

AUTHORIZED PERSONNEL ONLY:  
THE PATENT EXHAUSTION DOCTRINE  
AFTER *HELFERICH*

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INTRODUCTION

Imagine you recently purchased the latest smartphone. Then, weeks later, the manufacturer contacts you and alleges that you are infringing hundreds of patents simply by using the phone.

While this seems ridiculous, technically speaking, you probably are an infringer.<sup>1</sup> Fortunately, courts have devised a defense to infringement, called the patent exhaustion doctrine, that comes to the rescue. According to the Supreme Court in *Quanta Computer, Inc. v. LG Electronics, Inc.*, this doctrine “provides that the initial authorized sale of a patented item terminates all patent rights to that item.”<sup>2</sup> As a result, once a consumer purchases a smartphone, the patent owners, or its licensees who do the manufacturing, no longer have any rights over the patents in *that* phone.<sup>3</sup> What about when a *third party* engages in some activity that, through interaction with your smartphone, infringes method patents that are part of the same licensed patent portfolio as the smartphone patents? Can the third party take advantage of your phone’s patent exhaustion to get away with infringing *complementary* patent claims that you, as the owner of the phone, could not even practice? What if the infringing activity was merely the *New York Times* sending you text messages alerting you of breaking news, CBS texting you exclusive content related to your favorite TV show, or J.C. Penney sending you text notifica-

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1 See 35 U.S.C. § 271(a) (2012) (“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent.” (emphasis added)).

2 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008).

3 See *id.*

tions of their latest giveaway and sweepstakes promotions?<sup>4</sup> This is the issue that recently came up in *Helferich Patent Licensing, LLC v. New York Times Co.*<sup>5</sup> In its controversial holding, the Federal Circuit expressly held that the patent exhaustion doctrine *only* serves to protect so-called “authorized acquirers” and does not extend to third parties who have not, directly or indirectly, obtained ownership over the patented device.<sup>6</sup> This was after the district court, also citing Supreme Court precedent, arrived at the opposite conclusion.<sup>7</sup> Another major difference between the two courts’ holdings was the framework with which they determined *what* patents and claims are exhausted, and *how* they are exhausted, in a given device.<sup>8</sup>

This Note will analyze the framework utilized by the Federal Circuit in *Helferich* to assess whether or not it follows Supreme Court precedent along with the public policies that govern American patent law. Part I provides a brief introduction to the patent exhaustion doctrine and the public policies surrounding the doctrine and patent law in general and discusses important Supreme Court cases that defined the doctrine. Part II discusses *Helferich* in detail and lays out some of the major differences between the approaches taken by the Federal Circuit and the one taken by the district court. Part III analyzes the framework applied by the Federal Circuit and argues that the Federal Circuit correctly followed Supreme Court precedent when it focused on substantial embodiment in the context of separately patentable inventions and when it set out the express limitation that the patent exhaustion doctrine only applies to authorized acquirers.

## I. BACKGROUND ON THE PATENT EXHAUSTION DOCTRINE

An inventor obtains a patent, has the lawful right to exclude others from making, using, or selling her patented product,<sup>9</sup> but nonetheless decides to sell the product to a consumer. This is no doubt a standard practice and is at the heart of patent law policy.<sup>10</sup> Yet there is uncertainty as to what sort of patent enforcement rights a patent owner can lawfully retain on a product willingly sold to a consumer and thereby released to the public.<sup>11</sup> The patent

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4 Ryan Nakashima, *NYTimes Leads Group Defense in Mobile Patent Suit*, USA TODAY (Aug. 28, 2012), <http://usatoday30.usatoday.com/money/media/story/2012-08-28/mobile-patent-suit-New-York-Times/57368374/1>.

5 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293 (Fed. Cir. 2015).

6 *Id.* at 1301–02.

7 *See Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971 (N.D. Ill. 2013).

8 *Compare Helferich*, 778 F.3d at 1298–1311 (the approach taken by the Federal Circuit), *with Helferich*, 965 F. Supp. 2d at 976–79 (the approach taken by the district court), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015).

9 35 U.S.C. § 154 (2012).

10 *See, e.g.*, Katherine J. Strandburg, *Users as Innovators: Implications for Patent Doctrine*, 79 U. COLO. L. REV. 467, 482 (2008) (“The goal of patent policy is to encourage inventors to invent, disclose, and disseminate their inventions to the public.”).

11 *See generally* Alfred C. Server & William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 HASTINGS L.J. 561, 583–96 (2013) (discussing the

exhaustion doctrine seeks to achieve a finely tuned balance between rewarding a patentee while also preventing the patentee from controlling an item's post-sale use and demanding multiple royalties from subsequent owners of the item.<sup>12</sup>

### A. *An Overview of the Patent Exhaustion Doctrine*

In order to evaluate the metes and bounds of the patent exhaustion doctrine, it is important to understand the basis by which our patent system operates. Article I, Section 8 of the U.S. Constitution provides that “Congress shall have Power . . . To promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their respective . . . Discoveries.”<sup>13</sup> The complete authority to issue U.S. patents was vested in what is today called the United States Patent and Trademark Office (PTO).

The patent exhaustion doctrine holds that “a single authorized and unconditional sale of a patented article terminates all patent rights to that article.”<sup>14</sup> This means that a patentee's *right to exclude*<sup>15</sup> is terminated. The patentee can no longer exclude or restrict any aspect of the purchaser's use, possession, or resale of the article.<sup>16</sup> Any profit the patentee seeks to make on the patented device must, therefore, come from the initial sale only.<sup>17</sup> The importance of this doctrine is also not new, as it is rooted in more than

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uncertainty behind what enforcement rights a patent owner can preserve through use of post-sale restrictions).

12 Yuichi Watanabe, *The Doctrine of Patent Exhaustion: The Impact of Quanta Computer, Inc. v. LG Elecs., Inc.*, 14 VA. J.L. & TECH. 273, 275 (2009).

13 U.S. CONST. art. I, § 8, cl. 1, 8. To carry out this power, Congress enacted the first patent statute in 1790. Patent Act of 1790, ch. 7, 1 Stat. 109 (repealed 1793). However, it was not until 1836 that Congress established an administrative agency tasked with evaluating and issuing patents—the Patent Office. Patent Act of 1836, ch. 357, § 1, 5 Stat. 117 (repealed 1870) (“[T]here shall be established . . . an office to be denominated the Patent Office . . .”).

14 Watanabe, *supra* note 12, at 275 (citing *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625–26 (2008)).

15 35 U.S.C. § 154(a)(1) (2012) (providing that “[e]very patent shall . . . grant to the patentee . . . the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States” (emphasis added)).

16 See *Server & Casey*, *supra* note 11, at 587 (“[A] patent holder's right to exclude others from making, using, or selling its patented product can be waived in whole, through an unconditional sale . . . .” (citing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992))).

17 See *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 663 (1895) (declaring that patentees “are never entitled to but one royalty for a patented machine” (quoting *Mitchell v. Hawley*, 83 U.S. 544, 547 (1872))).

150 years of American jurisprudence.<sup>18</sup> The reasoning behind it is supported by both practical<sup>19</sup> and public policy<sup>20</sup> rationales.

Patent exhaustion is but one of three general ways in which a patent owner can authorize the use of its patent rights.<sup>21</sup> The other two include express licensing and implied licensing.<sup>22</sup> The major difference between a license and a sale, which is what triggers patent exhaustion, is the sale itself.<sup>23</sup> The unrestricted sale acts as a firm trigger for exhaustion. On the other hand, restrictions that accompany licensing transactions are common, often times necessary, and are routinely enforced.<sup>24</sup> After all, a license is not a “sale” but rather a “permission . . . to commit some act [or series of acts] that would otherwise be unlawful.”<sup>25</sup> So what happens when a patentee incorporates conditions on a license to a manufacturer that seeks to impose restrictions on the ultimate purchaser? The law, as was made clear in *Motion Pictures Patents Co. v. Universal Film Manufacturing Co.*,<sup>26</sup> is that it doesn’t matter whether the restrictions were imposed directly by the patentee on the purchaser or if they were imposed through an intermediate licensee—in either case, the post-sale restriction is invalid under the exhaustion doctrine.<sup>27</sup>

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18 See *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852) (“And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress.”).

19 See, e.g., Watanabe, *supra* note 12, at 276 (claiming that “the [patent exhaustion] doctrine is necessary from a practical standpoint because the U.S. Patent Act provides that ‘whoever’ without authorization uses, sells or offers to sell a patented article is liable for patent infringement” (citing 35 U.S.C. § 271(a) (2006))).

20 See *infra* Section I.B.

21 John W. Schlicher, *The New Patent Exhaustion Doctrine of Quanta v. LG: What It Means for Patent Owners, Licensees, and Product Consumers*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 758, 766 (2008).

22 *Id.*

23 See Eric J. Rogers, *The Inexhaustible Right to Exclude Reproduction Doctrine*, 14 COLUM. SCI. & TECH. L. REV. 389, 413 (2013) (“The distinction between a sale and license is important because an unconditional sale triggers patent exhaustion whereas license conditions might preserve the patent owner’s ability to enforce patent rights with respect to the sold item.”).

24 See generally Amelia Smith Rinehart, *Contracting Patents: A Modern Patent Exhaustion Doctrine*, 23 HARV. J. L. & TECH. 483, 493–95 (2010).

25 *License*, BLACK’S LAW DICTIONARY (10th ed. 2014).

26 *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

27 *Id.* The Federal Circuit arguably departed from this precedent in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), when it held that a “single use” notice attached to a medical device could create a valid license for restricted use with remedies available through patent infringement. *Id.* at 709. However, this holding is believed to have been overruled by the Supreme Court in *Quanta*. See *Server & Casey*, *supra* note 11, at 583–96. Nonetheless, in an en banc opinion decided February 12, 2016, the Federal Circuit affirmed its holding in *Mallinckrodt* when it stated, “we adhere to the holding of *Mallinckrodt, Inc. v. Medipart, Inc.*, that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that

Patent exhaustion may seem like a relatively straightforward concept, but recent technological advances have blurred the lines between not only what constitutes distinct inventions, but also how, and in what embodiments, method patents are ultimately practiced through electronic technologies.<sup>28</sup> While these issues were ultimately addressed in *Helferich*, the fundamental rules and principles that guided the Federal Circuit's analysis was deeply rooted in earlier Supreme Court cases, as discussed later in this Note.<sup>29</sup>

### B. *Public Policy Rationale*

The policy of promoting the advancement of science and technology was undoubtedly the driving force behind American patent law, as the power to do so was expressly given to Congress in the Constitution.<sup>30</sup> Public policy has also been a major driving force behind the *termination* of patent rights under the patent exhaustion doctrine.<sup>31</sup> Historically, patent exhaustion has served three purposes—(1) to protect consumers from liability for unknowingly infringing patents simply by using the product, (2) to prevent post-sale restrictions on licensed products, and (3) to ensure patentees are not over- or under-compensated.<sup>32</sup>

The first two purposes are intended to protect the purchaser and any subsequent owner of the patented article from liability or restrictions that limit their freedom to use the article as they wish.<sup>33</sup> Without the first two protections, commerce would be detrimentally affected. After all, encourag-

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has been expressly denied.” *Lexmark Int’l, Inc. v. Impression Prods., Inc.*, No. 2014-1617, slip op. at 8 (Fed. Cir. Feb. 12, 2016) (en banc) (citing 976 F.2d 700 (Fed. Cir. 1992)). Therefore, it appears that any departure from the *Mallinckrodt* holding will need to come from an *express* overruling from the Supreme Court.

28 The uncertainty as to how to deal with advancing technologies was evidenced by the differing ways in which the district court and Federal Circuit interpreted the patent claims related to wireless communication technologies at issue in the *Helferich* case. See *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971 (N.D. Ill. 2013), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015).

29 See *infra* Section I.C.

30 U.S. CONST. art. I, § 8, cl. 1, 8 (“The Congress shall have Power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .”).

31 See, e.g., Watanabe, *supra* note 12, at 275–76 (discussing how the public policy rationales underlying the patent exhaustion doctrine are necessary from a practical standpoint and include the goal of preventing post-sale restrictions and double recoveries by patentees).

32 Lucas Dahlin, Note, *When Is a Patent Exhausted? Licensing Patents on a Claim-by-Claim Basis*, 90 CHI. KENT L. REV. 757, 769–70 (2015).

