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PATENTS

The author looks at the current state of the patent exhaustion doctrine at the Federal Circuit, particularly in light of its February decision in *Helperich Patent Licensing v. New York Times*.

Quanta-fying *Helperich Patent Licensing's* Contribution to the Exhaustion Doctrine



BY GINO CHENG

After the Supreme Court decision in *Quanta Computer* opened the door for exhausting method claims by the unrestricted, authorized sale of components that substantially embodied them,¹ the Federal

¹ See *Quanta Computer Inc. v. LG Elecs. Inc.*, 553 U.S. 617, 638, 2008 BL 122107, 86 U.S.P.Q.2d 1673 (2008) (76 PTCJ 205, 6/13/08) (hereinafter, "*Quanta*") ("Intel's microprocessors and

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Circuit grappled—in two panel decisions—with the issue of whether equipment, intended for use with perishable complementary products, substantially embodied the asserted method claims. First, in *Keurig*,² the panel held for the accused replacement coffee capsule supplier, affirming that the sale of coffee brewing machines to the end-user had exhausted the asserted method claims for making coffee from the capsules using the brewing machine. Closely thereafter, in *LifeScan*,³ a different panel similarly held for the accused replacement test strip supplier, concluding that the asserted method claims for using the blood glucose test meter

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.")

² *Keurig, Inc. v. Sturm Foods, Inc.*, 732 F.3d 1370, 1375, 108 U.S.P.Q.2d 1648 (Fed. Cir. 2013) (86 PTCJ 1281, 10/25/13) ("Permitting Keurig to recover multiple times on its patented brewers by holding Sturm or any other cartridge manufacturer liable for direct, induced, or contributory infringement based on the independent manufacture and sale of cartridges for use in those brewers would be contradictory to these policies and the law."); see also *Keurig*, 732 F.3d at 1371 ("Keurig owns the '488 and '938 patents directed to brewers and methods of using them to make beverages. Claim 6 of the '938 patent is representative of the method claims, which are the only claims at issue. . . .").

³ *LifeScan Scotland Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1377, 108 U.S.P.Q.2d 1757 (Fed. Cir. 2013) (87 PTCJ 64, 11/8/13) ("We further conclude that LifeScan's OneTouch Ultra meters substantially embody the methods claimed in the '105 patent and that their distribution therefore exhausts LifeScan's patent rights.").

were exhausted by the sale of those meters even at below cost.⁴

Against this backdrop, what aspects of the doctrine does the Federal Circuit's recent holding in *Helperich*^{5,6} (rejecting content providers' patent exhaustion defense with respect to transmitting notices to mobile phones licensed to retrieve content) develop and how far does it move the ball?

For one, *Keurig* left open the question of whether the panel majority meant to include or exclude the unasserted apparatus claims in both patents-in-suit among those that were exhausted.⁷ While Judge O'Malley in her concurring opinion agreed that the brewing machines substantially embodied the asserted method claims and therefore their unrestricted sale exhausted those claims, she urged that exhaustion should be evaluated on a claim-by-claim basis, rather than applied wholesale against the entire patent once found for any one claim.⁸

Because the asserted patent in *LifeScan* contained only method claims (all depending from the same independent claim) and no apparatus claims,⁹ the panel's holding shed little light on this outstanding issue.¹⁰ In contrast, *Helperich* offers some guidance.

⁴ Forty percent of the meters were sold at below cost and the remaining 60 percent were given away for free. *LifeScan*, 734 F.3d at 1365 ("LifeScan distributes its meters in this way 'in the expectation and intent that customers will use its One-Touch Ultra meters with [its] OneTouch Ultra test strips, from which [it] derive[s] a profit.'").

⁵ *Helperich Patent Licensing, LLC v. New York Times Co.*, No. 2014-1196, 778 F.3d 1293, 113 U.S.P.Q.2d 1705 (Fed. Cir. Feb. 10, 2015) (89 PTCJ 953, 2/13/15).

