

Nos. 04-1532, 05-1120, 05-1121

United States Court of Appeals for the Federal Circuit

MONSANTO CO.,

Plaintiff-Appellee,

v.

MITCHELL SCRUGGS; EDDIE SCRUGGS;
SCRUGGS FARM & SUPPLIES, LLC; SCRUGGS FARM JOINT VENTURE;
HES FARMS, INC.; MES FARMS, INC.; and MHS FARMS, INC.

Defendants-Appellants.

On Appeal from the United States District Court
For the Northern District of Mississippi
In No. 3:00-CV-161-P-A,
Judge W. Allen Pepper, Jr.

CORRECTED
BRIEF OF *AMICUS CURIAE* AMERICAN ANTITRUST INSTITUTE
IN SUPPORT OF DEFENDANTS-APPELLANTS
SUPPORTING REVERSAL ON CERTAIN ISSUES

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Monsanto Co. v. Mitchell Scruggs et al.

Nos. 04-1532, 05-1120, 05-1121

CERTIFICATE OF INTEREST

Counsel for the amicus The American Antitrust Institute, Inc. certifies the following (use "None" if applicable; use extra sheets if necessary):

1. The full name of every party or amicus represented by me is:

The American Antitrust Institute, Inc.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

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3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

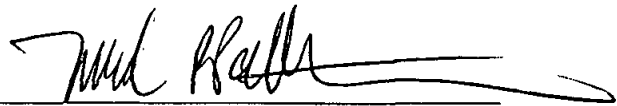
None

4. There is no such corporation as listed in paragraph 3.

5. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

None

May 5, 2005
Date


Signature of counsel

Mark R. Patterson
Printed name of counsel

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

The American Antitrust Institute, Inc. (“AAI”), is an independent, non-profit organization supported by foundations, law firms, corporations, associations, and individuals. The AAI works with experts in law, economics, and business, as well as with the public-interest community, to develop positions that reflect informed, progressive thinking about antitrust and competition policy. It benefits from the counsel of an advisory board composed of highly regarded experts; members of the advisory board serve in a consultative capacity, and their individual views may differ from the positions taken by the AAI. A description of the individuals involved in the AAI can be found on its web site.¹

The AAI has no interest in any party in this case. Its interest arises solely from the case’s importance at the intersection of patent law and antitrust law. The focus of this brief is on one particular issue at the center of that intersection: the rights of patentees to use patent law to enforce restrictions on purchasers of their patented products.² The AAI is particularly interested in that issue because it

¹ See <http://www.antitrustinstitute.org/whoaai.cfm>.

² This brief addresses only certain issues in the district court’s Memorandum Opinion dismissing the defendants’ antitrust counterclaims. See A154. Specifically, it addresses only issues that the district court resolved by concluding that the plaintiff’s conduct was within its patent grant. See A158-A159. This focus should

defines the scope of application of patent law, on the one hand, and antitrust law, on the other. Because of the AAI's broad perspective and non-partisan position, it believes that its views will aid this Court in the resolution of this issue.

A motion for leave to file this brief has been submitted with the brief.

not be taken, however, to indicate support for the district court's other conclusions in that opinion or its other opinions.

ARGUMENT

I. The Supreme Court has allowed patentees to impose restrictions on manufacturing licensees, but it has not allowed patentees to impose downstream restrictions on the purchasers of patented inventions.

The Supreme Court has held in several contexts that a patentee may demand compensation only once for the transfer of its exclusive rights. Although the patentee may impose restrictions in transferring its rights, and may use patent law to enforce those restrictions on its manufacturing licensees, the Court has never upheld an infringement claim against a purchaser that obtained the invention from the patentee or from a manufacturing licensee that complied with valid license restrictions. Indeed, this has been a consistent principle that reconciles the Court's decisions in this area.

Moreover, limiting the use of patent law to enforce downstream restrictions on purchasers is more than a principled approach to doctrine. It is also good intellectual property policy.¹ The goal of patent law is to allow the patentee to reap