33 See, e.g., Samuel F. Ernst, *Patent Exhaustion for the Exhausted Defendant: Should Parties Be Able to Contract Around Exhaustion in Settling Patent Litigation?*, 2014 U. ILL. J.L. TECH. & POL’Y 445, 453 (“The exhaustion doctrine is also grounded in the policy against restraints on alienation of chattels. Once a patent holder authorizes the sale of an article, downstream purchasers of the item have a reasonable expectation that they may use the item free of restrictions from previous owners.”); Watanabe, *supra* note 12, at 276 (describing the exhaustion doctrine as being “necessary from a practical standpoint” since, without

ing commerce is desirable and the ability for a patentee to sue a purchaser for infringement immediately after the sale would ultimately discourage commerce or at the very least significantly increase transaction costs.<sup>34</sup> As discussed below,<sup>35</sup> the recent Supreme Court case, *Quanta Computer, Inc. v. LG Electronics, Inc.*, is said to support this purpose of the patent exhaustion doctrine by “providing greater certainty” in protecting consumers and other downstream players as an article passes down the chain of commerce.<sup>36</sup>

The public policy behind preventing post-sale restrictions has also been around since the early cases of the exhaustion doctrine. In *Motion Pictures Patents Co. v. Universal Film Manufacturing Co.*, the Supreme Court identified a post-sale restriction on a patented film projector as giving the patentee “a potential power for evil over an industry” and therefore held the restriction to be invalid since “it would be gravely injurious to [the] public interest.”<sup>37</sup> An alternative argument against post-sale restrictions is that besides conflicting with patent exhaustion policy, it also conflicts with policies against restraints on alienation.<sup>38</sup> On the other hand, while restraints blindly imposed on any subsequent acquirer of a patented product, enforceable through infringement liability, are invalid, contract-based post-sale restrictions entered into between an acquirer and an authorized seller *may* be enforceable in certain circumstances.<sup>39</sup> In any case, the first unrestricted sale of a patented article exhausts all patent infringement remedies that might result from an alleged breach of a post-sale restriction while breach of contract remedies may remain,<sup>40</sup> assuming the post-sale restriction was part of a contract between buyer and seller. The ability to enforce certain contract-based post-sale restrictions is likely the result of courts finding that the public

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exhaustion, “any downstream purchasers using or reselling the patented article would literally be infringers” (citing 35 U.S.C. § 271(a) (2006)).

34 See generally Rinehart, *supra* note 24, at 503–16 (discussing the interrelation between transaction costs and patent rights and noting that “[o]nce the patented goods are sold, transaction costs hinder bargaining between the patent owner and downstream purchasers”).

35 See *infra* notes 90–111 and accompanying text.

36 Javier M. Leija, Note, *The Patent Exhaustion Doctrine: Patent Holders’ Rights Versus the Public’s Interest in Using the Invention*, 2 PHOENIX L. REV. 163, 186 (2009) (“*Quanta’s* bright-line ruling in favor of first-sale patent exhaustion will promote commerce and economic development by providing greater certainty in transactions among patent holders, licensees, and downstream users.” (citing Lorelei Ritchie de Larena, *Re-Evaluating Declaratory Judgment Jurisdiction in Intellectual Property Disputes*, 83 IND. L.J. 957, 975 (2008))).

37 *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 519 (1917).

38 See, e.g., ROBIN FELDMAN, *RETHINKING PATENT LAW* 143 (2012) (noting that “[t]he doctrine of patent exhaustion also reflects a preference for the free alienability of property”); Server & Casey, *supra* note 11, at 619–26 (discussing and ultimately rejecting the argument that *all* contract-based post-sale restrictions contravene the policies against restraints on alienation).

39 For a discussion of what types of contract-based restrictions may be enforceable, see Server & Casey, *supra* note 11, at 626–37.

40 *Id.* at 637 (arguing “that at least some contract-based post-sale restrictions on a patented product can be enforced through a breach of contract remedy”).

policies favoring the freedom to contract outweigh the public policies against *all* post-sale restrictions.<sup>41</sup> After all, a reason for preventing post-sale restrictions in patented articles—ensuring the patentee receives “but one royalty”<sup>42</sup>—would not be an issue when the buyer and seller are entering into a contract that is enforceable only among themselves and does not run with the article.

The third purpose of patent exhaustion—to ensure that patentees are not over- or under-compensated<sup>43</sup>—is rooted in a more diverse set of public policies.<sup>44</sup> Perhaps the most frequently cited public policy for this doctrine is to prevent a patent holder from being able to reap the benefits of an invention multiple times as it flows through the stream of commerce.<sup>45</sup> As explained by the Supreme Court in *Bloomer v. Millinger* more than 150 years ago, a patent holder is “entitled to but one royalty for a patented machine”; therefore, once the patentee has sold the product or authorized another to build and sell it, “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.”<sup>46</sup> As a result, this doctrine prevents a patent holder from licensing or selling its products to manufacturers or retailers and then later suing, or seeking a royalty from, those who ultimately purchase the product along with any subsequent owners.<sup>47</sup> The policy behind preventing a patentee from being over-compensated is, therefore, clear.

The exhaustion doctrine’s policy behind preventing a patentee from being under-compensated may, however, be less clear. This might be viewed as promoting a fine-tuned balance with the policy against over-compensation by limiting the scope of the exhaustion doctrine. Take, for instance, a person who developed and patented a new type of mobile phone charger capable of charging phones five times faster than any other charger currently available. She spent years working on this device and has incurred substantial costs along the way that she now hopes to recoup. However, as soon as

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41 See, e.g., *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992) (“Unless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law, e.g., *United States v. Univis Lens Co.*), private parties retain the freedom to contract concerning conditions of sale.” (citing 316 U.S. 241 (1942))).

42 *Bloomer v. Millinger*, 68 U.S. 340, 350 (1863) (declaring that a patentee is “entitled to but one royalty for a patented machine”).

43 Dahlin, *supra* note 32, at 769–70.

44 *Id.* at 774–76 (discussing the third purpose of patent exhaustion in terms of its effect on economic efficiencies).

45 See, e.g., Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487, 513 (2011) (“One historical concern that the courts raised in first sale cases was that permitting the patentee to place post-sale license restrictions on patented goods would entitle the patentee to collect multiple royalties. This concern appeared and reappeared in the law of the first sale doctrine . . .”).

46 *Bloomer*, 68 U.S. at 350.

47 Schlicher, *supra* note 21, at 781.

she sells one—just one—of the patented chargers, her patent rights are completely terminated and anyone can now build knock-offs based on her technology. If this were the case, she might find it difficult to receive adequate compensation. In fact, due to economies of scale, the competitors may even be able to sell the chargers so cheaply that she may be unable to compete with them at all. This policy of protecting a patent's value was recently exemplified in *Bowman v. Monsanto Co.*, where the Supreme Court refused to apply the exhaustion doctrine on *copies* of purchased seeds since such an approach “would provide scant benefit” to the patentee.<sup>48</sup> One of the major goals, if not *the* major goal, of patent law is to provide an incentive to inventors to create and disclose new inventions that ultimately benefit the public.<sup>49</sup> This important policy must, therefore, be kept in mind so that the patent exhaustion doctrine does not overstep its bounds and defeat the very purpose of patent law—“[t]o Promote the Progress of . . . useful Arts.”<sup>50</sup>

### C. Supreme Court Jurisprudence on the Patent Exhaustion Doctrine

The Supreme Court first applied the patent exhaustion doctrine in the mid-nineteenth-century case *Bloomer v. McQuewan*.<sup>51</sup> In *McQuewan*, the patent holder sold the right to construct and use patented planing machines to certain purchasers.<sup>52</sup> Then, after Congress passed an act that extended patent terms by seven years, the patent holder sought to keep the purchasers from using the machines during this extension period.<sup>53</sup> The Court concluded that the purchaser had acquired “the absolute and unlimited right” to the invention that neither the patent holder nor Congress could dissolve.<sup>54</sup> In laying the foundation for the patent exhaustion doctrine, Chief Justice Taney declared that “when the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent holder’s] monopoly. It passes outside of it, and is no longer under the protection of [congressional patent law].”<sup>55</sup>

Soon thereafter, the Court was faced with a question as to the limits that a patent holder can place on a product within the stream of commerce. In *Adams v. Burke*, the Court held that while the licensee of patented coffins was only authorized to make and sell them within an area of ten miles around

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48 *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1767 (2013). The Supreme Court further notes, “The exhaustion doctrine is limited to the ‘particular item’ sold to avoid such a mismatch between invention and reward.” *Id.*

49 *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 513 (1917) (“For more than a century . . . [the patent statute] afforded ample incentive to exertion by inventive genius . . . [and] under it the greatest inventions of our time, teeming with inventions, were made.”).

50 U.S. CONST. art. I, § 8, cl. 8.

51 *Bloomer v. McQuewan*, 55 U.S. 539 (1852).

52 *Id.* at 548. A planing machine is used to process lumber.

53 *Id.* at 547–48.

54 *Id.* at 553.

55 *Id.* at 549.



Boston, there was no longer any restriction on their *use* once the coffins were sold by the licensee.<sup>56</sup> In other words, a patent holder can limit the way in which a manufacturer makes, uses, and sells the product, but those rights over the patented product are completely exhausted once the item is purchased by a consumer, who is free to use it in any way he or she desires. Importantly, this right exists regardless of the status of the underlying patent.<sup>57</sup>

Then, in the early twentieth century, the Court, in a 4-3 decision, briefly deviated from *Adams* when it upheld post-sale restrictions in *Henry v. A.B. Dick Co.* as being enforceable against a purchaser who has knowledge of the restrictions.<sup>58</sup> In *A.B. Dick*, the post-sale restriction required purchasers to use only the patented mimeograph with (non-patented) ink purchased from the patent holder.<sup>59</sup> The patentee then brought a contributory infringement suit against a third party, who sold its own ink to the owner of the mimeograph despite knowing of the restriction.<sup>60</sup> This holding was immediately met with criticism, including concerns that a patentee might now, through notice restrictions, be able to “establish a monopoly in unpatented commodities.”<sup>61</sup>

The Court apparently shared this concern a year later when it held in *Bauer & Cie v. O'Donnell* that a patent holder cannot sell a patented article with an attached notice restricting the price at which it can be resold.<sup>62</sup> The Court did not overrule *A.B. Dick*, but it distinguished it from the case at issue by considering the restriction in *A.B. Dick* a valid license and the restriction in *Bauer* a non-license, complete sale.<sup>63</sup> Nonetheless, public scrutiny led

56 *Adams v. Burke*, 84 U.S. 453, 456–57 (1873); *see also id.* at 457 (holding that “in the class of machines or implements . . . when they are once lawfully made and sold, there is no restriction on their *use* to be implied for the benefit of the patentee or his assignees or licensees”).

57 *Id.* at 455 (“We have repeatedly held that where a person had purchased a patented machine of the patentee or his assignee, this purchase carried with it the right to the use of that machine so long as it was capable of use, and that the expiration and renewal of the patent, whether in favor of the original patentee or of his assignee, did not affect this right.”).

58 *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48–49 (1912); *see also id.* at 26 (stating that post-sale restrictions may be lawfully imposed when the purchaser has “notice that he buys with only a qualified right of use”).

59 *Id.* at 11.

60 *Id.* at 11–12.

61 Note, *Control of Patentee Over Unpatented Commodities*, 25 HARV. L. REV. 641, 641–43 (1912) (discussing the control that patentees have over unpatented commodities in light of the *A.B. Dick* holding).

62 *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 16–18 (1913) (declaring that once “[t]he right to vend conferred by the patent law has been exercised . . . the added restriction is beyond the protection and purpose of the [patent] act”). This holding came just a few years after the Supreme Court held that a copyright owner cannot impose post-sale price restrictions on copyrighted books. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 339 (1908).

63 *Bauer*, 229 U.S. at 14–17.

Congress to enact the Clayton Act the very next year, in an effort to prohibit such restrictions through antitrust law.<sup>64</sup>

Four years later, however, the Court explicitly overruled *A.B. Dick* in *Motion Pictures Patents Co. v. Universal Film Manufacturing Co.*,<sup>65</sup> which was immediately commended as being “a decision of great importance.”<sup>66</sup> In *Motion Pictures*, the patent holder granted a licensee the right to manufacture and sell motion picture projectors embodying its patents.<sup>67</sup> This license, however, came with a covenant requiring that the projectors only be used with motion pictures embodying an entirely separate patent owned by the same patent holder.<sup>68</sup> This license agreement was entered into only three months after the *A.B. Dick* decision and was likely an attempt by the patent holder to take advantage of its newfound freedom to create and enforce post-sale restrictions.<sup>69</sup> A third party, Universal Film Exchange, eventually sold two films to the owner of the projector, and the patent holder filed suit against both the projector owner and the third party film provider for infringement.<sup>70</sup> The Court then applied the principles of patent exhaustion and patent misuse<sup>71</sup> to this particular situation.<sup>72</sup> The post-sale restriction was held invalid under the patent misuse doctrine<sup>73</sup> and, as a result, could not prevent exhaustion from occurring.<sup>74</sup>

In concluding that the post-sale restriction was invalid, the Court held that the scope of patent protection “must be limited to the invention described in the claims of [the] patent.”<sup>75</sup> Thus, while a patent holder has the right to restrict the first sale of the item, the patent holder does not have the right to restrict how, or with what materials, the purchaser chooses to use

64 See, e.g., RICHARD T. HOLZMANN, *INFRINGEMENT OF THE UNITED STATES PATENT RIGHT* 152 (1995).

65 *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518–19 (1917) (declaring that “the decision in *Henry v. Dick Co.* . . . must be regarded as overruled” since such post-sale restrictions “would be gravely injurious to [the] public interest”).

66 Frank Y. Gladney, *Tying Clause Contract Limiting Use of Patented Article Invalidated—The Mimeograph Case (Henry v. A.B. Dick Co., 224 U.S. 1) Overruled*, 84 *CENT. L.J.* 335 (1917).

67 *Motion Pictures*, 243 U.S. at 506.

68 *Id.* at 506.

69 This is suggested at least in part by the Court’s observation that inquiries related to the permissiveness of post-sale restrictions have been “arising with increasing frequency in recent years.” *Id.* at 509.

70 *Id.* at 507–08.

