

FORUM



BY GRADY J. FRENCHICK

LG Electronics: Return to the dark days?

The impact of the United States Supreme Court's June 9, 2008 decision in *Quanta Computer Inc. v. LG Electronics Inc.*, 128 S.Ct. 2109 (2008), has now begun to be analyzed. In a unanimous opinion authored by Justice Stephen G. Breyer, the Supreme Court:

- Reversed the Federal Circuit's holding that Intel's sale of computer memory chips to alleged infringers — Quanta Computer and others — was properly conditioned to permit usage of the chips with Intel-only computers;

- Affirmed the continuing viability of the "first sale/exhaustion of monopoly doctrine" (the Doctrine), based upon the decision in *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942);

- Applied the Doctrine to Intel's attempted conditional sale of computer components to find that, where the products sold constitute a material part of the patented invention, the components thereby sold pass outside the control of the patent owner, i.e., exhaust the patent right;

- Reversed the Federal Circuit's affirmation of the district court's holding that the Doctrine did not apply to method-of-use-patents; and

- Handed Quanta Computer a complete victory despite Quanta's apparent knowing and intentional disregard of Intel's industry-wide conditional license notice.

However, the Supreme Court did not take the opportunity to develop the jurisprudence of conditional patent licenses. The court also said nothing about the developing conditional patent license jurisprudence of the Federal Circuit. See *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed.Cir.1997); *Monsanto Co. v. Scruggs*, 459 F.3d 1328 (Fed.Cir.2006); *Mallinckrodt Inc. v. Medipart Inc.*, 976 F.2d 700 (Fed.Cir.1992). This suggests that

the biotech and computer industry licensing practices are secure for the moment.

It is very curious that the *Univis Lens* decision, so heavily relied upon in the district court, was also heavily relied upon in the Supreme Court, when the Federal Circuit did not even pay *Univis Lens* the courtesy of distinguishing it.

In short, the Doctrine appears to trump attempted conditional license grants, especially where, as here, the motivation for the attempted conditional license grant is unclear and restrains downstream use of the product.

So, what does *LG Electronics* teach us? At the very least we have learned:

- Conditional patent license grants are intact for the moment, as long as the conditions are made known to the licensee and they do not purport to inhibit the likely use of the patented (i.e., the claimed) invention by the purchaser.

- The Supreme Court's numerous positive references to "the patent monopoly" from *Univis Lens* evidences ignorance of the extensive academic and judicial analyses in the last 66 years which conclude the property right granted under the patent statute is not equivalent to an economic monopoly. See *Walker Process Equipment Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

- In *LG Electronics*, the court uses terms like "inventive part of the patent," "essential features" of the patent, and "embodies the patent," where it appears to mean the claims of the patent. The use of such indefinite terms is not helpful to the audiences that must try to understand the court's analysis.

- The court's rejection of the concept that method claims are never exhaustible seems to ignore the existence of both method-of-making and method-of-use-

claims. An analysis that extends to method-of-use claims does not necessarily extend to method-of-making claims. An example is a biological product series of patent claims relating to methods of making the product, methods of using the product, and the biological product itself. Buying the product would by no means provide rights to the purchaser to make the product.

- A more robust analysis would have focused upon implied license rather than the Doctrine. It makes sense that a patent owner should not restrict the most likely downstream uses to which their products will be put without some very significant safety-related or technology-related reason.

- It can be persuasively argued that the Doctrine is a non-sequitur. The law gives a patent owner "the right to exclude others from making, using, offering for sale or selling the invention throughout the United States." 35 U.S.C. 154(a)(1); it does not grant the patent owner the right to make or use the invention in the first place. How, one might ask, can a patent owner's right be exhausted, if the patent owner did not have that right in the first place?

