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The Federal Circuit Limits the Use of the Patent Exhaustion Defense to “Authorized Acquirers”

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On February 10, 2015, the Court of Appeals for Federal Circuit in *Helperich Patent Licensing v. NYTimes and JCPenney* reversed a district court decision holding that the doctrine of patent exhaustion barred a patentee’s claim of patent infringement. The Federal Circuit’s decision narrowly construes the doctrine of patent exhaustion, holding that patent exhaustion is a defense held only by “authorized acquirers” of patented technology and does not protect infringing actions by other parties. Thus, this limitation on the exhaustion defense may have wide reaching effects on third party providers of products or services for use with licensed technology that has entered the stream of commerce.

The patent statute gives a patentee the right to exclude others from making or using or selling a patented invention and imposes legal restrictions on acts that violate the exclusivity right by defining, in closely related terms, what it means for a person to “infringe” the right. The “first sale” or “patent exhaustion” doctrine removes those legal restrictions when a patent holder authorizes another party to sell a patented article as that sale “confers on the purchaser, or any subsequent owner, ‘the right to use [or] sell’ the thing as he sees fit.” *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013) (quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 249–50 (1942)). In other words, patent exhaustion limits the legal restrictions on what purchasers “can do with an article embodying or containing an invention” where the initial sale (or comparable transfer) was authorized by the patentee. *Id.* at 1766 & n.2.

The patentee, *Helperich*, in the recent case owns more than thirty U.S. patents that cover a range of wireless-communication technologies, all of which share a common specification. One subset of the patentee’s claims cover apparatus and method claims directed to mobile wireless-communication devices and receiving and/or requesting certain wireless content. Another subset of patent claims cover systems and methods for storing and updating information of various types (content) and sending it to handsets. The patentee licensed its patents to most, if not all, wireless handset manufacturers selling products in the U.S. These licenses generally distinguish the conduct of handset makers and their purchasers from the conduct of others, such as content providers, and the licenses generally disclaim any grant of rights to content providers.

Helperich brought suit against several content providers alleging infringement of the content related patents. In defense, the content providers filed for summary judgment asserting the defense of patent exhaustion. In particular, the defendants asserted that the manufacture and sale of the licensed phones extinguished any claims of infringement based on the use of the phones. The trial court granted the defendants’ motion for summary judgment, ruling that by giving patent licenses to handset manufacturers, the patentee had exhausted its ability to enforce its patents not only against acquirers of the handsets but also against the defendant content providers.

The Federal Circuit reversed the decision of the trial court. The Federal Circuit made a distinction between authorized acquirers and other parties. Authorized acquirers were defined as “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.” Based on this definition, the Federal Circuit held that the doctrine’s protection against infringement allegations has always been limited by the core notion that exhaustion lifts legal restrictions on an authorized acquirer.

The court reasoned that the patent exhaustion doctrine has only applied where there was an underlying infringement claim against an authorized acquirer, either because the acquirer was itself accused of infringement, or because the acquirer committed the direct infringement necessary for a finding of indirect infringement asserted against other parties. The Federal Circuit noted that an underlying finding of direct infringement was absent from the case, because “infringement of the content claims has not been asserted or shown to require that handset acquirers are practicing those claims.” The Federal Circuit cited U.S. Supreme Court decisions *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) and *United States v. Unis Lens Co.*, 316 U.S. 241, 249–50 (1942), in support of its holding.

The Federal Circuit also held that the patent exhaustion doctrine was inapplicable because the content claims were separate and distinct inventions from the handsets manufactured under the licenses. The court cited the Supreme Court’s decision in *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425 (1894) as the closest case applicable to the issues presented in the case. In *Morgan*, the patent exhaustion doctrine was inapplicable in circumstances where the alleged infringement involved distinct, though related, patented inventions. The court, therefore, reasoned that the principles espoused in *Morgan* established that while the patent exhaustion doctrine prevents a patentee from enforcing their patent against an authorized acquirer of product X, the doctrine fails to prevent the patentee from enforcing their patent as to product Y, even if product Y is related and complementary to product X.

The Federal Circuit’s interpretation of the patent exhaustion doctrine limits the defense of the patent exhaustion doctrine and provides increased enforcement and licensing opportunities for patent owners with multiple patents directed to a single technology. The decision may pave the way for more patent owners to “carve out” specific activity from licenses in order to create opportunities for asserting infringement claims against third parties in the future. Accordingly, downstream producers of complementary products or technology should be aware that their activities may be susceptible to an infringement suit even when there was an underlying license to a related party.

If you have any questions or wish to discuss how the decision might affect you or your business, please contact a **Brinks Attorney**.

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