71 The “patent-misuse doctrine” is defined as “[a]n equitable rule that patentees should not be allowed to use their patent to effectively broaden the scope of their monopoly in restraint of trade or otherwise against the public interest.” *Patent-misuse doctrine*, BLACK’S LAW DICTIONARY (10th ed. 2014).

72 *Server & Casey*, *supra* note 11, at 632–33.

73 *Id.*

74 *Ernst*, *supra* note 33, at 452.

75 *Motion Pictures*, 243 U.S. at 511; see also *id.* at 512 (explaining that “[t]he grant is of the exclusive right to use the mechanism to produce the result with any appropriate material, and *the materials with which the machine is operated are no part of the patented machine* or of the combination which produces the patented result” (emphasis added)).

the item. The Court thereby reiterated its firm stance on the patent exhaustion doctrine when it declared that “the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.”<sup>76</sup> In other words, once the patented projector was sold, there was nothing anyone could do that would infringe the patents embodied in the projector. This included not only the purchaser of the projector, but also third party suppliers, like Universal.<sup>77</sup>

The next major issue the Supreme Court faced with the patent exhaustion doctrine was to determine what constituted a sale of a patented article.<sup>78</sup> While it may be intuitively straightforward, this issue becomes more complex when the production of a patented product occurs at multiple layers in the supply chain with the patent holder attempting to retain control over the product until its *final* sale to consumers.

The Court faced such an issue in the antitrust case of *United States v. Univis Lens Co.*<sup>79</sup> In *Univis*, the owner of patents related to multifocal lenses for eyewear licensed a company to manufacture and sell unfinished “blank” lenses.<sup>80</sup> However, under the license, these unfinished lenses could only be sold to designated wholesalers and finishing retailers who would complete the patented product by grounding and polishing the lens.<sup>81</sup> These wholesalers and finishing retailers, who purchased the unfinished lenses, were also under a license from the patent holder that included a royalty provision.<sup>82</sup> The Court considered this an unlawful attempt at circumventing the patent exhaustion doctrine.<sup>83</sup> The Court held that once a patent holder has sold “an uncompleted article” that “embodies essential features of his patented invention . . . and has destined the article to be finished by the purchaser in conformity to the patent, he has *sold* his invention.”<sup>84</sup> As a result, the patent holder could impose no restrictions on the purchasing wholesalers and finishing retailers since the unfinished lenses sold to them *embodied essential features of the patented invention*.<sup>85</sup> It made no difference to the Court that the product did not embody each and every feature of the patented invention at the time of sale since the patent owner has but once chance to capitalize on a

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76 *Id.* at 516.

77 *Id.* at 507, 516–19.

78 *See* *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).

79 *Id.*

80 *Id.* at 243.

81 *Id.* at 243–44.

82 *Id.* at 244.

83 *See id.* at 252 (noting that the post-sale restriction “would extend [the patentee’s] monopoly . . . beyond the fair meaning of the patent statutes and the construction which has hitherto been given to them”).

84 *Id.* at 250–51 (emphasis added).

85 *Id.* at 249.

legal monopoly under patent law.<sup>86</sup> The Court continued, “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.”<sup>87</sup> Hence, the Court seemed to create new guidance for when to apply the patent exhaustion doctrine, namely, in situations where there is a question as to an article’s intended use by the purchaser.<sup>88</sup> In this case, the “blank” lenses were “without utility” until they were ground and polished in accordance with the patent; therefore, the sale exhausted the full scope of the patent.<sup>89</sup>

While the patent exhaustion doctrine had been traditionally adjudicated with respect to apparatus and composition-of-matter claims, there was a lack of clarity as to whether method claims were also covered by the doctrine.<sup>90</sup> Finally, in 2008, the scope of the patent exhaustion doctrine was again at center stage in *Quanta Computer, Inc. v. LG Electronics, Inc.*,<sup>91</sup> when the Supreme Court was asked to determine whether the patent exhaustion doctrine also applies to method patents associated with a sale. *Quanta* involved method patents held by LGE for computer technologies, particularly those used in microprocessors and chipsets.<sup>92</sup> LGE licensed its patent portfolio to Intel, thereby permitting Intel “to ‘make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of’ its own products practicing the LGE patents.”<sup>93</sup> This agreement, however, was accompanied by a separate agreement that required Intel to inform its customers that while the products are being sold under a license by LGE, the license does not allow the purchaser to combine products with any non-Intel product.<sup>94</sup> In addition, there

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86 *Id.* at 252 (expressing concern that if the patent holder “were permitted to control the price at which [the product] could be sold by others he would extend his monopoly . . . beyond the fair meaning of the patent statutes”).

87 *Id.* at 249 (citing *B.B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 460–61 (1938)).

88 *Id.* at 250–51 (providing for exhaustion when the patentee “has destined the article to be finished by the purchaser in conformity to the patent”).

89 *Id.* at 249.

90 This lack of clarity was created, in large part, through a 1984 Federal Circuit decision that held method claims to be “inapplicable” to the patent exhaustion doctrine. *Bandag, Inc. v. Al Bolser’s Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984). This approach of excluding method claims, however, was highly criticized. *See, e.g.*, John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J., 643, 678 (2004) (“There is no legitimate basis for distinguishing between apparatus and method claims in the context of patent exhaustion. Such a distinction is at odds with Supreme Court precedent . . .”).

91 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008).

92 *Id.* at 623.

93 *Id.* (quoting Brief for Petitioners at 8, *Quanta*, 553 U.S. 617 (No. 06-937)).

94 *Id.* at 623–24. Interestingly, this restriction bears resemblance to the restriction the Supreme Court held valid under *A.B. Dick*. However, since *A.B. Dick* was soon after overruled, it is not surprising that the Supreme Court rejected this restriction as being valid, even if it did relate to methods patents.

was an added statement that expressly disclaimed any license being granted to third parties.<sup>95</sup>

Intel sold products to Quanta, which then combined them with non-Intel products, and LGE alleged patent infringement against Quanta.<sup>96</sup> The Federal Circuit, in affirming the lower court's ruling, held that the patent exhaustion doctrine does not categorically apply to method claims.<sup>97</sup> The Supreme Court, however, disagreed.<sup>98</sup> Not only did the Court unanimously hold that method claims *can* be exhausted, but it cited *Ethyl Gasoline Corp. v. United States*<sup>99</sup> and *Univis*<sup>100</sup> as two cases in which the Court had previously exhausted method claims.<sup>101</sup> Besides being compelled by stare decisis, the Court also felt that excluding method claims "would seriously undermine the exhaustion doctrine."<sup>102</sup> The Court then applied *Univis* and found that the Intel microprocessors and chipsets sold to Quanta embodied the essential features of the LGE patents since "they carry out all the inventive processes when combined . . . with standard components," which, in this case, were non-Intel buses and memory.<sup>103</sup> Lastly, the Court found that the sale of Intel's products to Quanta was a lawful sale within the context of the patent exhaustion doctrine since it was, in fact, fully authorized.<sup>104</sup> As a result of Intel's authorized sale of its microprocessors and chips that embodied the essential features of the LGE patents, LGE's method patents were thereby exhausted and could no longer be used against Quanta.<sup>105</sup> The Court, in concluding its opinion, provided the following guidance:

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95 *Id.*

96 *Id.* at 624.

97 *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (2006) (affirming the lower court's holding that "the sale of a device does not exhaust a patentee's rights in its method claims" (citing *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999))).

98 *Quanta*, 553 U.S. at 629–30 ("To the contrary, this Court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method. . . . We therefore reject LGE's argument that method claims, as a category, are never exhaustible.").

99 309 U.S. 436 (1940).

100 *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).

101 *Quanta*, 553 U.S. at 629; *see also* FELDMAN, *supra* note 38, at 143 ("The Court's message echoed loudly and clearly from the opening words of the opinion. 'For over 150 years,' the Court proclaimed, 'this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item.'" (quoting *Quanta*, 553 U.S. at 621)).

102 *Quanta*, 553 U.S. at 629. The Court further expressed the concern that by categorically excluding method claims from the doctrine, "a patent drafter could shield practically any patented item from exhaustion." *Id.* at 630.

103 *Id.* at 634. Importantly, the Supreme Court finds that these standard components provide for a final step that "is common and noninventive." *Id.*

104 *Id.* at 638; *see also id.* at 637 (adding that "[n]o conditions limited Intel's authority to sell products substantially embodying the patents").

105 *Id.* at 638.

The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control post-sale use of the article. Here, LGE licensed Intel to practice any of its patents and to sell products practicing those patents. Intel's microprocessors and chipsets substantially embodied the LGE Patents because they had no reasonable noninfringing use and included all the inventive aspects of the patented methods. Nothing in the License Agreement limited Intel's ability to sell its products practicing the LGE Patents. Intel's authorized sale to Quanta thus took its products outside the scope of the patent monopoly, and as a result, LGE can no longer assert its patent rights against Quanta.<sup>106</sup>

Despite the Court's seemingly clear language, the *Quanta* holding was called "ambiguous"<sup>107</sup> and was immediately criticized.<sup>108</sup> In particular, there was uncertainty as to whether the Supreme Court had overruled the Federal Circuit's holding in *Mallinckrodt, Inc. v. Medipart, Inc.* that post-sale restrictions are enforceable and could be remedied through patent infringement suits if violated by the user.<sup>109</sup> Some courts and scholars believe, however, that *Quanta* had effectively overruled *Mallinckrodt*.<sup>110</sup> Interestingly, the Federal Circuit in an en banc decision dated February 12, 2016, affirmed its holding in *Mallinckrodt* by stating it is still good law.<sup>111</sup> Therefore, it appears as though overturning *Mallinckrodt* will require the Supreme Court to use clear and express language to that effect.

The Supreme Court's most recent case on patent exhaustion involved a much different technology—genetic engineering. In *Bowman v. Monsanto Co.*, the patented article at issue was a genetically engineered soybean seed.<sup>112</sup> In an effort to avoid purchasing seeds subject to a strict licensing agreement, a farmer purchased "commodity seeds" from a grain elevator that he suspected contained some of the patented seeds.<sup>113</sup> He then planted the seeds, grew them under selective conditions that allowed only the patented

106 *Id.*

107 Ernst, *supra* note 33, at 457.

108 See Server & Casey, *supra* note 11, at 579–83 (criticizing the *Quanta* decision for endorsing a per se rule for exhaustion absent sufficient policy rationale, for its formalistic line drawing, and for leaving critical questions unanswered).

109 *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992); see also Server & Casey, *supra* note 11, at 593 (noting that "[t]he Supreme Court in *Quanta* deftly avoided any discussion of *Mallinckrodt*").

110 See, e.g., *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575, 585–86 (E.D. Ky. 2009) ("[T]his Court is persuaded that *Quanta* overruled *Mallinckrodt* *sub silentio*. The Supreme Court's broad statement of the law of patent exhaustion simply cannot be squared with the position that the *Quanta* holding is limited to its specific facts."); Server & Casey, *supra* note 11, at 593 ("This interpretation supports a conclusion that the Supreme Court's decision in *Quanta* overruled *Mallinckrodt*").

111 *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, No. 2014-1617, slip op. at 8 (Fed. Cir. Feb. 12, 2016) (en banc) (unequivocally declaring that "we adhere to the holding of *Mallinckrodt*").

112 *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013).

113 *Id.* at 1765.

seeds to grow into crops, and then saved the newly produced seeds for subsequent harvests.<sup>114</sup> The Court, in a unanimous opinion, rejected the farmer's patent exhaustion defense.<sup>115</sup> While the exhaustion doctrine would allow the farmer to consume or resell the patented seeds he purchased from the grain elevator, it would not allow the farmer to produce *any additional copies* of the patented soybean seeds.<sup>116</sup> In refusing to extend the exhaustion doctrine in this manner, the Court explained that "if simple copying were a protected use, a patent would plummet in value after the first sale of the first item containing the invention."<sup>117</sup> The current Supreme Court, therefore, understands the importance of defining the scope of the exhaustion doctrine and is cautious toward extending the doctrine into uncharted territory due to the potential risks it may cause to the market.

While these cases may seem to cover the wide spectrum of patent exhaustion doctrine jurisprudence, they do not address the issue whether, and to what extent, this doctrine also applies to third parties who are not themselves acquirers of the sold article. As the next Part will demonstrate, this is a major issue that was recently addressed by the Federal Circuit.

## II. THE FEDERAL CIRCUIT'S APPROACH IN *HELPERICH*

*Quanta* seemed to suggest that each and every patent right associated with an item is exhausted upon its authorized sale. Then, in 2015, six years after the *Quanta* decision, the Federal Circuit held in *Helperich Patent Licensing, LLC v. New York Times Co.*<sup>118</sup> that patent exhaustion is limited by the bounds of claimed "invention"—no matter how it is drafted—and that it *only* applies to so-called "authorized acquirers" and does not separately protect third party infringers.<sup>119</sup> *Helperich* was immediately met with criticism that challenged, among other things, whether it abides by Supreme Court precedent.<sup>120</sup>

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114 *Id.*

115 *Id.* at 1769 (concluding that "[p]atent exhaustion provides no haven for [the farmer's] conduct").

116 *Id.* at 1766. This patent law principle bears striking resemblance to the Supreme Court's view in the famous copyright case *Bobbs-Merrill Co. v. Straus*, where the Court considered the author's "right to multiply copies of his work" to be perhaps "the main purpose of the copyright statutes." 210 U.S. 339, 347 (1908). The Court seems to adopt a similar approach with respect to patent rights in *Monsanto*.