¹ The distinction between manufacturing licensees and purchasers is also recognized in Europe. Specifically, the distinction is reflected in the scope of the block exemption regulations that exempt certain agreements from article 81 of the EC Treaty, which governs anticompetitive agreements. The European Commission's Technology Transfer Block Exemption applies only to "technology transfer agreements entered into between two undertakings [*i.e.*, the patentee-licensor and licensee] permitting the *production* of contract products." Commission Regulation 772/2004 on the application of Article 81(3) of the Treaty to categories

the reward of its invention without extending its reach beyond the scope of its patent. *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 180 (1980) (“The idea that a patentee should be denied relief against infringers if he has attempted illegally to extend the scope of his patent monopoly . . . goes back at least as far as *Motion Picture Patents Co. v. Universal Film Mg. Co.*, 243 U.S. 502 (1917).”). When a patentee imposes restrictions that reach beyond the manufacture or sale of the patented invention, those restrictions inevitably pose a risk of distorting competition in markets other than the one for the patented invention. Consequently, the Supreme Court’s rule that downstream restrictions are matters of contract, and thus subject to competitive analysis, is a sound one.

of technology transfer agreements, O.J. L 123/11 (2004), art. 2 (emphasis added). But there is no corresponding exemption for agreements between a patentee-licensor and the purchaser of the contract products produced under technology transfer agreements. Agreements between the manufacturing licensee and the purchaser of the contract goods are governed by the block exemption applicable to vertical distribution agreements. *See* Commission Regulation 2790/1999 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices, O.J. L 336/21 (1999); *see also* Commission Notice: Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, O.J. C 101/2 (2004), para. 62 (describing relationship between technology transfer agreements and vertical distribution agreements).

A. The Supreme Court has allowed restrictions on manufacturing licensees, which stand in the shoes of the patentee.

On numerous occasions, the Supreme Court has upheld the right of patentees to impose limitations on licensees manufacturing products that incorporate patented inventions. The Court has recognized this right in the context of price restrictions, geographical restrictions, and field-of-use restrictions. *See United States v. General Electric Co.*, 272 U.S. 476 (1926) (price); *Adams v. Burke*, 84 U.S. 453 (1873) (geographical); *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938) (field-of-use).

The Court has justified these restrictions on the rationale that the effects of restrictions on a manufacturing licensee are equivalent to the patentee's restriction of its own conduct:

The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.

Bement v. National Harrow Co., 186 U.S. 70, 93 (1902). That is, a manufacturing licensee stands in the shoes of, and occupies the same market position as, the patentee. The ultimate purchasers of patented products, however, occupy market positions quite distinct from those of patentees. Consequently, the Court's rationale

for permitting restrictions on manufacturing licensees does not extend to the imposition of restrictions on purchasers.

B. The Court has not allowed the use of patent law to enforce restrictions on purchasers.

The Supreme Court has not allowed infringement suits against purchasers from manufacturing licensees, so long as the purchase was made from a licensee that was in compliance with the terms of its license. Thus, in *Adams v. Burke*, 84 U.S. 453 (1873), the Court refused to allow an infringement suit against one who had purchased a patented product from the exclusive licensee in a particular geographical territory for use outside that territory. *See id.* at 456-57; *see also Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895).

The Court has consistently rejected restrictions on purchasers regardless of the specific nature of the restriction and regardless of whether the purchaser had notice of the purported restriction. For example, in *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913), where a patentee sought to set a sale price for the patented product by including the restriction on the product's packaging, the Court refused to allow an infringement suit against a purchaser that ignored the restriction. The Court similarly refused to allow an infringement suit in *Motion Picture Patents Co. v.*

Universal Film Mfg. Co., 243 U.S. 502, 516 (1917), where the notice was of a use restriction,² requiring use of the patented product with other products.

The only condition the Court has required in order to free the purchaser from patent infringement liability is that the original sale be in compliance with any license restrictions on the manufacturing licensee. So in *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938), the Court did allow an infringement suit against a downstream purchaser, but the Court's focus was on the license restrictions imposed on the manufacturing licensee. The Court emphasized that the licensee had manufactured the products outside the scope of its license, which was limited to a particular field of use. *Id.* at 126. The purchaser was liable for infringement, the Court made clear, not because *it* had used the products outside the scope of a license, but because, knowing that the manufacturing licensee had exceeded the scope of *its* license, the purchaser was "in no better position than if it had manufactured the amplifiers itself without a license." *Id.* at 127.

The Court has not, however, allowed the patentee to use a restriction on a licensee as a means of imposing a downstream restriction on a purchaser. In *Straus*

² The Court said that "[t]he statutory authority to grant the exclusive right to 'use' a patented machine is not greater, indeed it is precisely the same, as the authority to grant the exclusive right to 'vend.'" *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917).

v. Victor Talking Machine Co., 243 U.S. 490 (1917), the patentee purported to license its distributors on terms that restricted them to selling only to dealers that would charge a minimum price for the patented product. The defendant was an unlicensed dealer that had sold at lower prices after buying from the patentee's licensed distributors, and the patentee alleged that the defendant had "induced . . . one or more of [the patentee's] licensed distributors or dealers to violate his or their contracts with the [patentee]." *Id.* at 496. The Court could have concluded in these circumstances that the distributors' sales to the defendant did not comply with the distributors' licenses, so that the case would arguably have been within the rule of *General Talking Pictures*.³ But the Court did not do so. Instead, it rejected the patentee's use of the purported license restrictions on distributors as merely an attempt to evade the rule of *Bauer & Cie* that purchasers are not subject to such "license" restrictions. *Id.* at 499-501.