- In stating as it did that *Univis Lens*, and *Ethyl Gasoline Corp. v. U.S.*, 309 U.S. 436 (1940), "rest on sound footing[s,]" the court has ratified the philosophy and analysis of two decisions made during the

darkest days of patent law, culminating with *Mercoide Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). All three of these decisions were reached prior to enactment of the 1952 Patent Act, which, among other things, legislatively overruled *Mercoide* by adding sec. 271, which relates to contributory and inducement to the patent statute.

- The "dark days of patent law" referred to spans the period from enactment of the Clayton Act in 1915 and the nearly contemporaneous Supreme Court opinion in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), until the 1952 Patent Act. During the dark days, the doctrine of contributory infringement, which originated with the landmark opinion in *Wallace v. Holmes*, 29 F.Cas. 74 (C.C.Conn.1871), was eroded until it was "limit[ed] substantially" in *Mercoide*.

- The unanimity of the *LG Electronics* decision (and the Supreme Court's other recent decisions in *KSR Intern. Co. v. Teleflex Inc.*, 127 S.Ct. 1727 (2007), *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), and *MedImmune Inc. v. Genentech Inc.*, 549 U.S. 118 (2007)), suggest that we are heading toward more dark days of patent law that, as with the last era, will require congressional correction. Prepare yourselves for a lengthy ride. The last congressional course correction took about 40 years peak-to-peak and 10 years from trough to peak.

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Federal judge orders law firm, client to pay \$4.3 million

BOSTON (DOLAN) — At a time when law firms are looking to save their pennies, McDermott, Will & Emery has learned the hard way that breaking the rules in a high-stakes intellectual property trial can have serious repercussions.

Earlier this month, a federal judge in Colorado ordered the 1,200-lawyer firm and its client, Medtronic Inc., to fork over \$4.3 million as punishment for alleged abuse of advocacy in a patent case.

An agitated U.S. District Court Judge Richard P. Matsch whacked two Silicon Valley MW&E litigators, Terrence P. McMahon and Vera M. Elson, for misleading jurors and ignoring his earlier claims-construction decision in a 2005 patent trial between Medtronic and BrainLAB.

"Rather than accept that the claims construction ruling stripped the merits from this case, counsel chose to pursue a strategy of distorting those rulings, [and] misdirecting the jury to a different reading of the claim language," the judge wrote. "Throughout these proceedings, Medtronic and the MWE lawyers have demonstrated

that when they are faced with adverse court rulings, they proceed undeterred, with only superficial observance of the court's determination."

In their final argument to the jury, Matsch also found that the litigators willfully ignored his instructions and distorted both the evidence and the law.

Just 10 months earlier, U.S. District Court Judge Edward F. Harrington in Boston hit defendant Medtronic and its legal team of Dewey & LeBoeuf with a \$10 million penalty in a patent case.

Scott E. Erlich of Nutter, McClennen & Fish in Boston, who served as local counsel on behalf of the plaintiffs in the case before Harrington, declined to comment.

While Boston patent attorney Vickie L. Henry of Foley Hoag says she is not familiar with the Colorado case, she notes that claims-construction orders generally define the scope of arguments that lawyers are permitted to offer to jurors.

"Once the judge makes that claim construction, it governs the rest of the litigation," she says. "And if a party continues to

resist, they do run the risk of incurring the ire of the court."

Regarding the size of the sanction, Henry says the number of dollars involved reaffirms the notion that, when a judge sets the boundaries for proper argument, the consequences of non-compliance are severe.

"I don't think there's any question that most people would consider that a very significant sanction, particularly if the law firm is indeed on the hook for that payment," says Henry. "You're in a tough situ-

ation as the lawyer because you need to make sure you're being a zealous advocate, but at some point you have to accept what the trial judge's rulings are and litigate your case."

As far as what the sanction means to the 80-plus McDermott lawyers hanging their hats at 28 State St., it's difficult to tell.

"We intend to appeal the decision," says the firm's media and communications manager, Maryanne C. Adams. "The firm also stands strongly behind the trial team."

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