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NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.,* 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

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QUANTA COMPUTER, INC., ET AL. *v.* LG ELECTRONICS, INC.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 06–937. Argued January 16, 2008—Decided June 9, 2008

The longstanding doctrine of patent exhaustion limits the patent rights that survive the initial authorized sale of a patented item. Respondent (LGE) purchased, *inter alia,* the computer technology patents at issue (LGE Patents): One discloses a system for ensuring that most current data are retrieved from main memory, one relates to the coordination of requests to read from and write to main memory, and one addresses the problem of managing data traffic on a set of wires, or "bus," connecting two computer components. LGE licensed the patents to Intel Corporation (Intel), in an agreement (License Agreement) that authorizes Intel to manufacture and sell microprocessors and chipsets using the LGE Patents (Intel Products) and that does not purport to alter patent exhaustion rules. A separate agreement (Master Agreement) required Intel to give its customers written notice that the license does not extend to a product made by combining an Intel Product with a non-Intel product, and provided that a breach of the agreement would not affect the License Agreement. Petitioner computer manufacturers (Quanta) purchased microprocessors and chipsets from Intel. Quanta then manufactured computers using Intel parts in combination with non-Intel parts, but did not modify the Intel components. LGE sued, asserting that this combination infringed the LGE Patents. The District Court granted Quanta summary judgment, but on reconsideration, denied summary judgment as to the LGE Patents because they contained method claims. The Federal Circuit affirmed in part and reversed in part, agreeing with the District Court that the patent exhaustion doctrine does not apply to method patents, which describe operations to make or use a product; and concluding, in the alternative, that exhaustion did not

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apply because LGE did not license Intel to sell the Intel Products to Quanta to combine with non-Intel products.

Held: Because the doctrine of patent exhaustion applies to method patents, and because the License Agreement authorizes the sale of components that substantially embody the patents in suit, the exhaustion doctrine prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products. Pp. 5–19.

(a) The patent exhaustion doctrine provides that a patented item's initial authorized sale terminates all patent rights to that item. See, *e.g., Bloomer* v. *McQuewan*, 14 How. 539. In the Court's most recent discussion of the doctrine, *United States* v. *Univis Lens Co.*, 316 U. S. 241, patents for finished eyeglass lenses, held by the respondent (Univis), did not survive the sale of lens blanks by the licensed manufacturer to wholesalers and finishing retailers who ground the blanks into patented finished lenses. The Court assumed that Univis' patents were practiced in part by the wholesalers and finishing retailers, concluding that the traditional bar on patent restrictions following an item's sale applies when the item sufficiently embodies the patent—even if it does not completely practice the patent—such that its only and intended use is to be finished under the patent's terms. The parties' arguments here are addressed with this patent exhaustion history in mind. Pp. 5–8.

(b) Nothing in this Court's approach to patent exhaustion supports LGE's argument that method claims, as a category, are never exhaustible. A patented method may not be sold in the same way as an article or device, but methods nonetheless may be "embodied" in a product, the sale of which exhausts patent rights. The Court has repeatedly found method patents exhausted by the sale of an item embodying the method. See *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 446, 457; *Univis, supra,* at 248–251. These cases rest on solid footing. Eliminating exhaustion for method patents would seriously undermine the exhaustion doctrine, since patentees seeking to avoid exhaustion could simply draft their claims to describe a method rather than an apparatus. On LGE's theory here, for example, although Intel is authorized to sell a completed computer system that practices the LGE Patents, downstream purchasers could be liable for patent infringement, which would violate the longstanding principle that, when a patented item is "once lawfully made and sold, there is no restriction on [its] *use* to be implied for the [patentee's] benefit," *Adams* v. *Burke*, 17 Wall. 453, 457. Pp. 9–11.

(c) The Intel Products embodied the patents here. *Univis* governs this case. There, exhaustion was triggered by the sale of the lens blanks because their only reasonable and intended use was to prac-

tice the patent and because they "embodie[d] essential features of [the] patented invention," 316 U. S., at 249–251. Each of those attributes is shared by the microprocessors and chipsets Intel sold to Quanta under the License Agreement. First, LGE has suggested no reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents: A microprocessor or chipset cannot function until it is connected to buses and memory. And as in *Univis*, the only apparent object of Intel's sales was to permit Quanta to incorporate the Intel Products into computers that would practice the patents. Second, like the *Univis* lens blanks, the Intel Products constitute a material part of the patented invention and all but completely practice the patent. The only step necessary to practice the patent is the application of common processes or the addition of standard parts. Everything inventive about each patent is embodied in the Intel Products. LGE's attempts to distinguish *Univis* are unavailing. Pp. 11–16.

(d) Intel's sale to Quanta exhausted LGE's patent rights. Exhaustion is triggered only by a sale authorized by the patent holder. *Univis*, *supra,* at 249. LGE argues that this sale was not authorized because the License Agreement does not permit Intel to sell its products for use in combination with non-Intel products to practice the LGE Patents. But the License Agreement does not restrict Intel's right to sell its products to purchasers who intend to combine them with non-Intel parts. Intel was required to give its customers notice that LGE had not licensed those customers to practice its patents, but neither party contends that Intel breached that agreement. In any event, the notice provision is in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a License Agreement breach. Contrary to LGE's position, the question whether third parties may have received implied licenses is irrelevant, because Quanta asserts its right to practice the patents based not on implied license but on exhaustion, and exhaustion turns only on Intel's own license to sell products practicing the LGE Patents. LGE's alternative argument, invoking the principle that patent exhaustion does not apply to postsale restrictions on "making" an article, is simply a rephrasing of its argument that combining the Intel Products with other components adds more than standard finishing to complete a patented article. Pp. 16–18.

453 F. 3d 1364, reversed.

THOMAS, J., delivered the opinion for a unanimous Court.