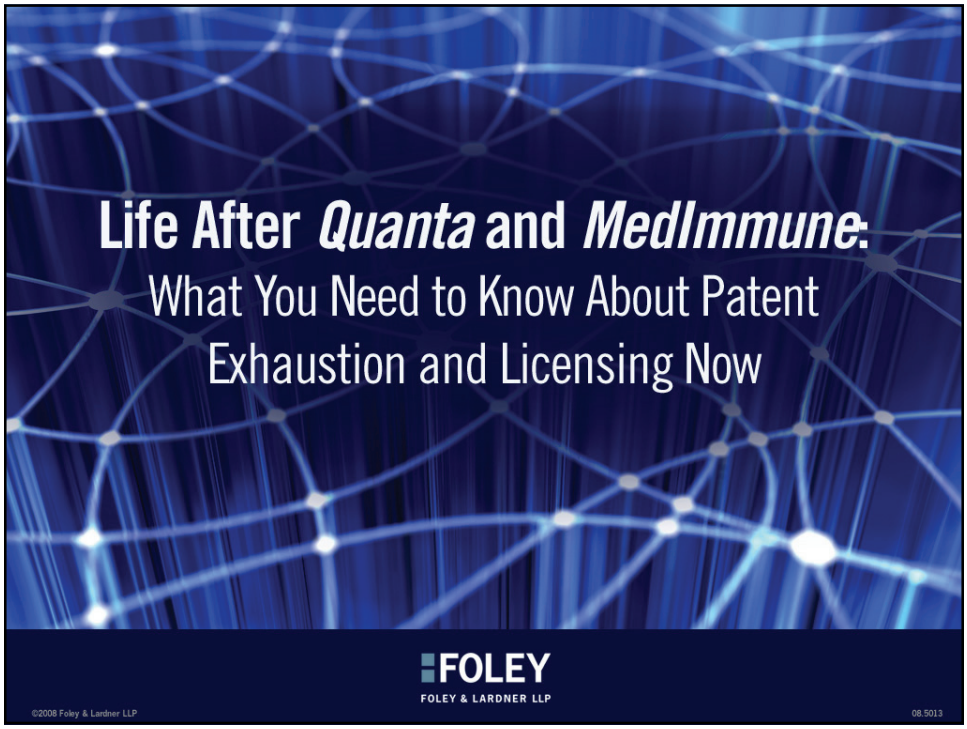
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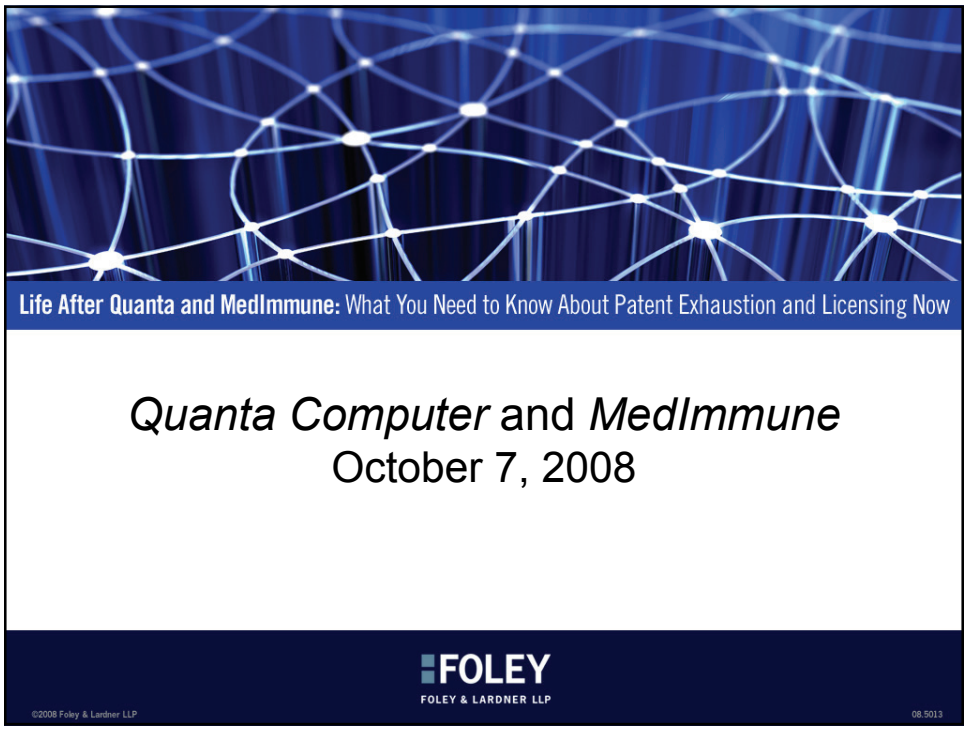
**Life After Quanta and MedImmune:** What You Need to Know About Patent Exhaustion and Licensing Now
*Quanta Computer* and *MedImmune*
October 7, 2008
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Speakers:

**Doug Kundrat**, Vice President, Deputy General Counsel & Director of IP for Agilent Technologies, Inc.

**George C. Best**, Partner, Foley & Lardner LLP

**Stephen P. Fox**, Of Counsel, Foley & Lardner LLP





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# Implications from Quanta[1]

A. **Generalized view from different industry perspectives**
B. **Quanta in context**
C. **Patent law vs. contract law**

1. Quanta Computer, Inc. *v.* LG Electronics, Inc. 128 S. Ct. 2109 (2008)

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# A Generalized View of Industry Perspectives

- The pharma/chemical/biotech industries Business model: based on *exclusivity*
- The high-tech/computer/electronics industries Business model: based on *freedom to operate*





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# Top Cases by Industry[1]

| Pharma/Chemical/Bio | High-Tech/Electronics |
|---|---|
| *1. KSR/Takeda/Rochester* | *1. eBay* |
| *2. Merck/Bayer* | *2. Quanta* |
| *3. MedImmune* | *3. Seagate* |
| *4. FTC enforcement* | *4. MedImmune* |
| *5. eBay* | *5. KSR* |

1. Note: Ranking is based on an unscientific poll of selected industry expert's weighting of significant cases from 2003-2008

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## Policy Considerations Reflected in Quanta

- Not favored: Post-sale restrictions, in general
- Not favored: *A.B. Dick* – style licenses using patents to secure market control of related, unpatented items
- Not favored: *Univis* – style pricing schemes
- Not favored: attempts to do an end-run around patent exhaustion
- ***"The primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is to 'promote the progress of science and useful arts"***





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## The Facts of the Case

- LG Licensed patents to Intel
- License Agreement authorizes Intel to "make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of" its *own* products practicing the LG patents.
- There was a separate "Master Agreement" that required Intel to give customers written notice that the license does not extend to the combination of an Intel product with a non-Intel product

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# The Facts of the Case (Cont'd)

- Quanta purchased Intel chipsets and received notice of license limitations as required by the Master Agreement
- Quanta went ahead and manufactured computers using the purchased Intel parts in combination with non-Intel products (memory and buses) in a way that practices the LG method patents





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# The Patented Combination

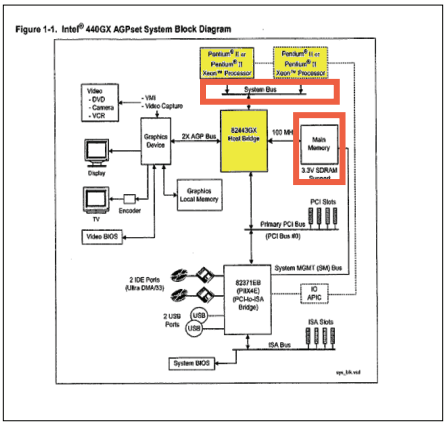
1. A data processing system including one or more central processing units, main memory means, and bus means, for each central processing unit the invention comprising:

cache memory means coupled between the central processing unit and said bus means;

bus monitor means associated with said cache memory means and coupled to said bus means for detecting on said bus means an address associated with a data unit transferred from said main memory means to a bus connection requesting the data unit;

means coupled to said cache memory means and to said bus means for determining if data having the same address as said transferred data unit is present in said cache memory means and, if present, for asserting a hold signal on said bus means, the assertion of the hold signal indicating at least to the bus connection requesting the data unit that another data unit may be transmitted over said bus means; and

means for detecting whether data corresponding to the address of said transferred data unit and determined to be stored in said cache memory means may be different in content from said transferred data unit and, if so, transmitting said data from said cache memory means to said bus means for reception by the bus connection requesting the data unit.

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## Contentions of LG Electronics

- LG argues that the license was *conditional* – it was limited to Intel parts and by the "Master Agreement" requiring Intel to give its customers notice of the limitation. Sales for use with non-Intel parts were not authorized. Hence there was no exhaustion.
- LG also argues that the Intel products only *partially practice* the LG method claims because memory and buses had to be added by Quanta. Hence no exhaustion.





