

**In The
Supreme Court of the United States**

—◆—
STEPHEN KIMBLE and
ROBERT MICHAEL GRABB,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

—◆—
**On Writ Of Certiorari To The
United States Court Of Appeals
For The Ninth Circuit**

—◆—
**BRIEF OF AMICI CURIAE
PROFESSOR ROBIN FELDMAN,
PROFESSOR ALICE ARMITAGE, AND
THE U.C. HASTINGS INSTITUTE
FOR INNOVATION LAW ON
BEHALF OF NEITHER PARTY**

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INTEREST OF THE *AMICI CURIAE*¹

Amicus curiae Professor Robin Feldman is an expert in intellectual property law, particularly issues involving the sciences, intellectual property monetization, and the intersection of intellectual property and antitrust. She is a Professor of Law at the University of California, Hastings College of the Law, and holds the Harry & Lillian Hastings Chair. Professor Feldman is Director of *amicus curiae* the Institute for Innovation Law, which is focused on innovation at the crossroads of intellectual property and emerging technology. She also directs client-based education, including the Startup Legal Garage, and writes extensively about intellectual property issues. She has received multiple awards for teaching and scholarship, and has published two books, *Rethinking Patent Law* (Harvard 2012) and *The Role of Science in Law* (Oxford 2009), in addition to numerous articles in law reviews and the New England Journal of Medicine. Professor Feldman has testified before Congress and the California legislature on intellectual property issues, and has provided testimony and commentary for the Federal Trade Commission, the Department of Justice, and the Patent and Trademark Office.

¹ Counsel for all parties have consented to the filing of this brief, as indicated by consents lodged with the Clerk of this Court. No counsel for any party had any role in authoring this brief, and no person other than the named *amici* and their counsel has made any monetary contribution to the preparation of this brief. See Rule 37.6.

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Amici Curiae Professor Feldman, Professor Armitage, and the Institute for Innovation Law at the University of California, Hastings College of the Law have a strong interest in maintaining the integrity of both patent and antitrust law, as well as ensuring an effective choice of legal tests in each domain. *Amici* submit this brief to offer for this Court's consideration a detailed view of the struggle that has been occurring in the lower courts regarding the doctrine at issue in this case. *Amici* also write to suggest that neither antitrust's rule of reason nor its *per se* test is appropriate for determining the enforceability of licenses that extend beyond the term of the patent.



SUMMARY OF ARGUMENT

Patent and Antitrust are not the same. The two regimes flow from separate legislative structures articulating different goals. In order to mark the boundary line between the two domains, this Court developed the doctrine of patent misuse, which is the

doctrine at the center of this case. Given the role that patents play in modern society, there is much at stake in delineating this boundary properly.

In the opinion below in this case, *Kimble v. Marvel Enterprises, Inc.*, 727 F.3d 856 (2013), the Ninth Circuit hints that this Court should overturn its opinion in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Although the Ninth Circuit is careful not to suggest what should replace *Brulotte*, the briefs of the parties reflect the struggle that is occurring. It is a struggle over whether the law should follow a path initiated by the Federal Circuit to eliminate patent misuse as an independent doctrine.

Since the development of patent misuse in the 1930s and 1940s, this Court has consistently held that patent misuse should be decided according to patent principles and not antitrust principles. For almost three decades, however, some lower courts have tried to subsume the doctrine of patent misuse under antitrust. It is a movement initiated by the Federal Circuit – in clear contravention of precedent.

In particular, the Federal Circuit in 1986 first attempted to make patent misuse follow antitrust law, then withdrew that attempt by cryptically noting that it lacked authority to do so, and later returned precisely to the withdrawn language. The present case offers this Court the opportunity to end the confusion that has arisen as the courts below have applied antitrust principles to patent misuse cases.

One can see the confusion reflected in the briefs in this case. Specifically, the parties vigorously debate whether certain patent misuse questions should be decided under antitrust’s “rule of reason” test or the “*per se*” test.² Neither test, however, is appropriate. Patent misuse is a doctrine of patent law, and the choice between a rule of reason test and a *per se* test is designed for a different regime.

The rule of reason is the common standard used to evaluate restraints of trade under the Sherman Act in antitrust cases. It requires a prolonged and elaborate inquiry, which, as this Court has noted, is complex and burdensome on litigants and the judicial system.³ In fact, common wisdom holds that an antitrust lawsuit will fail unless the plaintiff can avoid rule of reason analysis and obtain *per se* treatment.⁴ Thus, applying the rule of reason to patent misuse would be the death knell for the doctrine.

² Pet’r’s Pet. for Writ for Certiorari 4 (arguing for applying the rule of reason); Br. in Opp’n to Writ 19 (arguing against applying the rule of reason); Supp’l Br. of Pet’r for Writ 1-7 (arguing against applying a *per se* rule); *see also* Br. on Petition of *Amici Curiae* Memorial Sloan Kettering *et al.* 13-17 (advocating policing the area by adoption of antitrust principles).

³ *See Cont’l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 50 (1977); *see also* Part I.C, *infra*, text accompanying notes 10-11 (citing additional opinions from this Court).