⁶ *Helperich* is also the first post-*Kirtsaeng* Federal Circuit opinion that has refused to find the patents-in-suit exhausted, joining the ranks of *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 73 U.S.P.Q.2d 1678 (Fed. Cir. 2005) (69 PTCJ 274, 1/21/05), *Ninestar Tech. Co. v. ITC*, 667 F.3d 1373, 101 U.S.P.Q.2d 1603 (Fed. Cir. 2012) (83 PTCJ 530, 2/17/12), and *Fujifilm Corp. v. Benun*, 605 F.3d 1366, 95 U.S.P.Q.2d 1985 (Fed. Cir. 2010) (80 PTCJ 196, 6/11/10). In contrast, *Quanta* (pre-*Kirtsaeng*), *Tessera, Inc. v. ITC*, 646 F.3d 1357, 98 U.S.P.Q.2d 1868 (Fed. Cir. 2011) (82 PTCJ 108, 5/27/11) (pre-*Kirtsaeng*), *Keurig* and *LifeScan* all found patent exhaustion.

⁷ See *Keurig*, 732 F.3d at 1374 ("Keurig's decision to have sought protection for both apparatus and method claims thus means that those claims are judged together for purposes of patent exhaustion."); compare *id.* at 1375 (O'Malley, J., concurring) ("Thus, the majority's conclusion that exhaustion should not be assessed on a claim-by-claim basis is dicta."). See also, e.g., *Helperich*, slip op. at 21 ("In that familiar context, the court held that exhaustion covered the method claim because it appeared in a patent that also contained an apparatus claim reading on the acquired brewer. That rationale is inapplicable to five of the asserted seven patents here, even aside from whether the rationale's premise is present.") (citing *Keurig*, 732 F.3d at 1374-75).

⁸ See *Keurig*, 732 F.3d at 1375 (O'Malley, J., concurring) ("There could be instances where assessing exhaustion on a claim-by-claim basis—the same way we conduct almost every analysis related to patent law—would be necessary and appropriate").

⁹ See U.S. Patent No. 7,250,105, col. 6, ln. 52 – col. 8, ln. 12.

¹⁰ There, the split decision was based on the panel members' disagreement about whether to use the meter or the test strip as the starting point of querying whether that article substantially embodied the inventive features of—and, if so, would accordingly exhaust—the asserted method claims. See *LifeScan*, 734 F.3d at 1377-80.

In *Helperich*, the patentee sued multiple content providers on seven patents. For each patent, the asserted claims "address systems and methods for handling information and providing it to wireless devices, such as mobile-phone handsets"¹¹ (the court refers to this set of method claims as the "content claims"¹²). In addition, two of the seven patents-in-issue¹³ each contained a second set of method claims directed to handset functionality on the receive-end and end-user operations of the same (referred to as the "handset claims"¹⁴). The latter set of method claims only had been licensed to handset manufacturers.¹⁵ Oppositely, only the content claims were asserted against the accused infringers.¹⁶

The *Helperich* panel ultimately reversed the lower court's grant of summary judgment of non-infringement based on the exhaustion defense,¹⁷ reasoning that (1) the accused infringers were not licensees or downstream purchasers¹⁸ ("authorized acquirers"¹⁹) and (2) the two sets of method claims were "distinct, separately patentable inventions, even when they are designed to be used together."²⁰ The panel deliberately left unclear which basis was sufficient, or whether both were necessary, to defeat the defense.²¹ It further declined to expand the judge-made patent exhaustion doctrine without Congressional direction²² and refused to engage in an inquiry-heavy policy debate about whether the patentee had already obtained the proper amount of recovery as opposed to a double recovery²³ or whether the manufacturers' license of the handset claims was effectively worthless (or worth less) without the exhaustion of the content claims.²⁴

On the question left unresolved after *Keurig*, *Helperich* emphatically suggests that had there been exhaustion, it would have been on a claim-by-claim ba-

¹¹ *Helperich*, slip op. at 7.

¹² *Id.*, slip op. at 6.

¹³ See *id.*, slip op. at 6.

¹⁴ *Id.*, slip op. at 5, 7-8.