³ Whether the Court in *General Talking Pictures* would have viewed its rule as extending that far is unclear. Justice Black, dissenting in *General Talking Pictures*, argued that the products manufactured by the licensee in that case were the same regardless of their use. 305 U.S. at 130-31 n.5 (Black, J., dissenting). As a result, only the sale, not the manufacture, would have been outside the scope of the license, and Justice Black suggested that a restriction to sales for a particular purpose would have impermissibly restricted the purchaser, not the manufacturing licensee. *Id.* at 129-30 & n.4. But both majority and dissent appeared to agree that the key issue was whether the manufacturing licensee operated within the scope of its license. See Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in US Patent Law*, 15 Eur. Intell. Prop. Rev. 460, 462 (1993).

C. The Court's limit on the use of the property rights of patent law against purchasers is one of substance, not of form.

The Supreme Court has taken care more generally to ensure that patentees do not avoid the limits discussed above by merely formal means. In *Victor Talking Machine*, the patentee also sought to avoid those limits by characterizing the purchasers of its products as licensees, but the Court rejected that approach:

If we look through the words and forms, with which the plaintiff has most elaborately enveloped its purpose, to the substance and realities of the transaction contemplated, we shall discover several notable and significant features. First, while as if looking to the future, the notice, in terms, imposes various restrictions as to title and as to the "use" of the machines by plaintiff's agents, wholesale and retail, and by the "unlicensed members of the public," for itself, the plaintiff makes sure, that the future shall have no risks, for it requires that all that it asks or expects at any time to receive for each machine must be paid in full before it parts with the possession of it.

243 U.S. at 498. The Court indicated that it was the traditional distinction between property and non-property rights that was determinative: "Courts would be perversely blind if they failed to look through such an attempt as this 'License Notice' thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest." *Id.* at 500-01.

Similarly, although the Court has sometimes observed that sales have been made "without any conditions" in rejecting infringement suits against purchasers,

see, e.g., *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 663 (1895) (quoting *Mitchell v. Hawley*, 83 U.S. 544, 546-47 (1873)), it has never suggested that simply imposing conditions of any kind would make such infringement suits possible. On the contrary, the Court has not hesitated to treat restrictive licenses as sales.

D. The Supreme Court has suggested that although the sale of a patented product exhausts the patentee's property rights, the patentee may be able to restrict purchasers by contract.

The Supreme Court has said that a patentee that seeks to impose restrictions on a purchaser must use contract law. Thus, in *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), where the Court rejected an infringement suit against a purchaser of a patented good who was selling it in competition with an exclusive territorial licensee, the Court said that the result might have been different under contract: "Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion." *Id.* at 666.

The Court subsequently indicated, however, that such contractual restrictions would not receive any special protection from patent law: "The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law and with it we are not here concerned."

Motion Picture Patents, 243 U.S. at 509 (citing *Keeler v. Standard Folding Bed*); see also *Keeler v. Standard Folding Bed*, 157 U.S. at 666 (“It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.”).⁴

The Court has been consistent in drawing this distinction between patent and contract rights. Although a patent license is a contract, not every contract is a patent license, and the Court has used the term “contract” in this context, rather than “license.” For example, in the statement from *Motion Picture Patents* quoted above, the Court referred to the patentee’s “contract” with the “purchaser or licensee.” 243 U.S. at 509. If the contract were a license, the purchaser would be a licensee, and there would be no need for the Court to distinguish the two. The Court has consistently maintained this distinction in patent cases of various types:

When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts.

⁴ This Court, in contrast, has said that “the remedy for breach of a binding license provision is not exclusively in contract, for a license is simply a promise not to sue for what would otherwise be patent infringement,” *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 707 n.6 (Fed. Cir. 1992) (citations omitted), but there is no support for this view in the Supreme Court’s opinions.

Mercoïd Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 666 (1944). See also *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 263-65 (1979); *Lear, Inc. v. Adkins*, 395 U.S. 653, 669-75 (1969) (using “contract” when referring to state-law contract rights and “license” when referring to patent rights).

