terms set forth in the notification letter might be reconciled with any such pre-existing contract terms under relevant contract law principles.

Since none of these issues were exercised in the court's opinion, it seems it would have been more appropriate for the court to conclude that the sales *might* be conditional. The conclusive determination would require further inquiry into the reasonableness of the sales condition, the terms of any written sales contracts between the parties, and the relevant law relating to additional terms that are unilaterally proposed by a party. It is by no means clear that these issues have been remanded to the California District Court for further consideration. Additionally, at least one court has already interpreted the CAFC's *LG Electronics III* opinion to say that the existence of license conditions in the license agreement is the decisive factor, not the notice—or lack thereof—to the purchaser.³²⁵ Thus, not only would it have been helpful for the court to make clear that the sales condition issue was open for further examination on remand, but it would have also been helpful for the court to elaborate on the specific issues the District Court should take into consideration in determining if the threshold requirements for a conditional sale really existed.

The second missed opportunity in the CAFC's *LG Electronics III* opinion related to the categorical inability of the sale of an authorized article to trigger the exhaustion of a patent owner's method claims. The CAFC's position in this regard, though several times repeated by itself and other courts, has yet to be explained or justified.³²⁶ Perhaps, if the court did attempt to frame the justification for the rule, it would occur to the court that the rule truly does exalt form over substance. This is because it affords the party seeking a patent the opportunity to sidestep the effects of patent exhaustion by adding to a given patent covering an apparatus a set of method claims simply restructured off of those apparatus claims—with the emphasis on *simply*. Of even greater significance, the CAFC's position relative to patent exhaustion and method claims is especially questionable in view of the Supreme Court's opinion in *Univis Lens*. Hence, it behooves the court to critically examine its own position on this aspect of the patent exhaustion doctrine and to present a reasoned disposition for the rule at the very next opportunity presented. Perhaps, after due consideration, the court will decide its rule relative to method claims and patent exhaustion should be reversed.

³²⁵ *Mineba*, 2006 U.S. Dist. LEXIS 58053 at *252–53.

³²⁶ Obviously it would have been most sensible for the CAFC to have provided that explanation or justification in *Bandag*, as the opinion in which the rule was first articulated. But any explanation by the court on this issue would be most useful.