117 *Monsanto*, 133 S. Ct. at 1768.

118 778 F.3d 1293 (Fed. Cir. 2015).

119 *Id.*

120 See, e.g., Samuel F. Ernst, *The Federal Circuit's New "Authorized Acquirer" Restriction on Patent Exhaustion*, PATENTLY-O BLOG (Feb. 16, 2015), <http://patentlyo.com/patent/2015/02/authorized-restriction-exhaustion.html> ("The panel opinion is directly contrary to Supreme Court precedent and represents a fundamental misunderstanding of one of the core purposes of the exhaustion doctrine.").

### A. Helferich Patent Licensing, LLC v. New York Times Co.

In *Helferich*, the patent holder, Helferich Patent Licensing, LLC (“Helferich”), held more than thirty patents related to wireless-communication technologies that were conceptually divided into “handset claims” and “content claims.”<sup>121</sup> The handset claims were directed to the mobile handset itself (i.e., the cell phone) along with the user’s actions in “receiving and/or requesting certain content.”<sup>122</sup> The content claims, in contrast, were largely directed toward actions taken by third party content providers.<sup>123</sup> A news content provider, for instance, “might send a subscriber a message containing the headline of a news article along with website-location information that permits the subscriber, upon choosing to click a hyperlink, to gain access to the complete article.”<sup>124</sup> As a result, those susceptible to potential infringement of handset claims and content claims are, for the most part, entirely separate parties.

Helferich licensed its patent portfolio—both its handset claims and content claims—to most, if not all, the mobile handset manufacturers in the United States.<sup>125</sup> These licenses, however, made an effort to expressly reserve the right to enforce its content claims against third party content providers.<sup>126</sup> The handsets subsequently entered the stream of commerce when the licensees sold them to consumers, and Helferich filed suit against third party content providers, including the *New York Times*, CBS, and J.C. Penney, alleging patent infringement of its content claims.<sup>127</sup> The district court, finding non-infringement, held that once the patent licensee sells a handset embodying the licensed patents, the *entire* patent is exhausted.<sup>128</sup> The court reasoned that since Helferich licensed both handset and content claims to the manufacturers, then both sets of patents—handset and content—were exhausted. Yet, under *Univis*, the handsets must embody the “essential features” of each patented invention in order to apply.<sup>129</sup> Certainly this holds true for the handset claims, but whether it also holds true for

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121 *Helferich*, 778 F.3d at 1295. The patents at issue were U.S. Patent Nos. 7,280,838; 7,499,716; 7,835,757; 8,107,601; 8,116,741; 8,134,450; and 7,155,241. *Id.* Only the ‘838 and ‘716 patents contained both handset and content claims. *Id.* The ‘757, ‘601, ‘741, ‘450, and ‘241 patents exclusively contain content claims. *See id.*

122 *Id.*

123 *Id.* (acknowledging “the fact that it is content providers, not possessors of handsets, that practice [the content claims]”).

124 *Id.*

125 *Id.* at 1296.

126 *Id.* at 1297.

127 *Id.* at 1295.

128 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971, 980 (N.D. Ill. 2013) (applying *Quanta* to the present case and concluding that “once a licensee sells a mobile device that partially embodies HPL’s patent, even if the device does not completely practice HPL’s patent, that patent is exhausted. The doctrine of patent exhaustion governs the exhaustion of a patent, not the exhaustion of individual claims.” (emphases omitted)), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015).

129 *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942).



the content claims is less clear. Nonetheless, the district court considered this requirement to be satisfied since “[t]he handset devices have the capability to receive content from content providers, and the [content] patents all require devices capable of receiving content or messages.”<sup>130</sup> Therefore, in the court’s view, the fact that the handset was necessary for practicing the content claims was the sufficient embodiment of essential features needed to satisfy the test.

The Federal Circuit, however, reversed on appeal and held that the authorized sale of the handset to a user *does not* exhaust the patent holder’s right to enforce content claims against third parties.<sup>131</sup> While some scholars consider this a questionable narrowing of the patent exhaustion doctrine,<sup>132</sup> the Federal Circuit instead considered this to be nothing more than a refusal to “expand the doctrine into difficult new territory unmapped by lines drawn, or even sketched, by Congress.”<sup>133</sup> In reaching this conclusion, the court cited *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*<sup>134</sup> for the proposition that “the [patent exhaustion] doctrine would not apply in circumstances where the alleged infringement involved distinct, though related, validly patented inventions.”<sup>135</sup> It is, therefore, apparent that the court largely based its ruling on its conclusion that the handset claims and the content claims do, in fact, represent distinct inventions rather than a single invention. In addition, the court pointed out that the doctrine has only been applied in situations where “an *authorized acquirer* was using the same invention by infringing the asserted claims”<sup>136</sup> and that neither the court nor either party were aware of any Supreme Court case that found exhaustion to occur in the absence of “this common feature.”<sup>137</sup>

Ultimately, there are two major differences between the approaches taken by the district court and the Federal Circuit in construing the scope and applicability of the patent exhaustion doctrine. The first difference concerns how broadly (or narrowly) the court finds *claims* to be exhausted upon the sale of an item. The second difference concerns whether the court views the patent exhaustion doctrine as a defense that a third party non-acquirer can, in fact, raise. The district court took a broad approach on the first dif-

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130 *Helferich*, 965 F. Supp. 2d at 978.

131 *Helferich*, 778 F.3d at 1311.

132 *See, e.g.*, Ernst, *supra* note 120.

133 *Helferich*, 778 F.3d at 1305.

134 152 U.S. 425 (1894).

135 *Helferich*, 778 F.3d at 1303 (citing *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 435 (1894)).

136 *Id.* at 1302 (emphasis added).

137 *Id.* While “authorized acquirer” may seem to be a new term adopted by the Federal Circuit, it should be viewed as merely a coined term used to express the Supreme Court’s view that the patent exhaustion doctrine applies to the acquirer of the product when there is an authorized sale of the product to the acquirer. *See, e.g.*, *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013); *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008). The purchaser, who can then assert the patent exhaustion defense, is an acquirer through an authorized sale—an “authorized acquirer,” as the Federal Circuit puts it.

ference and concluded that “the handset devices sold sufficiently embody [all of the] patents-in-suit” since “the patents all require devices capable of receiving content or messages.”<sup>138</sup> The Federal Circuit, on the other hand, took a more narrow approach with regard to the substantial embodiment test. It viewed the situation at hand as “rais[ing] an exhaustion question in the context of multiple related and separately patentable inventions.”<sup>139</sup> After establishing that the content claims and handset claims were separate inventions, the Federal Circuit laid out the strict rule, based on Supreme Court precedent including *Quanta*, that the patent exhaustion defense only applies to what it calls “authorized acquirer[s].”<sup>140</sup> Therefore, since the content providers were not authorized acquirers of the content claims invention, the exhaustion defense does not apply and they are, as a result, liable for infringement.<sup>141</sup> The district court did not address the “authorized acquirer” issue and, instead, treated the authorized sale of an item as a prerequisite for *whether* its patents are exhausted, which in the court’s view would include all parties, rather than in *what context* and *for whom*.<sup>142</sup>

### B. *Contrasting the District Court and Federal Circuit Approaches*

Whether or not the Federal Circuit correctly decided this case is up for debate and might even reach the Supreme Court.<sup>143</sup> If it does, the Court will likely hear arguments from both sides that ultimately boil down to at least three categories of inquiry. First, there is the issue whether the scope of the patent exhaustion doctrine is defined in terms of distinct *inventions*, or, rather, extends to each and every claim encompassing an entire (loosely defined) patented *system*. Second, even if the patent exhaustion doctrine is strictly limited to distinct inventions, there is an issue as to whether the fact that a second invention strictly requires the first invention in order to practice its claims results in the merger of both inventions into a single exhausted set of claims. And third, and perhaps most important, is the issue whether the patent exhaustion defense only protects “authorized acquirers” from liability or if, in fact, it is a defense available to non-acquiring third parties. The district court and the Federal Circuit each took opposing views on these issues, as discussed below.

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138 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971, 978 (N.D. Ill. 2013), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015).

139 *Helferich*, 778 F.3d at 1301.

140 *Id.* at 1302.

141 *See id.* at 1311.

142 *See Helferich*, 965 F. Supp. 2d at 979 (“Once the handset manufacturers sell the handsets which embody [Helferich’s] patents, [Helferich’s] patents are exhausted as to all third parties, including Defendants.”).

143 *See generally* Timothy R. Holbrook, *Explaining the Supreme Court’s Interest in Patent Law*, 3 IP THEORY 62 (2013). The potential for a Supreme Court grant of certiorari, or at least its consideration of granting certiorari, in the *Helferich* case is particularly strong due to the Supreme Court’s recent interest in patent cases. *Id.* at 63 (“Starting in around 2000, the Supreme Court became active, if not even hyperactive, in patent law.”).

## 1. Application of the *Quanta* Test

Inherent in almost any case regarding application of a doctrine is the need for defining scope. Sometimes it involves the scope of the doctrine in general while other times it relates to the scope of a single element. In the case of *Helferich*, the Federal Circuit began by limiting the breadth of patent exhaustion to patents associated with the “invention[ ]” actually purchased by the authorized acquirer.<sup>144</sup> The court then proceeded to determine that the handset claims comprised one invention while the content claims comprised a separate and distinct, albeit related, invention.<sup>145</sup> As discussed earlier, the *Quanta* test for “substantial embodiment” requires that the patented invention (1) includes “all the inventive aspects of the patented methods,” and (2) has “no reasonable noninfringing use.”<sup>146</sup>

It remains unclear, however, whether the Supreme Court intended this two-part test to be a generally applicable test for all future cases, or whether it was merely a narrow framework for deciding the *Quanta* case at hand with the intention that future cases be decided on a more liberal basis. After all, the Supreme Court has a tendency to reject the adoption of a single test in favor of a more liberal and flexible approach.<sup>147</sup>

The district court took a different approach from the Federal Circuit in deciding which claims to include and exclude from exhaustion. In its view, the proper scope relates not to the boundary of an “invention” as drafted, but rather includes *all* claims that are practiced, in whole or in part, by the sold device irrespective of classification.<sup>148</sup> In other words, if the allegedly infringing claims are part of the same claimed *system* as the handheld device, then those claims should be exhausted to the same extent as the handheld device’s patents.<sup>149</sup> Rather than distinguish among “inventions,” the court lumped all claims together since *Helferich* licensed its entire patent portfolio to the handset manufacturers.<sup>150</sup> The court then applied the *Quanta* test and found that since the handsets “are capable of receiving content” in accordance with the content claims, all of the patent claims—content and handset alike—are substantially embodied in the handsets and thereby

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144 See *Helferich*, 778 F.3d at 1303.

145 *Id.* at 1309.

146 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008).

147 See, e.g., *Bilski v. Kappos*, 130 S. Ct. 3218, 3226–27 (2010) (noting that “[t]he Court of Appeals [for the Federal Circuit] incorrectly concluded that this Court has endorsed the machine-or-transformation test as the exclusive test” before ultimately rejecting the Federal Circuit’s approach by holding that, while “useful and important,” “[t]he machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible ‘process’”).

148 See *Helferich*, 778 F.3d at 1298 (“The [district] court did not focus on the particulars of any of *Helferich*’s claims, whether handset or content claims.”).

149 See *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971, 978 (N.D. Ill. 2013) (concluding that “the handset devices sold sufficiently embody the patents-in-suit”), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015).

150 See *id.* (“[E]very handset device has been licensed to practice [*Helferich*’s] patents; ergo, no handset device can infringe [*Helferich*’s] patents.”).

exhausted.<sup>151</sup> A clear difference in the courts' approaches, therefore, has to do with *degree* of embodiment.

## 2. Dependency of the Content Claims on the Handset

The district court adopted the view that the *Quanta* “substantial embodiment” test is met whenever the claims at issue require use of the sold article.<sup>152</sup> The Federal Circuit, however, criticized and rejected this view.<sup>153</sup> The court did not necessarily foreclose the possibility of exhaustion based on a dependency theory, but instead concluded that at a minimum, there must be “infringement of the asserted claims by authorized acquirers.”<sup>154</sup> Since the handset users, or “authorized acquirers,” do not practice any of the steps of the content claims, then, in the Federal Circuit’s view, there can be no patent exhaustion of the content claims toward third parties.<sup>155</sup>

## 3. The “Authorized Acquirer” Limitation

The major, and perhaps most controversial, holding the Federal Circuit made was that the patent exhaustion doctrine *only* applies to what it calls “authorized acquirers”<sup>156</sup> and does not extend to third parties. This is a strict standard—there is no flexible approach taken here.<sup>157</sup> The court reasons that this is the approach that has *always* been taken with regards to doctrine.<sup>158</sup> This holding was met with harsh criticism.<sup>159</sup> The argument against the Federal Circuit’s approach is a mix of both interpretation and

151 *Id.* at 978–79.

152 *Id.* at 978. The court, in justifying its reasoning, states that “[t]he handset devices have the capability to receive content from content providers, and the patents all require devices capable of receiving content or messages.” *Id.* (citing U.S. Patent No. 7,155,241 (filed Feb. 7, 2005)).

153 *Helferich*, 778 F.3d. at 1308–11.

154 *Id.* at 1302.