Importantly, among the “limitations . . . which the general law imposes upon such contracts” are the limitations of antitrust law. In *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), where the patentee had “licensed” both its wholesalers and retailers on terms that set sales prices, the Court said that “[t]he added stipulation by the patentee fixing resale prices derives no support from the patent and must stand on the same footing under the Sherman Act as like stipulations with respect to unpatented commodities.” *Id.* at 251 (citing *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940)). More generally, in *Ethyl Gasoline* the Court said that “contracts or combinations which are used to obstruct the free and natural flow in the channels of interstate commerce of trade even in a patented article, after it is sold by the patentee or his licensee, are a violation of the Sherman Act.” 309 U.S. at 458 (citations omitted).

In addition, contractual restrictions on purchasers may be forbidden by patent law itself. The most commonly invoked prohibitions are those on patent misuse, which largely parallel antitrust law. See *Monsanto Co. v. McFarling*, 363

F.3d 1336, 1341 (Fed. Cir. 2004) (referring to application of “either a per se rule of patent misuse or a rule of reason analysis”). But the Supreme Court also would not permit a patentee to restrict a purchaser’s right to repair the patented product. The Court has several times affirmed the purchaser’s right to repair (though not to reconstruct) a patented product it has purchased. Although the Court has never considered an attempt by a patentee to contractually restrict the repair right, it has said that the purchaser has the right to such repair “without the patentee’s consent.” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 342 (1961) (describing holding of *Wilson v. Simpson*, 50 U.S. 109 (1850)); *see also id.* at 354 (Black, J., concurring) (stating that whether a patented article is “made,” with reference to the repair-reconstruction distinction, “does not depend on . . . what the patentee’s or a purchaser’s intentions were”).⁵

II. This Court’s decisions are not inconsistent with the Supreme Court’s.

Although this Court’s opinions have sometimes discussed use restrictions in terms that are more permissive than those of the Supreme Court, this broader language has not been necessary to the court’s decisions, and the ultimate holdings can be read to be consistent with the Supreme Court’s decisions. *Cf. C.R. Bard*,

⁵ For discussion of this Court’s statements on this issue, see note 6 *infra*.

Inc. v. United States Surgical Corp., 388 F.3d 858, 861-62 (Fed. Cir. 2004)

(cautioning against reading cases too broadly).

A. In none of the cases in which this Court has written approvingly of field-of-use restrictions has approval of such restrictions on purchasers been necessary to the decision.

1. In *Mallinckrodt*, the defendant was not a purchaser but a remanufacturer of the patentee's product.

In *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), the defendant was not a purchaser of the patented product, but a remanufacturer of it. Moreover, the defendant-remanufacturer had no license or other contractual relationship with the patentee. Its position was thus akin to that of the non-compliant licensee in *General Talking Pictures* in that it had no independent authority to manufacture the patented product.

Therefore, any authority that the remanufacturer had could only have been derived from the fact that it was remanufacturing the patented product on behalf of a purchaser of that product. See *Mallinckrodt*, 976 F.2d at 702. But the purchaser's right, in turn, extended only to the right to repair the product, or have it repaired, not to have it reconstructed. Thus, if the defendant reconstructed the product, it infringed. No consideration of the purported restriction on reuse was necessary.

If the defendant's conduct was permissible repair, the case would be more difficult to reconcile with the Supreme Court's decisions. Still, this Court's opinion need not be read to hold that the "single use only" restriction that the patentee sought to impose on purchasers eliminated the right to repair. On the contrary, this Court in *Mallinckrodt* said that to be permissible the restriction on reuse would have to be "reasonably within the patent grant." 976 F.2d at 708. A prohibition on repair would not, under the Supreme Court's decisions, be within the patent grant.⁶

In fact, this Court referred to another possibility. *Mallinckrodt* argued that the "single use only" restriction was "reasonable because it is based on health, safety, efficacy, and liability considerations and violates no public policy." *Id.* at 703. This Court suggested that such a justification might be satisfactory, citing a