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## Contentions of Quanta Computer

- Quanta argues that there is *no limitation* in the "make, use and sell" license language and that the Master Agreement written notice requirement was not a limitation on Intel sales
- Quanta also argues that the Intel products *substantially embody* the LG patents because there is no other reasonable use: the Intel parts were designed to function only when memory or buses are attached

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## The Questions and the Supreme Court Answers

- Does the patent exhaustion doctrine apply to method claims?
  - Yes
- Was the LG-Intel patent license conditional to make the sales unauthorized and avoid exhaustion?
  - No
- Did the Intel product "substantially embody" the LG patents to allow exhaustion?
  - Yes





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## The Sequence of Holdings in Quanta

| | Method claims exhausted? | License conditional? |
|---|---|---|
| 1. District Court | No | No |
| 2. CAFC | No | Yes |
| 3. Supreme Court | Yes | No |

Supreme Court rationale:

* Method claims are treated the same as apparatus claims.
* There were no conditions/restrictions in the LG-Intel license.
* All sales were authorized.
* The Intel products, though incomplete, "substantially embody" the LG patents.
* The patents were exhausted (downstream uses are unfettered).

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## What does "Substantially Embody" Mean?

- The product does not have to contain each and every element of the patent
- It is sufficient that the product contains all the inventive aspects of the invention and has no other reasonable and intended use
- The only missing step is the application of common processes or the addition of standard parts

*With the foregoing, any authorized sale of an incomplete product triggers exhaustion*





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## Patent Owner Strategies to Avoid Exhaustion

- **Create conditions under contract law**
  1. Restrict licensee's sales in a specified field of use or for a specified purpose
  2. Restrict sales to pre-qualified purchasers
  3. Don't rely on "written notice" type restrictions and be mindful of maintaining privity of contract between the parties

  *Note: Restrictions may be difficult to negotiate in a real-world commercial context. Also beware of antitrust implications.*
- **License downstream OEM's, value-added re-sellers or end users first**

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## More Certainty for Downstream Buyers

- Do your own due-diligence review of the patent landscape in the product area
- Establish privity of contract with protective T's & C's in your commercial environment
- Beware of inadequate "boilerplate" provisions in procurement, OEM, ODM and re-seller contracts





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## More Certainty for Downstream Buyers

- ***Patent indemnity:*** negotiate a broad provision requiring Seller to defend and hold buyer harmless, including from infringement arising from (a) compliance with buyer's specifications; or (b) combination with other designated components
- ***Warranty:*** obtain Seller assurance that the product sale does not violate restrictions in any agreement between Seller and a patent owner
- ***Uniform Commercial Code:*** Buyers generally favored by default warranty and indemnity provisions for commercial sales under UCC Section 2-312

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## *Quanta* and Biotechnology

- Self-replicating, living inventions
  - Seeds
  - Microorganisms
- Do Sales Exhaust Patent Rights?





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## Pre-*Quanta* Cases

- *Monsanto Co. v. McFarling*, 302 F.3d 1291 (Fed. Cir. 2001)
- *Monsanto Co. v. Scruggs*, 459 F.3d 1328 (Fed. Cir. 2006)

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## Pre-*Quanta* Cases

"The fact that a patented technology can replicate itself does not give a purchaser the right to use replicated copies of the technology. Applying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder."





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## Are these cases still good law?

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## Much ado about *MedImmune*

- *MedImmmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007)
- Holding—a licensee need not cease performance under a license to create declaratory judgment jurisdiction to challenge the patent's validity





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## Licensor Responses

- Seek Additional Protection In New Licenses
  - Termination clause
  - Fee and cost recovery
  - Split royalty
  - Front-loaded royalties

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## Licensee Responses

- If Possible, Do Not Agree to New Terms Demanded by Licensor





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## Collateral Damage

- Federal Circuit's safe harbor for license negotiations killed

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## After *MedImmune*

- The Federal Circuit has a two part test
- First—Is there an "actual controversy"
- Second—Has the declaratory judgment plaintiff "meaningfully prepared" to conduct infringing activity?





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## How Bad Is It?

"Despite the references in the court's opinion to the particular facts of this case, I see no practical stopping point short of allowing declaratory judgment actions in virtually any case in which the recipient of an invitation to take a patent license elects to dispute the need for a license and then to sue the patentee."

– Judge Bryson, concurring in *SanDisk*

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## Ways To Create Jurisdiction

- Threaten to Sue
- Provide Claim Charts
- Identify Specific Claims
- Identify Specific Products





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## Jurisdiction Does Not Exist

- Promises not to sue
- Suing before product is defined
- Suing without contact from patentee

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# Thank You