⁴ *See* Robin Cooper Feldman, *Defensive Leveraging in Antitrust*, 87 Geo. L.J. 2079, 2112 (1999) (describing the history of the rule of reason) (*hereinafter* Feldman, *Defensive Leveraging*).

These issues are of great importance for the proper functioning of the patent system. Quite simply, a patent is not a guarantee that a patent holder will earn anything. Rather, a patent is a time-limited opportunity to try to capture a return on an invention.⁵ The market's inability to recognize or calculate the value of an invention is one of the hazards built into the 20-year patent term. One cannot ask the patent office to extend the patent for a few years because 20 years is not long enough to determine its true value. That is a decision for Congress to make, if it sees fit. Nothing changes if the 20-year term is ill-suited for a particular industry, such as the life sciences. Any arguments to this effect are appropriately directed to Congress.

The process of invention is often evolutionary with one advancement building on those that have gone before. While early stage inventors may make an initial leap forward, later stage inventors may create further developments. The structure of the patent system limits the reward that may be gained by early stage inventors, thereby ensuring that incentives will be available to those who come later. This structure represents a clear congressional choice.

⁵ Sections of this brief are adapted from Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 *Hastings L.J.* 399 (2003) (*hereinafter* Feldman, *Insufficiency*) and are used here with permission from the Journal.

Parties should not be able to alter by contract what Congress has created by statute. It is certainly true that when the patent term ends, the patent holder will no longer be able to exclude *all* others from the use of its invention. With the patent system, however, every potential innovator matters. A contract provision that limits the capacity and incentive for even one potential innovator to make scientific leaps after the expiration of the patent disrupts the balances created by Congress in the Patent Act.

It is precisely this type of concern that led this Court to establish the doctrine of patent misuse. As the Court explained, without such limitations, “[p]rivate business would function as its own patent office and impose its own law upon its licensees. It would obtain by contract what letters patent alone may grant.” *Mercoïd Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 667 (1944).

Given the time-limited structure of a patent, any contract that would extend payments beyond the expiration of the patent would violate this principle at first glance. There may be sound reasons, however, why such a provision might be perfectly acceptable under patent law principles. For example, as with a mortgage or any form of extended payment contract, a party wishing to license the patent simply may not have the money to pay in a shorter time period for use during the patent term. Such extended payment terms may be particularly appropriate for a startup or other small business in which cash flow is challenging. Facts such as these could support a court’s

assessment that an extended royalty provision is acceptable under patent principles.

Bringing clarity to this issue, however, does not require making a choice between antitrust's rule of reason test and its *per se* test. In cases such as *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) and *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), this Court has already moved away from unfortunate language in *Brulotte* and established a path towards a more flexible approach to the type of licensing provision at issue here. Signaling the continuation of this path would free the lower courts to develop the contours of such rules across time. This would provide the drafting guidance that businesses need, without destroying the doctrine of patent misuse. *Amici* respectfully urge the Court to continue the path it has begun and to clarify for lower courts that antitrust principles should not be used to decide cases of patent misuse.



ARGUMENT

I. PATENT MISUSE, AS CONSISTENTLY HELD BY THIS COURT, SHOULD BE DECIDED UNDER PATENT LAW PRINCIPLES RATHER THAN ANTITRUST. FOR NEARLY THREE DECADES, HOWEVER, LOWER COURTS HAVE REPEATEDLY MOVED TO CONFORM PATENT MISUSE TO ANTITRUST PRINCIPLES – DESPITE CONTRARY AUTHORITY FROM CONGRESS AND THIS COURT

As part of delineating the boundary between the Patent Act and the Antitrust statutes, this Court developed the doctrine of patent misuse in a series of cases in the 1930s and 1940s. *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), overruled on other grounds by *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006). These opinions established that patent misuse would be defined as an attempt to expand the time or scope of the patent.

For example, in the 1971 case of *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 402 U.S. 313 (1971), this Court discussed the doctrine of patent misuse along with its roots in the notion that, “a patent by its very nature is affected with a public interest.” *Id.* at 343 (citing *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)). The Court noted that, a “manifestation of this principle has been the series of decisions in which the Court has condemned attempts to broaden the physical

or temporal scope of the patent monopoly.” *Id.* *Amici* specifically cite the *Blonder-Tongue* opinion for the definition of patent misuse because it is this opinion that will be distorted in later Federal Circuit cases. See Feldman, *Insufficiency* at 399 (explaining in detail the tortured Federal Circuit cases).

In addition to defining patent misuse as an attempt to expand the time or scope of the patent, this Court has held repeatedly that patent misuse should be tested under patent law principles, not those of antitrust law. See, e.g., *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 641 (1947); *Morton Salt*, 314 U.S. at 493-94; *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). This Court has acknowledged that certain behaviors might violate both statutes, and that the public policy concerns animating one statute may be useful in analyzing whether the behavior raises concern for the other. See *Ill. Tool Works.*, 547 U.S. at 42; *Carbice*, 283 U.S. at 34 n.4; *Motion Picture Patents*, 243 U.S. at 517-18. Nevertheless, patent misuse is to be tested according to the specifically tailored statutory language and doctrinal principles of patent law.