⁶ Although this Court in *Mallinckrodt* cited a Court of Claims case, *General Electric Co. v. United States*, 572 F.2d 745 (Ct. Cl. 1978), that seemed to suggest such a restriction would be permissible, no such restriction was at issue in *General Electric*. In any event, the Supreme Court cases cited by it do not support the suggestion. Although *Cotton-Tie Co. v. Simmons*, 106 U.S. 89 (1882), mentioned a "Licensed to use once only" stamp on the patented product in that case, *id.* at 91, and although *Aro* said in a footnote that the stamp "was deemed of importance by the Court," 365 U.S. at 343 n.9, it was in fact not discussed further. *See Aro*, 365 U.S. at 374 n.3 (Harlan, J., dissenting) ("[I]t is manifest that nothing really turned on that point."). And, as described above, the Court in *Aro* stated that the repair right does not turn on the patentee's consent. 365 U.S. at 342. *Cf. Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) (dictum suggesting that a seller's intention alone will not make repair impermissible, but that an "enforceable contract" could).

non-patent case that had upheld resale restrictions against antitrust challenge, and stating that “[p]atent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade.” *Id.* at 708-09 (comparing *Tripoli Co. v. Wella Corp.*, 425 F.2d 932, 936-38 (3d Cir. 1970) (*en banc*) (non-patent action) with *Marks, Inc. v. Polaroid Corp.*, 237 F.2d 428, 436 (1st Cir. 1956) (similar patent case upholding single-use-only restriction based on safety concerns)). Whatever the ultimate merits of such an approach in *Mallinckrodt* or generally, it is not necessarily inconsistent with the Supreme Court’s decisions. *Cf. Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 459-61 (1940) (upholding condemnation of patent licensing arrangement, which might have had lawful safety justifications, because it had been “used for other and illicit purposes”); *United States v. Univis Lens Co.*, 316 U.S. 241, 254 (1942).

2. In *Braun*, the court described a form of review of license restrictions similar to that used by the Supreme Court.

In *B. Braun Medical Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997), the patentee, Braun, had licensed one of the defendants, Abbott Laboratories, to incorporate Braun’s invention in certain products but had prohibited it from using it in others. Thus, although this Court referred to Abbott’s “purchase” of the patented product, *id.* at 1422, Abbott was not the ultimate purchaser of the product. Nor,

however, did Abbott manufacture Braun's invention, so it was not a manufacturing licensee in the sense used above, either. It is therefore unclear whether the license restriction would be permissible under the Supreme Court's holdings.

This Court's decision in *Braun* is consistent with that uncertainty. The district court delivered a jury instruction that "essentially create[d] *per se* liability for any conditions that Braun placed on its sales." *Id.* at 1426. This Court rejected that instruction, directing that the proper inquiry is, first, "whether Braun's restriction exceeds the scope of the patent grant." *Id.* Then, if it does, "any anticompetitive effects [it] may cause are reviewed in accordance with the rule of reason." *Id.* (citing *Mallinckrodt*, 976 F.2d at 708). This form of scrutiny of the challenged restriction is consistent with the Supreme Court's cases. Indeed, the *Braun* court said, recalling the Supreme Court's similar statements, that conditions on the transfer of a patented product "are contractual in nature and are subject to antitrust, patent, contract, and any other applicable law, as well as equitable considerations such as patent misuse." *Id.* (citing *Mallinckrodt*, 976 F.2d at 703).

Moreover, although *Braun* did not provide any specific guidance for determining whether a use restriction like Braun's was within the patent grant, it would be consistent with the Supreme Court's decisions to make that assessment by reference to whether Abbott was more akin to a manufacturing licensee or to an

ultimate purchaser. As discussed above, in the latter case a license restriction is likely to extend the patentee's power to markets distinct from that for the patented invention. *See id.* (describing a condition that "restrain[s] competition in an unpatented product" as outside the scope of the patent grant). When this is the case, the subsequent inquiry into competitive effect called for by *Braun* is appropriate.

3. In *McFarling*, this Court apparently condemned the defendant's manufacture of the patented product, not a violation of a use restriction.

In *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004), this Court apparently viewed the defendant farmer as a manufacturer of the infringing product. Although the plaintiff argued that the restriction on replanting that was at issue in that case was a field-of-use restriction, this Court rejected that characterization because the grower used the patented seed in the same way regardless of whether he replanted the new seeds. *Id.* at 1342-43.

The court appeared to view the defendant farmer as having infringed Monsanto's patent by making the patented invention, rather than by using it outside the scope of the defendant's license. The defendant planted the seeds, and the plants that grew from those seeds produced seeds, so the court concluded that the defendant had made the seeds. *See id.* at 1343; . Under that construction, *McFarling* is analogous to *General Talking Pictures*. That is, just as in

Mallinckrodt, the defendant in *McFarling* could be viewed as having manufactured the product without a license to do so. Once again, there would be no question of imposing liability on a purchaser *qua* purchaser.⁷

B. This Court has not allowed formal considerations to trump the substance of the transfer of a patented invention.

This Court has suggested that so long as a transfer of rights under a patent is conditional, the transfer does not bring the patent exhaustion doctrine into play.