155 *See id.* at 1300 (pointing out that neither the district court nor the defendants “contend that handset possessors practice any of the asserted claims”); *see also id.* at 1311 (“We see no sound basis for expanding [the] exhaustion doctrine to hold that authorized sales to persons practicing the handset claims exhaust the patentee’s rights to enforce the asserted content claims against different persons.”).

156 The Federal Circuit states, “We use ‘authorized acquirers’ to refer to those who acquire title to the article at issue from the patentee or from a licensee authorized to sell, and those who acquire possession and operational control, as by lease, from such a person.” *Id.* at 1297 n.1 (citing *LifeScan Scot., Ltd. v. Shasta Techs.*, 734 F.3d 1361, 1374–77 (Fed. Cir. 2013); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)).

157 *See Helferich*, 778 F.3d at 1301 (“Exhaustion protects an *authorized acquirer’s* freedom from the legal restrictions imposed by the patent statute.” (emphasis added)); *see also id.* at 1302 (“The [exhaustion] doctrine has never applied unless, at a minimum, the patentee’s allegations of infringement . . . entail infringement of the asserted claims *by authorized acquirers* . . . .” (emphasis added)).

158 *Id.* at 1302 (noting that the patent exhaustion doctrine “has *never* applied” absent infringement by an “authorized acquirer[ ]” (emphasis added)).

public policy. It is argued, for instance, that *Motion Pictures* represents a case where the Supreme Court used patent exhaustion to shield third parties from liability for patent infringement.<sup>160</sup> After all, it was a third party supplier, Universal, that was shielded from liability in *Motion Pictures* by the Supreme Court's holding.<sup>161</sup> This might suggest that the Federal Circuit's holding that the patent exhaustion doctrine only applies to "authorized acquirers" is an overly restrictive interpretation of Supreme Court precedent. The district court, after all, does not view the exhaustion doctrine as a defense restricted to authorized acquirers, but instead as a doctrine that precludes liability for anyone who might happen to infringe.<sup>162</sup>

Part III addresses each of these issues and argues that the Federal Circuit's approach to *Helperich* accords with Supreme Court precedent and public policy.

### III. THE FEDERAL CIRCUIT PROPERLY APPLIED SUPREME COURT PRECEDENT IN *HELPERICH*

The Federal Circuit correctly refused to extend the patent exhaustion doctrine beyond its traditional reach. Not only did the court follow Supreme Court precedent, but this approach also more closely coincides with public policy rationales that have guided our patent system since it was first established by our Constitution almost two and a half centuries ago.<sup>163</sup>

The patent exhaustion doctrine does not now, nor has it ever, provided across-the-board exhaustion of all patent claims in situations where the claims represent separate and distinct inventions.<sup>164</sup> This applies with even more force when the separate and distinct inventions are also practiced by separate and distinct groups of users, as in the case of *Helperich*.<sup>165</sup> The *Helperich* ruling by the Federal Circuit is, therefore, not a narrowing of the doctrine, but rather a decision to restrain the doctrine from an unprecedented and potentially dangerous broadening. Further, the argument that

159 See Ernst, *supra* note 120 (calling the opinion "directly contrary to Supreme Court precedent" by "represent[ing] a fundamental misunderstanding of one of the core purposes of the exhaustion doctrine").

160 *Id.*

161 *Motion Picture*, 243 U.S. at 507.

162 See *Helperich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971, 979 (N.D. Ill. 2013), ("Once the handset manufacturers sell the handsets which embody [Helperich's] patents, [Helperich's] patents are exhausted as to all third parties . . ." *rev'd*, 778 F.3d 1293 (Fed. Cir. 2015)).

163 See *generally* *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) (discussing the development of U.S. patent law and the public policies underlying it).

164 See *Helperich*, 778 F.3d at 1301 (concluding that "the exhaustion defense . . . does not bar Helperich's claims" since this case involves "multiple related and separately patentable inventions" and because the exhaustion doctrine "has never been applied to terminate patent rights in such complementary activities or goods in these circumstances").

165 *Id.* ("The situation, to simplify, involves a single inventor's coming up with two inventions . . . one invention to be practiced by one group of users, the other invention by another group . . .").

*Helferich* establishes a new right for a patent holder to collect “an additional royalty”<sup>166</sup> is misguided since it is not an additional royalty on the same invention, but instead represents a separate royalty on a separate and distinct invention, which is a common practice courts have historically allowed.<sup>167</sup> The conclusions reached by the Federal Circuit hold true because (1) the scope of patent exhaustion must be limited to the confines of distinct inventions, (2) the article sold must embody all the inventive aspects of the allegedly infringed patent and there must be infringement by an authorized acquirer, and (3) the patent exhaustion defense is applicable only to authorized acquirers and is not independently applicable to third party infringers.

A. *The Scope of Patent Exhaustion Must Be Limited to the Confines of Distinct Inventions*

The Supreme Court considers that “a patentee’s rights extend only to the claimed combination of elements, and no further.”<sup>168</sup> While patent exhaustion may not seem like it falls into the category of patentee rights, the two principles are, for all intents and purposes, quite interrelated. A patent grants the patentee “[t]he right to exclude others from making, using, marketing, selling, offering for sale, or importing an invention for a specified period.”<sup>169</sup> The patent exhaustion doctrine, on the other hand, provides an avenue by which this right to exclude is exhausted and can no longer be legally enforced, thereby acting as a defense to infringement.<sup>170</sup> It therefore seems only logical that the scope of patent exhaustion should not exceed the scope of the patent rights that are being exhausted.

The Supreme Court has, perhaps implicitly, adopted a relatively straightforward test for delineating the scope of patent exhaustion that involves, first, determining what constitutes a distinct “invention” and, second, determining what inventions are “substantially embodied” in the article sold.<sup>171</sup> Only patents that are substantially embodied in the distinct invention are exhausted upon the sale of the article, while patents that fail the substantial embodiment test are not exhausted.<sup>172</sup>

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166 Ernst, *supra* note 120.

167 See generally Osborne, *supra* note 90, at 668–73.

168 *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2117 (2014).

169 *Patent*, BLACK’S LAW DICTIONARY (10th ed. 2014) (emphasis added); see also 35 U.S.C. § 154(a)(1) (2012) (providing that “[e]very patent shall . . . grant to the patentee . . . the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States” (emphasis added)).

170 See, e.g., *ExcelStor Tech., Inc. v. Papst Licensing GMBH & Co.*, 541 F.3d 1373, 1376 (Fed. Cir. 2008) (reaffirming that “patent exhaustion is a defense to patent infringement, not a cause of action” (citing *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1334–36 (Fed. Cir. 2006))).

171 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1301, 1308–10 (Fed. Cir. 2015).

172 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 634–35 (2008).

This is precisely the approach taken by the Federal Circuit. While the Supreme Court has not expressly stated that the first step in a patent exhaustion analysis is to separate out distinct inventions, this is implied. In *Quanta*, the Court provided an example of when, in a situation with two distinct inventions (For simplicity, the Court referred to them as “patent A” and “patent B”), the exhaustion of patent A would and would not exhaust patent B.<sup>173</sup> While the critical part of this determination is the substantial embodiment test,<sup>174</sup> it must first be determined what constitutes the invention at issue—are A and B separate inventions or are they actually one single invention? Then, and only then, can it be determined what claims are, and are not, substantially embodied in the invention. The Supreme Court’s analysis in *Quanta* supports this approach.

In construing what constitutes a distinct invention, the Federal Circuit in *Helferich* correctly focused this assessment on the patents themselves rather than on their contemplated uses or the potentially restrained value of the article sold.<sup>175</sup> There is a longstanding presumption that each patent and each claim within a patent represent an invention that is patentably distinct from any other.<sup>176</sup> This does not mean, however, that each patent can necessarily be practiced independently of other patents. This is especially true for smartphones, which, due to their complexity and rapidly advancing technology, have as many as a quarter million patents claiming some aspect of their design or operation.<sup>177</sup>

The *Helferich* patents are, in fact, multiple inventions divided into two distinct and separate classes of inventions—“content claims” and “patent claims.” The “content claims” of *Helferich* represent multiple patented inventions that, as a whole, operate to provide “systems and methods for storing and updating information of various types (content) and sending it to handsets.”<sup>178</sup> Perhaps the biggest difference between these two claim sets—the difference the court relies on heavily for its determination that these constitute distinct inventions—is that they are practiced by entirely different

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173 *Id.*

174 The substantial embodiment test is a two-part test for finding exhaustion of method patents based on whether the article sold (1) “had no reasonable non-infringing use” and (2) “included all the inventive aspects of the patented methods.” *Id.* at 638; *see also infra* notes 206–09 and accompanying text.

175 *Helferich*, 778 F.3d at 1305 (rejecting the content providers’ argument that the bounds of the patent exhaustion doctrine should be “based on a practical inquiry into whether enforcement would constrain authorized acquirers’ use of the articles they acquired”).

176 *See* *Altoona Publix Theatres, Inc. v. Am. Tri-Ergon Corp.*, 294 U.S. 477, 487 (1935).

177 Steve Lohr, *Apple-Samsung Case Shows Smartphone as Legal Magnet*, N.Y. TIMES (Aug. 25, 2012), <http://www.nytimes.com/2012/08/26/technology/apple-samsung-case-shows-smartphone-as-lawsuit-magnet.html>.

178 *Helferich*, 778 F.3d at 1295.

groups.<sup>179</sup> The handset claims constitute an invention practiced by the consumer who acquired the handset, while the content claims constitute an invention practiced by a non-purchasing and non-acquiring third party.<sup>180</sup> The argument that these distinct inventions should nonetheless be treated as one invention for exhaustion purposes is unsound and without precedent.

It is true that two of Helferich's patents at issue—U.S. Patent Nos. 7,280,838 and 7,499,716—do contain both handset claims and content claims; however, this alone is insufficient to justify merging both sets of claims into one inventive category for exhaustion purposes.<sup>181</sup> An argument that the presence of both sets of claims in a single patent *proves* that the claims as a whole represent a single invention is without merit for at least two reasons. First, the Supreme Court long ago recognized that each claim in a patent represents its own invention that stands or falls independent of the other claims.<sup>182</sup> Second, and perhaps most important, there is no mandatory requirement for separating distinct or independent inventions from a single patent application. The Manual of Patent Examining Procedure (MPEP),<sup>183</sup> published by the PTO, describes this process—called “restriction”—and the situations in which it is, and is not, proper.<sup>184</sup> This is an entirely discretionary requirement made by the patent examiner during prosecution.<sup>185</sup> In other words, each patent *may* be required to consist of only one invention if the examiner so chooses. There is nothing to prevent an examiner from allowing claims related to multiple inventions to issue from the same patent. In fact, while separating inventions into distinct patents is discretionary, the

179 *Id.* at 1301 (“The situation, to simplify, involves a single inventor’s coming up with two inventions presumed to be separately patentable, *one invention to be practiced by one group of users, the other invention by another group . . .*” (emphasis added)).

180 See Section III.C below for a deeper analysis of this distinction.

181 *Helferich*, 778 F.3d at 1295. The other five patents allegedly infringed were solely comprised of content claims. *Id.*

182 See *Altoona Publix Theatres, Inc. v. Am. Tri-Ergon Corp.*, 294 U.S. 477, 487 (1935) (“[E]ach claim must stand or fall, as itself sufficiently defining invention, independently of the others.” (citing *Carlton v. Bokee*, 84 U.S. (17 Wall.) 463, 472 (1873); *Smith v. Snow*, 294 U.S. 1 (1935); *T.H. Symington Co. v. Nat’l Malleable Castings Co.*, 250 U.S. 383, 385 (1919); *Leeds & Catlin Co. v. Victor Talking Mach. Co.*, 213 U.S. 301, 319 (1909); *Russell v. Place*, 94 U.S. 606, 609 (1876); 1 WALKER ON PATENTS § 220 (6th ed. 1929))); see also *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917) (stating that the scope of patent protection, which would therefore include exhaustion, “must be limited to the invention described in the claims of [the] patent” (citing *R.R. Co. v. Mellon*, 104 U.S. 112, 118 (1881))).

183 U.S. Patent & Trademark Office, Manual of Patent Examining Procedure (9th ed. 2015) [hereinafter MPEP].

184 *Id.* §§ 803–803.01. In order for an examiner to properly restrict inventions, the MPEP lays out two requirements. First, “[t]he inventions must be independent or distinct as claimed,” and second, “[t]here would be a serious burden on the examiner if restriction is not required.” *Id.* § 803 (citations omitted).

185 35 U.S.C. § 121 (2012) (“If two or more independent and distinct inventions are claimed in one application, the Director *may* require the application to be restricted to one of the inventions.” (emphasis added)).



Patent Office strictly prohibits, for public interest reasons, the granting of two patents for the same invention.<sup>186</sup> As a result, an examiner unsure as to whether a patent contains one or two distinct “inventions” is more likely to side with keeping them together in the same patent. After all, as mentioned, restriction is discretionary while issuing two patents on the same invention is prohibited.

Moving forward, if an examiner determines that two inventions are patently distinct, there is uncertainty as to what extent that determination should also govern the boundaries of what claims are exhausted.<sup>187</sup> The Federal Circuit in *Helferich* seemed to suggest it does play at least some role by “confirm[ing] the independence or distinctiveness of the separated claims.”<sup>188</sup> After all, each of the *Helferich* patents arose from a single original application, but the PTO ultimately issued at least seventeen restrictions that broke up the application into “independent and distinct” sets of inventions.<sup>189</sup> It turns out, however, that the restriction requirement exists more for procedural reasons—namely avoiding undue burden on the examiner—than for substance.<sup>190</sup> It is therefore plausible that the PTO may have found that the ‘838 and ‘716 patents contain two independent inventions but nonetheless declined to impose a restriction because it would not seriously burden examiners to review the claims together.