¹⁵ See *id.*, slip op. at 8 ("Helperich licensed its portfolio to what, at least at one time, constituted most—we may assume all—of the manufacturers of mobile handsets for sale in the United States.").

¹⁶ See *id.*, slip op. at 6.

¹⁷ See *id.*, slip op. at 5.

¹⁸ The court pointed out that the defendants were accused of directly infringing the content claims, in contrast with all the litany of cases finding exhaustion where the end-user was alleged to be the direct infringer by using an unauthorized, replacement perishable complementary good supplied the accused indirect infringer. *Id.*, slip op. at 19-20 (citing *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425 (1894), *Keurig*, and *LifeScan*).

¹⁹ See *Helperich*, slip op. at 17 ("In short, the decisions finding exhaustion (or relying on exhaustion to reject an antitrust defense) have done so only when the patentee's assertion of infringement was, or depended on, an assertion that an authorized acquirer was using the same invention by infringing the asserted claims.).

²⁰ *Id.*, slip op. at 22.

²¹ See *id.*, slip op. at 36 ("We reject the defense for the combination of reasons set forth. We need not rule more broadly to indicate which reasons would be sufficient, without others, for rejection of an exhaustion defense framed more narrowly.").

²² See *id.*, slip op. at 24-30.

²³ See *id.*, slip op. at 31, 34-35.

²⁴ See *id.*, slip op. at 34-35.

sis.²⁵ This is apparent from the court's approach, notwithstanding the ultimate conclusion of no exhaustion, to contrast the asserted method claims against the non-asserted method claims to find their inventive features separately patentable and distinct,²⁶ despite their being related or complementary.²⁷ The *Helperich* panel did not find any overlap²⁸ between the content providers' storage of content, paging the content subscriber, and making temporarily available the content (representative of the content claims, which involve "sending content to handsets from remote servers"²⁹) and receiving a notification message at a handset and initiating the retrieval of information corresponding to what was noticed.³⁰

Of interest, because receipt of the transmission was not recited, the representative asserted content claim did not require that any steps be performed by the handset user, or the actual use or presence of any handset at all; rather, the transmission equipment and other network infrastructure was all that was needed. Also of note, progressing from the plethora of cases pairing a perishable, tangible article with the hardware that expends it,³¹ the court took in stride the characterization of the intangible content transmission services as a "complementary good"³² to the cell phone hardware designed to receive and use it. It acknowledged that "software"³³ (e.g., to implement the asserted content claims) could "vastly increase [the] value" of the complementary hardware (e.g., handsets embodying the licensed handset claims),³⁴ but nonetheless shrugged in response to the content providers' policy-based argument that creative and intricate licensing schemes would be "disrupti[ve]" and perpetuate market inefficiencies.³⁵

Dove-tailing back to the *Helperich*'s conclusion that the content claims were patentably distinct inventions from the licensed handset claims, the Federal Circuit drew additional support from the outcome of the two-

prong inquiry that the Supreme Court introduced in *Quanta*: "[W]hether the sold article 'had no reasonable noninfringing use and included all the inventive aspects of the patented methods.'"³⁶ Applying the first part of the test against the asserted content claims, the panel took note that the handsets had reasonable non-infringing uses (e.g., end-users could receive hyperlinks in text messages sent amongst one another, rather than merely receive them from the content provider).³⁷

On the second prong, the *Helperich* panel found that features of content claims were not found in the handset claims, and vice-versa.³⁸ It also noted the following:

- Defendants did not argue that the asserted claims contemplate the purchasers' use of handset features that bring them within the licensed claims.³⁹
- Defendants did not argue that the content claims' contemplated handset use must involve a handset that has the inventive features claimed in the licensed handset claims.⁴⁰
- Defendants did not argue that infringement of the asserted content claims logically entails a handset user's practice of handset claims or any other claims.⁴¹
- Defendants failed to identify bases in the specification or prosecution history for concluding that, for the asserted content claims, the patented advance over the prior art lies in the handsets (i.e., the licensed claims).⁴²
- Defendants did not argue statutory or judicial double-patenting.⁴³
- Defendants did not argue that the content claims were obvious in light of, or anticipated by, the handset claims, thereby further warranting the panel's assumption that the two sets of claims were distinct.⁴⁴