B. Braun Medical Inc. v. Abbott Labs., 124 F.3d 1419, 1426 (Fed. Cir. 1997) (“This

⁷ This analysis is problematic in *McFarling*, though, because the defendant there surely had a license to manufacture the product at issue. It had a license to plant the seed, at least once, and, as this Court said, “McFarling plants and grows the first-generation seed in an identical fashion whether he intends to sell the second-generation seed as a commercial crop for consumption or whether he intends to replant it.” *Id.* at 1342. Thus, it was apparently the peculiar combination of the “making” of the seeds and their use by replanting that posed the problem:

[T]he [seed-saving restriction] presents a unique set of facts in which licensing restrictions on the use of goods produced by the licensed product are not beyond the scope of the patent grant at issue: The licensed and patented product (the first-generation seeds) and the good made by the licensed product (the second-generation seeds) are nearly identical copies. Thus, given that we must presume that Monsanto’s ’435 patent reads on the first-generation seeds, it also reads on the second-generation seeds.

Id. at 1343 (footnote omitted). *Cf. SmithKline Beecham Corp. v. Apotex Corp.*, 365 F.3d 1306, 1331 (Fed. Cir. 2004) (Gajarsa, J., concurring) (“In short, patent claims drawn broadly enough to encompass products that spread, appear, and ‘reproduce’ through natural processes cover subject matter unpatentable under Section 101 — and are therefore invalid.”).

exhaustion doctrine, however, does not apply to an expressly conditional sale or license.”). The Supreme Court, however, has applied the doctrine in many cases involving conditional licenses. Moreover, the Supreme Court case often cited by this Court in support of its interpretation of the effect of conditional transfers is *General Talking Pictures*, where the Supreme Court relied on the imposition of the condition on a manufacturing licensee, not a purchaser.

In any event, in none of this Court’s cases has a purported condition on a transfer to a purchaser been decisive. That is, in none of this Court’s cases has such a condition allowed a patentee to impose restrictions on a purchaser that could not have been upheld on some other ground. In *Mallinckrodt*, the case in which this Court relied most extensively on transfer “conditions,” the decision was entirely supportable by treating the purchaser’s conduct as implicating the patentee’s exclusive right to manufacture (or reconstruct) the patented product.

III. Monsanto’s restrictions are impermissible under the principles established by the Supreme Court and this Court.

Monsanto’s seed-saving restriction has elements of both the tying misuse and the repair cases. Although as *McFarling* indicates, a restriction on the saving of seeds is not easy to place in current doctrine, such a restriction limits purchasers’ use of the patented product in ways analogous to those that have previously been

condemned, and it does so more obviously in the present case than in *McFarling*.

Furthermore, the restriction gives Monsanto a degree of continuing control over the seed industry in a way that has been rejected by the Supreme Court.

A. Monsanto's restriction requires farmers to purchase unpatented seed components in order to use Monsanto's patented invention.

The patents at issue here claim chimeric genes, DNA regions and constructs, and plant cells. *See, e.g.*, United States Patent No. 5,352,605, claims 1, 4, 7, 13, A244, A245. Indeed, Monsanto appears to rely only on its claims to genetic material. *See* Monsanto Technology Agreement (1998) (typical licensing agreement referring to "Monsanto gene technologies" and "seed containing Monsanto gene technologies"), A309. In contrast to *McFarling*, none of the patents in this case includes a claim for seeds or plants. *Cf. McFarling*, 363 F.3d at 1343.⁸

⁸ An effort by Monsanto to assert control over seeds or plants would be analogous to the licensing arrangement rejected by the Supreme Court in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942). In *Univis*, the patentee had patents over eyeglass lens blanks and, the Court assumed, the finishing of the blanks into finished lenses. *Id.* at 248-49. The patentee "licensed" finishers of lenses to acquire the lens blanks, on the condition that the finishers conform to certain license restrictions on the sale of the finished lenses. (The Court called the transfer of the blanks a "sale," but it was not an unconditional sale, as it was purportedly subject to the license terms.) The Court rejected the restrictions, observing that "the only use to which [the blank] could be put and the only object of the sale is to enable the latter to grind and polish it for use as a lens by the prospective wearer." *Id.* at 249. Similarly here, the only use to which Monsanto's genetic technology can be put, and the only purpose for obtaining it, is to use it in seeds and plants, so the transfer

Monsanto does not itself grow the seeds planted by farmers, but licenses its genetic inventions to seed companies, or seed partners, which then produce seeds incorporating Monsanto's genetic inventions. Thus, the seeds that farmers purchase have two components from two providers: the patented genes from Monsanto, and the other seed components from its seed partners (together with the services the seed partners provide to combine them).

