

Keywords: implied license; patent exhaustion

General: Because the plaintiff's license to a manufacturer required the manufacturer to notify purchasers of their limited rights in the purchased products, claims of system and method infringement are not barred due to an implied license or patent exhaustion.

LG Electronics, Inc. v. Bizcom Electronics, Inc.
Civ. 05-1261 (Fed. Cir. 2006), available at
<http://www.fedcir.gov/opinions/05-1261.pdf>
Decided July 7, 2006

I. Facts

LG is the owner of several patents relating to computers. Under a license agreement with LG, Intel was authorized to sell microprocessors and chipsets covered by these patents. Under the agreement, Intel was required to notify purchasers that they were not authorized to use the covered products in combination with non-Intel products. Bizcom and several other companies purchased the products from Intel and used the microprocessors and chipsets with other computer components. LG sued, asserting that the combination of the Intel products with other computer components infringed their patents.

II. Issues

1. Did LG grant an implied license to the purchasers of Intel's products?
2. Did LG retain any rights in their system and method claims?

III. Discussion

1. No, LG did not grant an implied license to the purchasers of Intel's products.

The defendant has the burden of proof for showing the existence of an implied license. The defendant must show that (1) the purchased products have no non-infringing uses and that (2) the circumstances of the sale infer the grant of a license. The court held that due to the circumstances of Intel's sales of the licensed products to the defendants, no license could be inferred. Specifically, because Intel included an express disclaimer of any implied license in its sale to the defendants, no license could be implied. This decision was made regardless of whether the purchased products had a non-infringing use because both elements must be shown to establish an implied license.

2. Yes, LG retains rights in their system and method claims.

The patent exhaustion doctrine, commonly referred to as the first sale doctrine, is triggered by an unconditional sale. This doctrine holds that in an unconditional sale the patentee has bargained for an amount equal to the full value of the goods, therefore the patentee should not have any further right to control the purchaser's use of the goods thereafter.

According to the patent exhaustion doctrine, if the defendants had purchased the microprocessors and chipsets from Intel free of any restrictions or limitations, LG's system claims could be exhausted. That is, had the products been purchased without restriction, the defendants would be able to do what they chose with the products. The sale of a device does not exhaust a patentee's rights in its method claims.

In this case, neither LG's license of its patents to Intel nor Intel's sale of microprocessors and chipsets to the defendants constituted an unconditional sale. In particular, LG's license agreement with Intel expressly disclaimed granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. In addition, the license agreement required that Intel notify its customers of the limited scope of the license, which it did. As neither the license to Intel nor the sales to the defendants were unconditional, the doctrine of patent exhaustion did not apply in this case.