Of further note, the panel dismissed the significance of the PTO's failure to exercise its discretion to impose a restriction requirement on the two applications⁴⁵ leading to the issuance of the asserted patents containing both sets of claims, reasoning that PTO director's inaction did not warrant inferring a lack of distinctiveness between the inventions to which the claims were directed.⁴⁶

Having failed to satisfy either prong of the *Quanta* inquiry, the asserted content claims could not have been substantially embodied—and therefore could not have been exhausted—by the sold handsets. In light of the

²⁵ See *id.*, slip op. at 17 ("Standing on that simple ground enables defendants to urge across-the-board exhaustion, without differentiation among asserted content claims.").

²⁶ See *id.*, slip op. at 21-24 and 34.

²⁷ "All of the patents that are relevant here derive from a common specification," and two of the seven patents-in-suit contained both a set of content claims and a set of handset claims. *Id.*, slip op. at 5 and 6.

²⁸ See *id.*, slip op. at 32 ("Here, if 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, as the cases come to us.").

²⁹ *Id.*, slip op. at 7 (emphasis original).

³⁰ See *id.*, slip op. at 7-8.

³¹ For example, *Keurig* (coffee capsule was a complementary product to the coffee brewing machine), *LifeScan* (test strip was a complementary product to the blood glucose tester), *Motion Pictures* (film was a complementary product to the projector), and *Morgan* (toilet paper roll was a complementary product to the dispenser). See *Helperich*, slip op. at 19-21.

³² *Helperich*, slip op. at 27. This, despite distinguishing *Keurig*, *LifeScan*, *Motion Pictures* and *Morgan* to reach the opposite conclusion—patent exhaustion. See *Helperich*, slip op. at 19-21.

³³ *Id.*, slip op. at 27 ("Telephones, software, and social-networking platforms are just a few of the many products whose value to each individual purchaser increases as more people buy or use the product.").

³⁴ *Id.*

³⁵ *Id.*, slip op. at 28-29.

³⁶ *Quanta*, 553 U.S. at 637.

³⁷ See *Helperich*, slip op. at 33 (acknowledging how " 'peer-to-peer' sharing of links to a third party's content does not perform all claims of the content patents and nor does a content provider's sharing with subscribers a link to content controlled and hosted by a different content provider.").

³⁸ See *id.*, slip op. at 32.

³⁹ *Id.*

⁴⁰ *Id.*, slip op. at 16.

⁴¹ *Id.*

⁴² *Id.*, slip op. at 32.

⁴³ See *id.*, slip op. at 34-35.

⁴⁴ *Id.*, slip op. at 6.

⁴⁵ See 35 U.S.C. § 121 ("the Director may require the application to be restricted" if there are "two or more independent and distinct inventions.").

⁴⁶ See *Helperich*, slip op. at 35.

Helperich panel's treatment of this inquiry, practitioners claiming the exhaustion defense should be aware of the difficulties of prevailing on the argument that separate claims are not patentably distinct inventions, especially where the practitioners are unable to reasonably allege double-patenting or that the licensed claims otherwise invalidate the asserted claims.

To be sure, however, *Helperich* suggests the two-part *Quanta* inquiry as but one of many possible grounds to deny the defendants' claim of patent exhaustion.⁴⁷ The more interesting question then becomes, why did *Keurig* and *LifeScan* reach a different result from *Helperich*, especially where the later espouses the freedom to extract value from complementary products separately? As stated above, the accused parties were different—in *Keurig* and *LifeScan*, as well as *Morgan*, the accused direct infringer was an authorized acquirer at or downstream from the first sale; in contrast, the *Helperich* defendants were being accused of direct infringement, rather than of contributing to or inducing infringement by supplying the complementary good. In addition, the coffee capsules in *Keurig*, paralleling the test strips in *LifeScan* and the toilet paper rolls (post-invalidation of the apparatus claims covering the oscillating rolls) in *Morgan*, were not contended to be separately patented at the time the exhaustion question was decided.⁴⁸