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186 MPEP, *supra* note 183, § 803.01 (“It still remains important from the standpoint of the public interest that no requirement be made which might result in the issuance of two patents for the same invention.” (citing *id.* § 804.01)). The policy rationale behind this is to prevent inventors from extending the life of their patent monopoly by filing a second patent on the same invention—a prohibited practice termed “double patenting.”

187 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1310–11 (Fed. Cir. 2015) (acknowledging that the restriction requirements imposed by the PTO do “provide some fuel for each side’s argument”).

188 *Id.* at 1310 (citing MPEP, *supra* note 183, §§ 802.01, 803).

189 Brief for Plaintiff-Appellant *Helferich Patent Licensing, LLC* at 14, *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293 (2014) (No. 2014-1196) [hereinafter Brief for Plaintiff-Appellant].

190 While there is nothing inherently wrong, or against patent law policy, with issuing a patent that contains multiple inventions, such a practice would afford applicants a way to avoid paying separate fees for each invention. See Jon W. Henry, *Understanding & Simplifying Restriction Practice Under 35 USC § 121*, 86 J. PAT. & TRADEMARK OFF. SOC’Y 17, 66 (2004) (“It is obvious that including claims to many related inventions with separate features in a single application may reduce the filing fees, issue fees, and maintenance fees that would be required for separate applications and patents, as well as reduce other fees, such as fees for extensions of time, during prosecution.”). A second reason, which is also procedural, is that a restriction avoids placing an overwhelming burden on the examiner. *Id.* (explaining that examiners may issue a restriction requirement “to prevent being overwhelmed by the search and examination of the many related inventions”). Of these two main reasons, avoiding “a serious burden” seems to be the principal reason and, in fact, such a burden is actually required in order for an examiner to impose a restriction requirement. MPEP, *supra* note 183, § 803. Therefore, not only is a restriction among inventions discretionary on an examiner, but it also requires there to be “a serious burden on the examiner if restriction is not required.” *Id.*

In contrast, that the *Helferich* patents were generally divided into separate patents consisting of either handset claims or content claims suggests they are, in fact, separate categories of inventions. It also makes sense from a cost and efficiency standpoint for an applicant to file multiple sets of claims in as few patent applications as possible.<sup>191</sup> The risk of this strategy, however, as was made abundantly clear in the *Helferich* case, is that courts might construe patent exhaustion doctrine to exhaust more than just the claims that were part of the sold invention.<sup>192</sup> Ultimately, however, the Federal Circuit emphasized that due to the discretionary nature of restrictions, such a determination was not dispositive, but nonetheless weighed against the argument that the two sets of claims—handset and content—could properly be combined into one.<sup>193</sup>

The practice of separating claims within a single issued patent is also not new.<sup>194</sup> More than 100 years ago, the Supreme Court was faced with an issue “of considerable importance”—“whether a patentee can split up his patent into as many different parts as there are claims.”<sup>195</sup> The Court concluded that individual claims within a patent could be separately licensed; however, they could not be separately assigned.<sup>196</sup> Therefore, the practice of licensing out a patent on a claim-by-claim basis is a common occurrence and often provides for a more efficient allocation in the marketplace than an all-or-nothing licensing requirement.<sup>197</sup> This is precisely the strategy that *Helferich* followed as it licensed out its content claims to more than 150 content providers and licensed its handset claims to handset manufacturers such as Apple, Samsung, LGE, and HTC.<sup>198</sup>

Moreover, there is a longstanding presumption in patent prosecution,<sup>199</sup> litigation,<sup>200</sup> and licensing matters<sup>201</sup> that the focus on patent rights rest in the individual *claims* rather than how they are organized in patents.

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191 Dahlin, *supra* note 32, at 767–68 (“In the normal course of business, in an effort to minimize costs, patent holders often file as many distinct claims in a single patent as possible, rather than spreading them out over multiple patents.” (citing Robert Platt Bell, *Restriction Requirements*, ROBERT PLATT BELL ARTICLES (Oct. 21, 2007, 10:26 AM), <http://robertplattbell.blogspot.com/search?updated-min=2007-01-01T00:00:00-08:00&updated-max=2008-01-01T00:00:00-08:00&max-results=28>)).

192 Dahlin, *supra* note 32, at 767 (pointing out that despite the benefits of filing as many claims together as possible, “*Helferich* could have saved itself a lot of headaches by simply filing all of its claims as separate patent applications”).

193 *Helferich*, 778 F.3d at 1310–11.

194 Dahlin, *supra* note 32, at 772 (describing *Pope Manufacturing Co. v. Gormully & Jeffery Manufacturing Co.*, 144 U.S. 248 (1892), as only one of “several circumstances” in which “the courts have made clear that each claim of a patent should be treated separately”).

195 *Pope*, 144 U.S. at 250.

196 Dahlin, *supra* note 32, at 772 (citing *Pope*, 144 U.S. at 252).

197 *See id.* at 769–77.

198 Brief for Plaintiff-Appellant, *supra* note 189, at 14–15.

199 *See, e.g.*, MPEP, *supra* note 183, § 706 (specifying that applications are reviewed on an individual claim-by-claim and providing guidance for the rejection of *claims*).

200 *See, e.g.*, *Altoona Publix Theatres, Inc. v. Am. Tri-Ergon Corp.*, 294 U.S. 477, 487 (1935).

The Supreme Court in *Quanta* also recently voiced its concern over adopting an approach that would exhaust patents based simply on *how* they are drafted.<sup>202</sup> By extending exhaustion to every claim of a patent—irrespective of what each claim entails—it would overturn the presumption that claims, rather than patents, are the operative unit for delineating patent rights.<sup>203</sup> This would give rise to a number of concerns as it would defy settled expectations, create uncertainty as to the exhaustion of pre-existing patents, create inefficiencies,<sup>204</sup> and encourage the same strategic patent drafting that the Supreme Court in *Quanta* warned against.<sup>205</sup> Namely, distinct inventions would have to be claimed in separate patent applications to avoid exhaustion of both, through the authorized sale of one. Yet, in the end, whether two related but distinct inventions are claimed in the same patent or are split up into two patents, the result would be the same—the scope of exhaustion would be limited to distinct inventions. Therefore, there is no sufficient justification for upending the longstanding practice of limiting exhaustion to independent inventions regardless of how their claims are drafted.

*B. Patent Exhaustion of a Method Under Quanta Requires an Article to Embody Each Inventive Aspect of the Patented Method and Requires Infringement by the Authorized Acquirer*

The Federal Circuit correctly concluded that the substantial embodiment test from *Quanta* requires not only substantial embodiment of “all the inventive aspects” of the content claims, but it also requires infringement of the content claims by an authorized acquirer. Neither condition was met in *Helferich* for the reasons that follow.

The Supreme Court provided a two-part test in *Quanta* whereby a method patent that was only *partially* practiced in a sold article could nonetheless be exhausted. While the Court did not provide a rigid test or give much guidance for future application of the test,<sup>206</sup> it seemed to suggest that a method patent is substantially embodied in an article, and thereby exhausted by its sale, when two conditions are met. First, the article must include “all the inventive aspects of the patented methods,” and second, the

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201 See, e.g., *Pope Mfg. Co. v. Gormully & Jeffery Mfg. Co.*, 144 U.S. 248, 252 (1892) (holding that individual claims could be separately licensed after noting that, at least in the context of licensing, “it is sometimes said that each claim of a patent is a separate patent”).

202 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 629–30 (2008) (noting that “[t]his case illustrates the danger of allowing such an end-run around exhaustion” since “a patent drafter could shield practically any patented item from exhaustion”).

203 See *supra* notes 199–201 and accompanying text.

204 See *supra* notes 194–98; *infra* notes 234–39.

205 *Quanta*, 553 U.S. at 629–30.

206 See, e.g., Thomas G. Hungar, *Observations Regarding the Supreme Court’s Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, 49 IDEA 517, 546 (2009) (“[T]he Court may have used [the two factor] terminology simply because [it] . . . accurately described the facts of [the] particular case, without necessarily intending to announce the controlling standard for all such cases in the future.”); Watanabe, *supra* note 12, at 283–84.

article must have “no reasonable noninfringing use.”<sup>207</sup> It remains to be seen, however, whether just one of the two factors can be sufficient or whether substantial embodiment does, in fact, require both.<sup>208</sup> It turns out that the Federal Circuit ultimately did not have to decide this open question in *Helferich*. After assessing each factor individually, the court concluded that neither factor supported a finding of substantial embodiment.<sup>209</sup>

As to the first factor, the court looked to its recent decision in *LifeScan v. Shasta*<sup>210</sup> for guidance. To satisfy the “inventive aspects” factor, the court looks to “whether the additional steps needed to complete the invention from the product are themselves ‘inventive’ or ‘noninventive.’”<sup>211</sup> The Federal Circuit found that none of the inventive aspects of the content claims exist in either the handset or the handset claims.<sup>212</sup> While this specific analysis was not based on Supreme Court precedent, it was also not contradictory to any of its precedent since the Court has not had to decide this issue to such a narrow extent. After all, the Court’s *Quanta* decision, arguably the Supreme Court case that most closely resembles the issues in *Helferich*, left unanswered the question as to “how to distinguish between creative and non-creative decision-making” in deciding substantial embodiment.<sup>213</sup> Nonetheless, the approach taken by the Federal Circuit coincides nicely with the well-established notion of inventiveness. For instance, one way to tease out the “inventive aspects” of an invention is to determine which aspects of the invention distinguish it from the prior art by adding something that is “new, useful, and nonobvious”—the three basic requirements of patentability.<sup>214</sup> In the case of *Helferich*, do these aspects of the content claims lie more in the handset itself or in the hands of a third party? Fortunately, the court avoided a difficult and potentially ambiguous balancing test since the content providers “identified no basis . . . for concluding that for the asserted content claims, the patented advance over prior art lay in the handsets.”<sup>215</sup> The content claims and handset claims, according to the court, both have their “own inventiveness.”<sup>216</sup>

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207 *Quanta*, 553 U.S. at 638.

208 See Watanabe, *supra* note 12, at 284 (acknowledging the lack of clarity as to whether one or both of the *Quanta* factors must be met).

209 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1309 (Fed. Cir. 2015) (“If the two questions were to be transposed into this context, they would not help defendants’ case for exhaustion.”).

210 *LifeScan Scot., Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361 (Fed. Cir. 2013).

211 *Helferich*, 778 F.3d at 1309 (quoting *LifeScan*, 734 F.3d at 1368).

212 *Helferich*, 778 F.3d at 1309 (“[I]f the inquiry compares handset claims and content claims, we cannot find that either set wholly contains the invention found in the other. Each has its own inventiveness . . .”).

213 Watanabe, *supra* note 12, at 285.

214 See, e.g., *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989) (“The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of *new, useful, and nonobvious* advances . . .” (emphasis added)).

215 *Helferich*, 778 F.3d at 1309.

216 *Id.*

Having determined that the first part of the *Quanta* two-part test was not met, the Federal Circuit could have ended the inquiry but instead decided to move forward. As to the second factor, the court, again citing *LifeScan*, interpreted *Quanta* as requiring that any alleged noninfringing use of the patented invention must be “both ‘reasonable *and intended*’ by the patentee.”<sup>217</sup> This is despite the fact that the Supreme Court, in *Quanta*, only speaks to whether the article has a reasonable noninfringing use, and does not specify whether it should be from the perspective of the patentee, the licensee, the purchaser, or merely in the abstract.<sup>218</sup> Such an attempt to judge whether an article has no noninfringing use from an “intent” perspective has the potential to create “ambiguity and uncertainty” in the application of the patent exhaustion doctrine.<sup>219</sup> For this reason, a more “sensible and convenient” test has been advocated that calls for an interpretation based on the verbiage of 35 U.S.C. § 271(c),<sup>220</sup> which sets forth the test for contributory infringement. In fact, the Federal Circuit itself acknowledged that *Quanta*’s “reasonable noninfringing use” inquiry “echoes language in 35 U.S.C. § 271(c).”<sup>221</sup> This language is said to be “very well suited” for application in the patent exhaustion doctrine.<sup>222</sup> In any event, the Federal Circuit’s requirement that a noninfringing use be not only reasonable, but also “‘intended’ by the patentee”<sup>223</sup> is a questionable interpretation of *Quanta*.

Whether the Supreme Court will ultimately support the Federal Circuit’s approach of reading into *Quanta* an intent element on the part of the patentee remains to be seen.<sup>224</sup> In any case, the result of the second factor for substantial embodiment in *Helferich* would nonetheless remain the same. Whether the test is for a product having “substantial noninfringing use” or a

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217 *Id.* (quoting *LifeScan Scot., Ltd. v. Shasta Techs.*, 734 F.3d 1361, 1369 (Fed. Cir. 2013)).

218 *See Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008). The only mention of “reasonable and intended use” arose when the court discussed *Univis*, noting that in *Univis*, “exhaustion was triggered by the sale of the lens blanks because their only reasonable and intended use was to practice the patent and because they ‘embodie[d] essential features of [the] patented invention.’” *Id.* at 631 (alteration in original) (quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942)).