By requiring purchase each year of the entire seed, Monsanto requires farmers each year to purchase the unpatented products and services from its seed partners.⁹ Of course, most if not all farmers would purchase the unpatented seed components from a Monsanto seed partner in the first year in any event, because the farmers could not themselves incorporate Monsanto's genetic technology in the seed. But in the absence of the no-replanting restriction, farmers would not be obligated to purchase unpatented seed components each year. And in the absence of Monsanto's restrictions, some of its seed partners might choose to compete by offering their own sales terms, which might not include a no-replanting restriction.

of the technology carries with it the right to use seeds and plants incorporating it.

⁹ As discussed subsequently, although the tied product is provided by its seed partner, not by Monsanto itself, Monsanto can still profit from the tie.

It is likely, though, that some, and perhaps most, Monsanto seed partners prefer the no-replanting policy, which requires new purchases each year of their unpatented seed components. And Monsanto surely profits in its licensing fees from this benefit that it provides to its seed partners. Moreover, independent of any immediate profits from the tie, Monsanto gains because it exercises control not only over its patented invention, but over the operations and decisions of the seed partners. This allows Monsanto to adjust its licensing terms to respond to developments in the industry, many of which do not relate to its invention.

In this respect and others, the present case is strikingly similar to *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940). In *Ethyl*, the patentee sold its patented fuel additive to licensed refiners, which manufactured fuel containing the additive and sold the fuel to licensed jobbers. The licenses to refiners and jobbers contained a variety of restrictions, and thus were not by their terms unconditional. *Id.* at 447-48. Nevertheless, the Court did not hesitate to reject the arrangement, and it did so on the ground that it extended the patentee's control beyond its patents to the downstream refining market:

The licensing conditions are thus not used as a means of stimulating the commercial development and financial returns of the patented invention which is licensed, but for the commercial development of the business of the refiners and the exploitation of a second patent monopoly not embraced in the first. The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another, than for the exploitation of an

unpatented article, or for the exploitation or promotion of a business not embraced within the patent.

Id. at 459 (citations omitted).¹⁰

B. The defendants' use of Monsanto's patented genes is unrelated to the plant-generation focus of the no-replanting restriction.

The invention at issue in this case is not a plant or seed, but a genetic trait.

Although the plants and seeds at issue here can be characterized as producing new generations each year, it is less clear that such a characterization is accurate for a genetic trait. The trait, after all, does not change from year to year, any more than it does within a generation as additional cells are produced. (If the trait at issue changed, it presumably would no longer be covered by Monsanto's patent.) As a result, it is not clear that the "generational" dividing line on which Monsanto's

¹⁰ The Court noted in *Ethyl* that the patentee there did not derive any profit from the sale of the patented fuel, 309 U.S. at 459, whereas Monsanto does receive royalties from farmers who use the seed incorporating its patented invention. But this does not take the present case outside the rule of *Ethyl*. The patentee in *Ethyl* had patents not only on the fuel additive but also on the fuel itself. Thus, even if the Court would have viewed that case differently had Ethyl received royalties from the sale of the fuel, that view would have been supportable because Ethyl's patent rights extended to the fuel. Monsanto's rights are more limited, because in the present case it does not assert patents over the seeds, only over the genetic material incorporated in them. *Cf. Monsanto Co. v. McFarling*, 363 F.3d 1336, 1342-43 (Fed. Cir. 2004). That Monsanto is receiving royalties for the Roundup Ready[®] trait rather than for the seeds is evidenced by the uniform technology fee it charges to all farmers, regardless of which seed they use.

seed-saving restriction is based is a meaningful one that can be viewed as within the scope of its invention.

The Supreme Court's discussion of the repair-reconstruction distinction in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961), is apt:

The Court [in *Wilson v. Simpson*] held that, although there is no right to "rebuild" a patented combination, the entity "exists" notwithstanding the fact that destruction or impairment of one of its elements renders it inoperable; and that, accordingly, replacement of that worn-out essential part is permissible restoration of the machine to the original use for which it was bought. The Court explained that it is "the use of the whole" of the combination which a purchaser buys, and that repair or replacement of the worn-out, damaged or destroyed part is but an exercise of the right "to give duration to that which he owns, or has a right to use as a whole."