Accordingly, the better analogy would be to liken the separately patented, complementary transmission services in *Helperich* for the patented handset operations to the separately patented, complementary needles in *Aiken v. Manchester Print Works*, 1 F. Cas. 245, No. 113 (C.C.D.N.H. 1865), for the patented knitting machine,⁴⁹ or the separately patented, complementary finger structures in *Hunt v. Armour & Co.*, 185 F.2d 722 (7th Cir. 1950), for the patented chicken feather plucking machine⁵⁰—albeit, these latter two cases involved paired sets of apparatus claims^{51,52} rather than two sets of method claims.

⁴⁷ See *id.*, slip op. at 36 (“We need not rule more broadly to indicate which reasons would be sufficient, without others, for rejection of an exhaustion defense framed more narrowly.”).

⁴⁸ *Keurig* did hold a separate design patent on the design of its coffee capsules, but it was not asserted in the suit. Analogously, claims covering the test strips in *LifeScan* were originally sought but later abandoned in response to the Patent Office's rejection.

⁴⁹ *Helperich*, slip op. at 22-23.

⁵⁰ *Id.*, slip op. at 23-24.

⁵¹ In *Hunt*, there was a method claim in the patent-at-issue, but it did not survive the invalidity attack (185 F.2d at 724-25), and is further irrelevant to the exhaustion inquiry because it did not appear to require the separately patented fingers that were complementary to the patent's claimed chicken feather

In closing, it is not that *Helperich* introduces a brand new restriction limiting the exhaustion defense to “authorized acquirers,” but that it (1) recognizes and reaffirms how historically the defense was availed by either (a) those at, or downstream from, the first sale and accused of direct infringement or (b) others accused of indirect infringement for supplying to them; and (2) articulates that complementary inventions that were either (i) separately patented (*cf. Morgan, Keurig, and LifeScan*, where they were not) or (ii) not otherwise embodied in the licensed/sold device (per *Quanta*'s two-part inquiry) will not be exhausted by the sale of their complementary base apparatuses.

Helperich serves as a cautionary tale reminding practitioners that even if a third party's use of a licensed method—or article substantially embodying the same—would inure to their clients' benefit, to the extent these clients are not the authorized purchaser of the patented good or downstream from this authorized first sale, the clients might not be shielded from liability for practicing the same method without a separate license, much less from other claimed but unlicensed methods patentably distinct from those substantially embodied in the sold article.⁵³ However, the *Helperich* panel construed its holding narrowly, leaving open the possibility of exhausting unlicensed claims that are “tied to” or “paired” with certain licensed claims, in particular those whose practice would be necessary for the practice of the unlicensed ones.⁵⁴

plucking machine (see U.S. Patent No. 2,300,157, Col. 3b, ll. 61-75).

⁵² See also, e.g., *Toshiba Corp. v. Imation Corp.*, No. 09-cv-305 (W.D. Wis. April 5, 2013) (claims from Toshiba's '751 patent covering disc drives licensed as part of a patent pool to manufacturers were exhausted but asserted apparatus claims from the same patent separately covering the written discs were not exhausted).

⁵³ See *Helperich*, slip op. at 17 (“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, where each invention tends to make the other more useful when thus separately practiced.”); see also *id.* (“But the exhaustion doctrine's lifting of patent law restrictions on a licensed product has never been applied to terminate patent rights in such complementary activities or goods in these circumstances.”).

⁵⁴ See *id.*, slip op. at 36 (“In particular, we do not foreclose an exhaustion defense that is tied to particular handset claims and targets particular content claims; that establishes premises for such particular claims not asserted or established in the broad-brush defense before us—such as the presence of essentially the same inventive features in paired handset-content claims . . . and the necessity that someone practice a handset claim for an asserted content claim to be practiced . . .”).