219 *See* William P. Skladony, *Commentary on Select Patent Exhaustion Principles in Light of the LG Electronics Cases*, 47 IDEA 235, 276–77 (2007).

220 *Id.* at 278.

221 *Helferich*, 778 F.3d at 1309. The statute provides for contributory infringement to anyone who sells a component that is intended for use in the infringement of a combination patent *unless* it is “a staple article or commodity of commerce *suitable for substantial noninfringing use.*” 35 U.S.C. § 271(c) (2012) (emphasis added).

222 Skladony, *supra* note 219, at 277 (describing the relationship between § 271(c) and patent exhaustion).

223 *Helferich*, 778 F.3d at 1309 (emphasis omitted) (quoting *LifeScan Scot., Ltd. v. Shasta Techs.*, 734 F.3d 1361, 1369 (Fed. Cir. 2013)).

224 While the outcome of this case does not appear to depend at all on whether or not there is an intent element in the second *Quanta* factor, it is plausible that a future case arising in district court or the Federal Circuit would turn on such a determination and may, therefore, elicit Supreme Court review.

noninfringing use that is “both reasonable and intended by the patentee,” the court reached a conclusion sufficient to satisfy either verbiage. In fact, the language the court used appears to be an attempt to satisfy *both* tests.<sup>225</sup> The court stated, “Helferich submitted evidence . . . that there is a *substantial, reasonable, intended use* [for the handset claims<sup>226</sup>] other than one that plays a role in content providers’ infringement of the asserted content claims.”<sup>227</sup> Examples of these uses includes the handset’s airplane mode and peer-to-peer sharing of links to content on a third-party website.<sup>228</sup>

The Federal Circuit appropriately rejected the “surprising” approach taken by the district court that seemed to misconstrue the test set forth in *Quanta*.<sup>229</sup> The district court seemed to base its substantial embodiment analysis not on the framework utilized in *Quanta* or *Univis*, but rather on an overly inclusive and expansive approach.<sup>230</sup> Rather than looking to whether the handset device includes “all the inventive aspects of the patented [content claim] methods,”<sup>231</sup> the district court merely looked to whether the “devices have the *capability* to receive content from content providers.”<sup>232</sup> Whether a device *actually encompasses* a distinct set of patented claims is very different from whether the device is *merely capable* of practicing it.<sup>233</sup> Surely a handset device that is merely capable of practicing the content claims does not mean it is sold with the claims already included in the device or is otherwise capable of practice by the acquirer. In addition, it is evident that a substantial amount of the content claims at issue consisted of elements practiced

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225 Alternatively, this may have been a reflection of the uncertainty of what precisely the *Quanta* framework requires, along with the fact that the evidence was so strong that any reasonable application of the *Quanta* framework would likely result in the court’s conclusion.

226 In this context, “handset claims” refers to the handset claims embodied within the consumer’s handset.

227 *Helferich*, 778 F.3d at 1309 (emphasis added). The court further concluded that preserving the patent holder’s rights in the content claims does not “render the licenses to the handset industry essentially worthless.” *Id.* at 1310 (quoting Brief for Defendants-Appellees at 2, *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293 (Fed. Cir. 2015) (No. 2014-1196)).

228 *Id.* at 1309–10.

229 See Dahlin, *supra* note 32, at 770–72.

230 See *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971, 978, 980 (N.D. Ill. 2013) (adopting the approach that an entire patent is exhausted upon the sale of an item that only “partially embodies” the patent and that it does not matter whether certain claims within the patent are distinct from others), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015); see also generally Dahlin, *supra* note 32.

231 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008).

232 *Helferich*, 965 F. Supp. 2d at 978 (emphasis added).

233 See *Helferich*, 778 F.3d at 1300 (discussing how the “receiving capability of handsets” differs from the actual receipt of content, i.e., the practicing of content claims, by the handset users).

by content providers that were not just “standard components.”<sup>234</sup> While two of the patents at issue did contain handset claims undoubtedly practiced in the handset claims, applying such a “de minimis” approach to patent exhaustion would also risk undermining the practice of licensing patents claim-by-claim.<sup>235</sup> This approach may also result in economic inefficiencies, including market hold-up and free riding.<sup>236</sup>

If licensing a single claim exhausts the entire patent for owners and third parties alike, then companies will forego pursuing a licensing agreement and will wait until another company licenses some aspect of the invention.<sup>237</sup> In such a scenario, it would be hard to imagine any reasonable company choosing to pay a royalty when it would mean that their competitors could then practice the entire patent royalty- and obligation-free. This would decrease incentive to license, and licenses would significantly undercompensate the patentee.<sup>238</sup> More importantly, this would square directly against the principal goal of our patent system— “[t]o Promote the Progress of . . . useful Arts.”<sup>239</sup>

Similarly, the district court seemed to misinterpret the Supreme Court’s approach to the second *Quanta* factor. Rather than asking whether there is “no reasonable noninfringing use” for the device,<sup>240</sup> the district court instead focused on whether the device’s “only and intended use is to be finished under the terms of the patent.”<sup>241</sup> Even under this interpretation of *Quanta*, the court should nonetheless have found that this factor was not met. First, in both *Quanta* and *Univis*, the “finishing” consisted of “the application of *common processes* or the addition of *standard parts*”<sup>242</sup> rather than inventive aspects. Even the defendants (content providers) in *Helferich* were unable to provide evidence that the inventive aspects of the content claims lie in the

234 Dahlin, *supra* note 32, at 771; *cf. Quanta*, 553 U.S. at 633 (“[T]he incomplete article substantially embodies the patent because the only step necessary to practice the patent is the . . . addition of standard parts.”).

235 See Dahlin, *supra* note 32, at 771 (expressing the concern that, under such an approach, “licensing even a single claim from a patent will exhaust the entire patent”).

236 See, *e.g., id.* at 776–77 (discussing the ways in which the district court’s approach in *Helferich* could cause market hold-up); Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 WM. & MARY L. REV. 157, 213–20 (2007) (discussing the issue of free-riding in secondary markets).

237 Dahlin, *supra* note 32, at 776 (noting that “companies would have incentives to simply wait out the process” if this were the case).

238 The Supreme Court has embraced a strong position against expanding the patent exhaustion doctrine in a way that “would effectively protect the invention for just a single sale” since such a practice “would result in less incentive for innovation than Congress wanted.” *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766–68 (2013).

239 U.S. CONST. art. I, § 8, cl. 8; see also Dahlin, *supra* note 32, at 776 (claiming that such an expanded patent exhaustion doctrine would cause negative effects on society by “keep[ing] inventions off the market”).

240 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008).

241 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971, 978 (N.D. Ill. 2013) (quoting *Quanta*, 553 U.S. at 628), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015).

242 *Quanta*, 553 U.S. at 633 (emphases added).

handsets.<sup>243</sup> It is therefore clear that even this approach does not support the exhaustion of the content claims. Second, it is a stretch to say that the only use for a handset is for third-party content providers to send you content. After all, Helferich provided evidence of other substantial uses for its handset claims other than working together with its distinctly inventive content claims.<sup>244</sup> Additionally, the exhaustion of all claims present within a single patent is inconsistent with the notion that more than one independent and distinct invention *may* be present in a single patent, as discussed earlier,<sup>245</sup> along with Supreme Court dicta that stressed the importance of not applying the patent exhaustion doctrine in situations involving distinct inventions.<sup>246</sup>

As mentioned previously,<sup>247</sup> there is a logical relationship between exhaustion and the contributory infringement statute § 271(c). The Supreme Court in *Univis* set forth a test<sup>248</sup> that provides for exhaustion in situations where there might otherwise be a claim for contributory infringement. For instance, if a patent holder sells an incomplete article to a manufacturer who then finishes production and sells it to an end user who directly infringes the patent, the manufacturer would face liability under the plain reading of § 271(c).<sup>249</sup> The *Univis* test for exhaustion of incomplete articles, however, closely tracks the language of § 271(c), thereby preventing such an infringement claim against the manufacturer.<sup>250</sup> This can also be justified based on equitable considerations.<sup>251</sup>

243 *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1309 (Fed. Cir. 2015).

244 *Id.* at 1309–10.

245 *See supra* notes 181–86 and accompanying text.

246 *Helferich*, 778 F.3d at 1303 (citing *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 435 (1894)).

247 *See supra* notes 220–23 and accompanying text.

248 *See supra* note 84 and accompanying text.

249 *See* 35 U.S.C. § 271(c) (2012) (“Whoever . . . sells . . . a component of a patented machine, manufacture, combination or composition . . . 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.”).

250 *See* *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942).

251 Put simply, a seller of a component that has no reasonable noninfringing use can be liable for contributory infringement by “set[ting] in motion a chain of events that are *destined* to lead to infringement.” Skladony, *supra* note 219, at 277. Likewise, a patentee who sells, or authorizes the sale, of her patented article is similarly “the *prime mover* or *architect* of the events that inevitably lead to infringement” and should, therefore, be deemed to have exhausted any patent rights that could be asserted against the purchaser. *Id.* As a result, exhaustion, in a sense, prevents a patentee from contributing toward the infringement of her own patent and then reaping the benefit through an infringement claim.



However, contributory infringement is only one of two modes of indirect infringement.<sup>252</sup> The other mode is induced infringement.<sup>253</sup> In contrast to the much lengthier contributory infringement statute,<sup>254</sup> induced infringement simply reads, “Whoever actively induces infringement of a patent shall be liable as an infringer.”<sup>255</sup> The same equitable rationale underlying contributory infringement of an apparatus claim<sup>256</sup> might also advocate for preventing a patentee from causing the induced infringement of a method claim and then reaping the benefit through a § 271(b) infringement claim. It would, after all, make sense to apply patent exhaustion to induced infringement. Just as a patent holder, through the *Univis* test, cannot sell an incomplete article to a manufacturer and then sue the manufacturer for contributory infringement after selling the item to an end user,<sup>257</sup> it would make sense that a patent holder cannot sell, for example, an electronic device, to a retailer and then sue the retailer for induced infringement when the device is turned on by the end user and method patents are infringed.

Consider the following hypothetical. John patents a method for repelling mosquitoes using a specific sound wave unnoticeable to humans and pets but effective at repelling over ninety-nine percent of mosquitoes for up to 100 feet away from the source. Realizing the desperate need for such an invention, John develops a small but attractive-looking box that emits the sound waves, which he calls the “Mosquito Repellant Radio.” He then sells several of the devices to a local sporting goods store owned and operated by Jane. Lo and behold, the Mosquito Repellant Radio flies off the shelves. Jack, one of the purchasers, is overjoyed by how well the method works to repel mosquitoes and contacts John to inform him of the success. John, in response, accuses Jack of infringing his patented method and accuses Jane of induced infringement. Should courts employ the patent exhaustion doctrine to provide Jane with a defense similar to how courts would apply the doctrine in situations resembling contributory infringement? After all, in both cases the patent holder is selling an article embodying the patent to a reseller with the expectation that the article would be resold to an end user. It could reasonably be argued that the same underlying rationale that exhausts the patentee’s rights in asserting infringement<sup>258</sup> should be applied to both forms of indirect infringement. How the courts would handle this issue in the explicit context of patent exhaustion remains to be seen.

Nonetheless, it seems, based on *Quanta*, that exhaustion would protect Jane in this situation. While the Supreme Court in *Quanta* did not elaborate

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252 See 35 U.S.C. § 271(b) (induced infringement); *id.* § 271(c) (contributory infringement).

253 See *id.* § 271(b).

254 See *id.* § 271(c).

255 *Id.* § 271(b).

256 See *supra* note 251 and accompanying text.

257 See *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).

258 See Skladony, *supra* note 219, at 277.

much on its test for substantial embodiment,<sup>259</sup> what the Court did make clear is that method claims can be exhausted by the authorized sale of an article substantially embodying those claims.<sup>260</sup> The Court did not articulate, however, the modes by which exhaustion of method patents could occur. What the mosquito repellent hypothetical suggests, however, is that Jane's inducement of John's method claims should also trigger exhaustion of the claims. By selling the Mosquito Repellent Radio to Jack, who practiced the patented method claims by turning on the radio, Jane induced the infringement of method claims under § 271(b).<sup>261</sup> But Jane's inducement should logically exhaust the method claims. After all, Jane's sale of the radio to Jack was authorized, and the radio substantially embodied the patented method claims "because [the radio] had no reasonable noninfringing use and included all the inventive aspects of the patented methods."<sup>262</sup> Therefore, just as a situation involving contributory infringement exhausts method claims through sale of an incomplete article,<sup>263</sup> situations involving induced infringement should similarly exhaust method claims, for example, through sale of a finished product.

*C. The Patent Exhaustion Defense Is Only Available to Authorized Acquirers Who Infringe the Patented Claims and Has Never Been Independently Available to Third Parties*

Finally, the Federal Circuit rightly held that the patent exhaustion doctrine is, and has *always* been, limited to protecting only authorized acquirers from liability.<sup>264</sup> As discussed previously,<sup>265</sup> patent exhaustion has historically served the purposes of protecting consumers from liability: preventing post-sale restrictions on a product and a patentee's over- or under-compensation.<sup>266</sup> The public policy rationale behind these purposes has already been discussed.<sup>267</sup> For now, it is important to recognize that each of these purposes is ultimately intended to benefit the authorized acquirer of the article.<sup>268</sup> The argument that the authorized acquirer limitation is "a wholly

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259 See, e.g., Watanabe, *supra* note 12, at 283–84.