Id. at 342-43 (citations and footnote omitted).¹¹ With reference to this discussion, the patented genetic trait "exists" from cell generation to cell generation and from year to year notwithstanding the annual cycle of the plant's reproduction.

¹¹ Because the patented invention is a gene, it is not a combination patent like the one at issue in *Aro* and *Wilson v. Simpson*, but that makes the purchaser's case here even stronger. Not only is Monsanto refusing to allow the purchaser to preserve the function of its product, it is doing so by requiring it to make purchases of unpatented material *beyond* the scope of the patent. That is, in the usual repair case involving a combination patent, the patentee seeks to require the purchaser to preserve the functioning of the patented invention by buying unpatented *components* of the patented invention. Here, though, Monsanto seeks to require the defendants to preserve the functioning of its genetic trait by buying unpatented seed components that are *no part of* the invention.

To put it another way, Monsanto has imposed a plant-level restriction, rather than a gene-level restriction that would be within the scope of its patent.

Monsanto's genes are expressed in the reproduction of plant cells as the plant develops, and in the production of the enzyme that makes the plants Roundup Ready®. They are not expressed in the act of replanting a seed, and as the replanted seeds grow they are not expressed in any way different from their expression in the first planting. In *McFarling*, Monsanto was asserting claims on seeds, so that the no-replanting restrictions bore some relation to those claims. Here, Monsanto's practices are akin to an attempt by the patentee of a new kind of automobile engine to require that buyers of cars incorporating that engine buy new cars every year.

C. The restriction give Monsanto the power to control the industry.

Finally, the no-replanting restriction allows Monsanto to gain and maintain control over future developments in the seed industry. As described above, the Supreme Court in *Ethyl Gasoline* rejected restrictions that resulted in control over downstream markets. The Court has been similarly concerned about license restrictions that allow a patentee to maintain control over an industry over time.

In *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), the patentee not only required that its patented product be used with other, unpatented products, but it also incorporated in its licenses a provision for "other

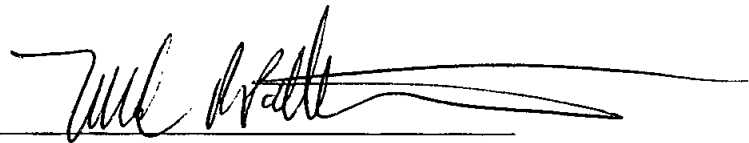
terms to be fixed by the licensor.” *Id.* at 506 (emphasis in original). The Court rejected this provision because it gave the patentee the power “to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid to be imposed thereafter at the discretion of such patent owner,” *id.* at 516, which would give the patentee “potential power for evil over an industry,” *id.* at 519.

Monsanto’s no-replanting policy gives it a similar power to control future industry development. Its agreements with farmers include a provision similar to the one to which the Court objected in *Motion Picture Patents*: “Once you enroll, information regarding new and existing technologies and any new terms will be mailed to you each year.” *E.g.*, Monsanto Technology Agreement (1998), A309. Thus, as market conditions change, the Monsanto agreements purport to provide the right for new terms “to be imposed thereafter at [Monsanto’s] discretion.” Even without such a contractual provision, the no-replanting restriction would give Monsanto the ability to impose new and different terms each year. Consequently, Monsanto’s licenses impermissibly allow it to adjust its terms in such a way as to preserve and enhance its “power . . . over an industry.”

CONCLUSION

This case presents the question of whether a patentee should be allowed to use license restrictions to exercise and maintain long-term control over downstream markets. Neither the Supreme Court nor this Court has ever authorized such an extension of patent rights. On the contrary, both the Supreme Court and this Court have held that review of license restrictions is necessary to ensure that patent rights are not used to anticompetitive effect in other markets. Because the district court below conducted no such review, its decision should be reversed on this issue.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark R. Patterson", is written over a horizontal line. The signature is fluid and cursive, extending to the right beyond the end of the line.

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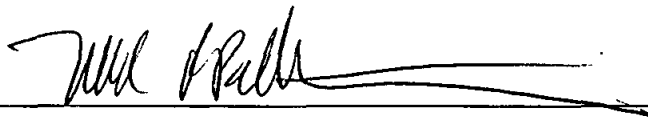
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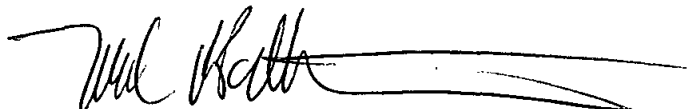
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