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Federal Circuit backpedals a bit on patent exhaustion

By Theodore G. Brown III

In *Quanta Computer Inc. v. LG Electronics Inc.*, 553 U.S. 617, 634 (2008), the U.S. Supreme Court noted, “[t]he sale of a device that practices patent A does not, by virtue of practicing patent A, exhaust patent B. But if the device practices patent A while substantially embodying patent B, its relationship to patent A does not prevent exhaustion of patent B.” The U.S. Court of Appeals for the Federal Circuit’s recent decision in *Helferich Patent Licensing LLC v. New York Times Co.*, 2015 WL 527851 (Fed. Cir. Feb. 10, 2015), may represent an implicit backpedaling without, broadly speaking, sufficient justification.

Helferich owns and licenses a family of some 30 patents, all derived from a single application relating to different aspects of a technique for retrieving content from plain text URLs that are transmitted by “content providers” to handheld devices, typically via SMS (short message service) or MMS (multimedia message service) protocols. The handheld devices parse the URLs to create clickable links which allow a user to retrieve the content by de-referencing the URL.

In pertinent part, the patent claims were directed either to handhelds with the requisite parsing and retrieval capabilities or to content providers with the capability of creating and sending messages containing the plain text links that, when parsed, pointed to and allowed the retrieval of particular content created or maintained by the content providers.

Helferich had already licensed essentially all of the handheld manufacturers under the “handheld” claims and covenanted not to sue the handheld manufacturers or their customers for any claim that might arise from the use of the licensed handhelds. Many, but not all, of the content providers were licensed under the “content provider” claims; unlicensed content providers were sued for infringement of several of these claims.

In reversing the district court grant of summary judgment in favor of the content providers, the Federal Circuit held the content provider claims were not exhausted by the licenses granted to the handheld manufacturers and the handheld users. Several grounds for this decision were given; as stated, none bear scrutiny.

First, exhaustion issues have historically arisen primarily (if not exclusively) where some component of the accused instrumentality was obtained from or with the authorization; here,



The New York Times

The New York Times building in New York in 2008. Helferich Patent Licensing accused the Times and others of infringing on patents for looking at websites on handheld devices.

there was no contention that the content providers obtained any part of their systems from the patentee or licensee. As a result, the content providers were not “authorized acquirers,” even though no prior decision cited hinged on this distinction.

Second, relying on admitted dicta in a 110-year-old Supreme Court decision, the Federal Circuit held that exhaustion could not apply because the claims against the content providers involved “distinct, though related, validly patented inventions” from those that were licensed. This basis for the decision is discussed in greater detail below.

Third, the Federal Circuit found that, although Congress had impliedly acquiesced in the common law doctrine of exhaustion (as opposed to the statutorily defined first sale doctrine in copyright law) as it had been developed before the 1952 Patent Act, it saw no congressional authorization to expand the borders of the patent exhaustion inquiry beyond the propriety of enforcement of patents against parties that were not “authorized acquirers.”

Whether the infringement alleged here involved “distinct, though related, validly patented inventions” is at best questionable. Although all of the Helferich patents derived from a single application, the claims were carefully segregated into groups that separately focused on the handhelds and the content providers.

In *Quanta*, the Supreme Court reversed the Federal Circuit’s holding that method claims could not be exhausted, reasoning that any patent practitioner would otherwise be able to avoid exhaustion by patenting apparatus claims recast as method claims in the same or different patents. Similarly, in a system that requires two different devices to communicate with a commonly under-

stood protocol, claims can nearly always be written to recite only one device or the other.

Neither the Federal Circuit nor the cases it cited engaged in the inquiry mandated in *Quanta* — whether the “invention” was “substantially embodied” in the authorized instrumentality. Particularly in advanced communication and interfaces, although the production and sale of the two devices may be performed by different firms, one device has no substantial use other than in combination with the other. The “invention” may not be “embodied” in a single device, but there is in effect only one invention, distributed across different devices that can be separately claimed. Without the more nuanced *Quanta* analysis, the Federal Circuit’s decision may simply encourage “double dipping” from the different manufacturers and sellers of the different devices — a possibility that exhaustion was developed to avoid.

On the other hand, the Federal Circuit was correct to reject the argument that exhaustion should be found simply because devices are complements and the value of one device increases when there are network effects (as with facsimile machines or walkie-talkies). This argument also misses the *Quanta* point. While it may be desirable for the handhelds to be able to interact with as many content providers as possible, and vice versa, this would elide the questions of whether the “invention” is substantially embodied in a single handheld communicating with a single content provider. Where neither device, alone, has any substantial use other than the combination, exhaustion should be found, regardless of whether the Patent Office required terminal disclaimers between separate patents to separate devices, and regardless of existing patterns of licensing.

To be sure, the correct application of exhaustion may require a fairly detailed analysis of the individual claims at issue; some claims may recite features that may not be required for the two devices to successfully interact, and such claims — such as those that recited that the URLs expired after certain times — may not be exhausted under *Quanta*. But *Helferich* is not particularly helpful.

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