260 Quanta Comput., Inc. v. LG Elecs., Inc., 553 U.S. 617, 638 (2008).

261 35 U.S.C. § 271(b) (2012).

262 Quanta, 553 U.S. at 638.

263 See, e.g., United States v. Univis Lens Co., 316 U.S. 241 (1942).

264 Support for the Federal Circuit's approach to limiting the patent exhaustion doctrine to situations where the authorized acquirer directly infringed the patent is found in numerous Supreme Court cases. See, e.g., Quanta, 553 U.S. 617; Univis, 316 U.S. 241; Motion Pictures Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917); Keeler v. Standard Folding Bed Co., 157 U.S. 659 (1895); Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U.S. 425 (1894); Hobbie v. Jennison, 149 U.S. 355 (1893); Adams v. Burke, 84 U.S. 453 (1873); Bloomer v. Millinger, 68 U.S. 340 (1863).

265 See *supra* Section I.B.

266 Dahlin, *supra* note 32, at 769–70.

267 See *supra* Section I.B.

268 Although it should be noted that that the third purpose—preventing the over- and under-compensation of a patentee—is *also* intended to benefit the patentee. See *supra*

novel restriction” merely invented by the Federal Circuit<sup>269</sup> is also without merit.<sup>270</sup> The Supreme Court has consistently referred to the doctrine only in the context of protecting “the purchaser, or any subsequent owner” of the article.<sup>271</sup> The exhaustion doctrine was never intended to protect third parties who have not lawfully acquired possession of the article.<sup>272</sup> The doctrine has always revolved around a “sale,” which is itself a bargain between the patentee, or its licensee, and the acquirer, which sale includes the right of the acquirer to use the article freely, without any liability for infringement. This highlights at least one reason why a non-acquiring third party, who has provided no consideration whatsoever, should not be afforded the same freedom from liability as the authorized acquirer. Interestingly, in *Helferich*, exhaustion of the content claims would *only* protect non-acquiring third parties and would provide no protection whatsoever to the authorized acquirers.<sup>273</sup> The content claims, after all, represent an entirely different invention from the one acquired by the purchaser. Importantly, it is the third-party content provider and not the user of a handset that has the ability to actually practice, and thereby infringe, the content claims.<sup>274</sup> Therefore, expanding the exhaustion doctrine to include third parties would fail to serve even the most basic purpose of the doctrine—to *protect consumers* from liability simply by using the product they purchased.

Even the Supreme Court cases that may appear to provide third party protection only do so indirectly as a result of direct infringement by the

notes 43–50 and accompanying text. However, in this situation, the patentee is not as much benefitting from the doctrine itself, but rather from a *limitation* of the doctrine’s scope. See *supra* notes 49–51 and accompanying text.

269 Ernst, *supra* note 120 (calling the Federal Circuit’s holding as imposing “a wholly novel restriction on the exhaustion doctrine”).

270 See DONALD S. CHISUM, 5-16 CHISUM ON PATENTS § 16.03[2][a][7] (2015) (“All past Supreme Court and Federal Circuit cases applied [patent] exhaustion in situations in which a patent owner’s infringement assertion in a suit depended on an authorized acquirer directly infringing the asserted claims.”).

271 *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013); see also, e.g., *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008) (applying the exhaustion doctrine to protect Quanta—the authorized purchaser of patented microprocessors and chipsets—from liability); *United States v. Univis Lens Co.*, 316 U.S. 241, 250–51 (1942) (applying the exhaustion doctrine in the context of an antitrust case for protecting retailers and wholesalers following their authorized purchases of lens blanks).

272 See, e.g., Dahlin, *supra* note 32, at 769 (“Expanding the defense of patent exhaustion to protect non-licensing, non-purchasing third parties, such as the *New York Times*, from claims of direct infringement conflicts with the historical reasoning behind the doctrine.”).

273 See *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1295 (Fed. Cir. 2015) (pointing out that “it is content providers, not possessors of handsets, that practice” the allegedly infringed content claims); *id.* at 1301–02 (“But the [exhaustion] doctrine’s protection against infringement allegations has, apparently, always remained within a limit that reflects the core notion that exhaustion lifts legal restrictions on an authorized acquirer.”).

274 Dahlin, *supra* note 32, at 770 (“[I]n fact, there was nothing that an end-user could do with his purchased cell phone to infringe upon the content claims that Helferich was asserting against the *New York Times*.”).

authorized acquirer. Technically speaking, *Motion Pictures*<sup>275</sup> provided liability protection to a third party through an application of exhaustion. The problem with this conclusion, however, is that the third party was merely a secondary beneficiary to the exhaustion of patent rights that applied to the purchaser of the projector. Since the post-sale restriction on the projector was found invalid through patent misuse, exhaustion applied and the owner of the projector was free to use any sort of film. Therefore, a third party could not be found liable for contributing toward any infringement.<sup>276</sup>

Finally, restricting the patent exhaustion defense to authorized acquirers does not provide the patentee with an avenue for sending forth its article into the chain of commerce only to extract multiple royalties along the way. This is an often-argued reason for allowing exhaustion; however, the policy against multiple royalties has never served as the basis for invoking patent exhaustion.<sup>277</sup> Nonetheless, *Helferich* does nothing to disturb this policy. Some patents consist of multiple inventions or multiple embodiments and it is sometimes impractical for a patentee and licensee to bargain for the entire scope of patent rights. By selectively licensing out patent rights, a patentee can better achieve the economic goal of “mak[ing] sure that a licensee is not paying for more or less intellectual property rights than his product will utilize.”<sup>278</sup> Since mobile phone users are unable to practice the content claims, seeking a royalty from them for the content claims invention seems inappropriate. Rather, it would be more efficient, and better for consumers, to seek a royalty from content providers who actually practice the content claims. After all, content providers like the *New York Times* and CBS are presumably practicing the content claims as part of their business plan in hopes of reaping a financial reward from it. In fact, more than 150 content providers already entered into licensing agreements with *Helferich* for its content claims.<sup>279</sup>

Likewise, restricting a single patent to but one royalty, regardless of how many inventions it might encompass, poses substantial risks to the market.<sup>280</sup> For instance, consider a patent that is broad enough that half of its embodiments could be practiced in one industry and the other half in another industry, without any overlap. Imagine if the patentee were forced to license both sets of embodiments to just one party. This would likely result in the patentee receiving less compensation, since only half of the patent is of any use to any one party. To avoid this, inventors would be forced to try *ex ante*

275 *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

276 *See* *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526 (1972) (“[I]t is established that there can be no contributory infringement without the fact or intention of a direct infringement.”).

277 *Helferich*, 778 F.3d at 1308 (declaring that the policy against “double recover[ies]” through royalties “has never served as an independent test for determining whether exhaustion applies” (quoting Brief for Defendants-Appellees, *supra* note 227, at 28)).

278 Dahlin, *supra* note 32, at 774.

279 Brief for Plaintiff-Appellant, *supra* note 189, at 14–15.

280 *See, e.g.*, Dahlin, *supra* note 32, at 774–77.

to split up their patent into multiple ones, even if efficiency and logic would disfavor such an approach. Furthermore, such an approach may result in less patent protection in the end due to issues related to double patenting and obviousness rejections. It would also run counter to the Supreme Court's stance that application of the patent exhaustion doctrine should not turn on how the patent was drafted.<sup>281</sup>

## CONCLUSION

The Federal Circuit provided new guidance in *Helferich* for when and to whom the patent exhaustion doctrine would apply. In the past, there was no real need to distinguish between authorized acquirers and third parties when it came to application of the exhaustion doctrine. This is because, historically, there would be no infringement—and therefore no need to raise the patent exhaustion defense—unless the patented article had been acquired, one way or another, by the alleged infringer.<sup>282</sup> *Helferich*, on the other hand, is typical of the contemporary digital age, in which the line between distinct inventions is blurred and the manner by which an invention is practiced is complex.

Fortunately, the Federal Circuit looked to Supreme Court precedent on the issue and laid out a framework in *Helferich* that will help resolve future cases in a much more consistent and accurate manner as digital technologies continue to advance and method patents become increasingly more complex. This framework can be conceptually divided into three steps. First, it must be determined whether the claims allegedly infringed represent a single invention separate and distinct from the invention(s) associated with the article sold.<sup>283</sup> While patent exhaustion is applicable whether the claims represent a single or multiple inventions, this step serves as a prerequisite for application of the *Quanta* test. Second, it must be determined whether the allegedly infringed invention is substantially embodied in the article sold based on the two-part *Quanta* test.<sup>284</sup> Particularly important at this step is that each of the “inventive aspects” of the allegedly infringed invention must

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281 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 629–30 (2008); *see also supra* notes 199–205 and accompanying text.

282 Infringement occurs when anyone “without authority makes, uses, offers to sell, or sells any patented invention.” 35 U.S.C. § 271(a) (2012). Therefore, in order to infringe a patent prior to the contemporary digital age, possession of an article that embodies the patent, or at least some of the patented steps, was logically required. Today, however, it is possible to “use” a patented invention without ever possessing an article that embodies it. *See Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1295 (Fed. Cir. 2015) (noting that “it is content providers, not possessors of handsets, that practice [the patented content claims]”).

283 *See Helferich*, 778 F.3d at 1301–05 (discussing how the patents at issue involve “multiple related and separately patentable inventions”).

284 *Quanta*, 553 U.S. at 638 (setting forth a two-part test for substantial embodiment of method patents based on whether the article sold (1) “had no reasonable noninfringing use” and (2) “included all the inventive aspects of the patented methods”).

be embodied in the article sold.<sup>285</sup> Third, and perhaps most important, the authorized acquirer of the article must directly infringe the allegedly infringed invention.<sup>286</sup> If steps two and three are satisfied under *Helperich*, then the *authorized acquirer* is shielded from infringement liability, as are any third-party contributors.<sup>287</sup> In *Helperich*, since neither step two nor three was satisfied, the patent exhaustion defense did not afford the third party content providers with any sort of protection from liability.<sup>288</sup>

As this Note has argued, the *Helperich* framework represents an appropriate approach for dealing with increasingly complex technology and is supported by Supreme Court precedent and public policy rationale. Finally, in light of *Helperich*, there are at least four things a patentee should keep in mind when pursuing licensing arrangements. First, if a patentee wants to license out the manufacture of the product, the patentee should be careful about which patents and claims to include in the license. Much of the dispute in *Helperich* arose due to *Helperich* licensing *both* sets of claims to the manufacturer, rather than just the handset claims.<sup>289</sup> This opened the door to allegations that the two sets of claims were one and the same and that *Helperich* was seeking to recover “multiple royalties” on a single invention.<sup>290</sup> Second, a patentee can maintain control over *who* becomes an authorized acquirer by authorizing the licensee to sell the patented product only to certain parties.<sup>291</sup> However, the unrestricted resale of products might lessen this control. Third, using language in the licensing agreement that expressly disclaims any grant of patent rights to third parties may help prevent third-party infringers from seeking protection under the alternative theory of implied license.<sup>292</sup> Finally, despite beliefs that *Quanta* effectively overruled

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285 See *Helperich*, 778 F.3d at 1309.

286 See *id.* at 1302 (concluding that the patent exhaustion doctrine is only applicable when there is “an assertion that an authorized acquirer was using the same invention by infringing the asserted claims” and that “[n]either the parties nor [the court] have identified any case from the Supreme Court that has found exhaustion without this common feature”).

287 See, e.g., *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *supra* notes 275–76 and accompanying text.

288 See *Helperich*, 778 F.3d at 1301–02, 1308–11 (finding that the authorized acquirers did not infringe the asserted claims and that there lacked substantial embodiment of the content claims as a basis for ultimately rejecting the exhaustion defense).

289 The district court seemed to base its finding of exhaustion at least in part on the fact that *Helperich* licensed both handset *and* content claims to the handset manufacturers. See *Helperich Patent Licensing, LLC v. N.Y. Times Co.*, 965 F. Supp. 2d 971, 978 (N.D. Ill. 2013) (“Once [*Helperich*] licensed its patent portfolio to, for example, Motorola, downstream consumers and third-party users of Motorola devices employing [*Helperich*’s] patents cannot be found to be infringing.” (citing *Quanta* 553 U.S. at 630)), *rev’d*, 778 F.3d 1293 (Fed. Cir. 2015).

290 *Helperich*, 965 F. Supp. 2d at 978.

291 See *Quanta*, 553 U.S. at 637–38 (concluding that *Quanta* was authorized to acquire the patented microprocessors and chipsets since the patentee placed no conditions or restraints on who the licensee could sell the products to).

292 See *Helperich*, 778 F.3d at 1297.

the *Mallinckrodt* holding that permits a patentee to place restrictions on the reuse/resale of a sold article,<sup>293</sup> thereby preventing exhaustion, the Federal Circuit in its February 2016 decision reaffirmed its *Mallinckrodt* holding as alive and well.<sup>294</sup> Therefore, at least until the Supreme Court expressly decides otherwise, these restrictions may provide a means by which a patentee could retain some level of control over an article's use or resale notwithstanding the exhaustion doctrine.

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293 See *supra* notes 108–11 and accompanying text.

294 *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, No. 2014-1617, slip op. at 8 (Fed. Cir. Feb. 12, 2016) (en banc).