The issues in the case at hand revolve around the doctrine of patent misuse, despite the fact that the case sounds in contract. The problem for the contract at issue flows from the provision that requires payment of royalties beyond the expiration of the patent. As described above, the doctrine of patent misuse condemns attempts to extend the time of the patent. Thus, the case concerns the proper test to determine

whether the continuing royalty agreement in the contract is unenforceable because it constitutes misuse of the patent. *See Brulotte*, 379 U.S. at 30 (noting that the defense in the case involved “misuse of the patents through extension of the license agreements beyond the expiration date of the patents”).

A. THE FEDERAL CIRCUIT, IGNORING PRECEDENT, INSERTS ANTITRUST PRINCIPLES INTO THE DOCTRINE OF PATENT MISUSE

Until the mid-1980s, lower courts followed this Court’s definition of patent misuse as an attempt to expand the time or scope of the patent, and treated it as a question to be answered according to patent principles. In 1986, however, the Federal Circuit reframed the test in antitrust terms. In *Windsurfing International v. AMF, Inc.*, 782 F.2d 995 (1986), Chief Judge Markey of the Federal Circuit held that to prove patent misuse, “the alleged infringer must show that the patentee has impermissibly broadened the ‘physical or temporal scope’ of the patent grant *with anticompetitive effect*.” *Id.* at 1001 (emphasis added). The decision explained further that the key inquiry in patent misuse “must reveal that the overall effect of the [behavior] tends to restrain competition unlawfully in an appropriately defined relevant market.” *Id.* at 1001-02.

In support of its language, the Federal Circuit cited this Court’s opinion in *Blonder-Tongue*. The *Blonder-Tongue* opinion, however, does not contain

Windsurfing's language or its test, condemning only "attempts to broaden the physical or temporal scope of the patent monopoly." *Blonder-Tongue*, 402 U.S. at 343. In other words, the opinion says nothing about adding the notion of anticompetitive effects.

Thus, with a few strokes of the pen, the Federal Circuit added a new requirement for patent misuse. To constitute misuse, a patent holder's behavior must not only extend the time or scope of the patent, it must also create anticompetitive effects.

Within nine months, however, Judge Markey retreated to the holding that patent misuse did not require antitrust-type findings. *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986). He confined his views about altering patent misuse to a footnote in which he deferred to Congress and the Supreme Court to make the changes attempted in *Windsurfing*. "We are bound . . . to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress or by the Supreme Court." *Id.* at 665 n.5.

After six years however, the Federal Circuit reinserted antitrust principles into its patent misuse decisions. In *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), Judge Newman held that "[t]he appropriate criterion is whether [the] restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having *an anticompetitive effect* not

justifiable under the rule of reason.” *Id.* at 708 (emphasis added).

In adding the words “anticompetitive effect,” the Federal Circuit cited *Windsurfing* as the relevant precedent for patent misuse. *Id.* at 706. The new opinion showed no awareness of Judge Markey’s subsequent repudiation of *Windsurfing*, in which he acknowledged that the Federal Circuit did not have the authority to require such an analysis without action by Congress or by this Court. Moreover, the Federal Circuit has continued down the *Mallinckrodt* path by endorsing the *Mallinckrodt* approach *en banc* in 2010. *See Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1334 (Fed. Cir. 2010) (*en banc*) (citing *Windsurfing* and refusing to overrule the line of authority in the Federal Circuit that has defined patent misuse as requiring a showing that the patentee’s conduct had anticompetitive effects), *cert. denied*, 131 S. Ct. 2480 (2011).⁶

⁶ As the lower courts have noted, this Court has already cast doubt on aspects of *Mallinckrodt* in its 2008 *Quanta* decision, concerning the doctrine of exhaustion. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); *see also Lexmark Int’l, Inc. v. Ink Techs. Printer Supplies, LLC*, 2014 WL 1276133 (S.D. Ohio 2014) (finding that “this court is persuaded that *Quanta* overruled *Mallinckrodt sub silentio*”); *accord Static Control Components, Inc. v. Lexmark Int’l, Inc.*, 615 F. Supp. 2d 575, 585-86 (E.D. Ky. 2009); Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 Ala. L. Rev. 103, n.35 (2008) (arguing that the exhaustion aspects of *Mallinckrodt* are no longer good law).

B. CONGRESSIONAL ACTION IN THIS SPACE DOES NOT SUPPORT FEDERAL CIRCUIT DECISIONS

The Federal Circuit's adoption of antitrust principles to analyze patent misuse cases arose against the backdrop of a congressional debate over whether to conform patent misuse to antitrust rules. Scholars and legislators weighed in on both sides of the issue.⁷ Following this discussion, the Senate passed a bill in 1988 that would have prohibited a finding of patent misuse unless the patent holder's "practices or actions or inactions . . . violate the antitrust laws." Intellectual Property Antitrust Protection Act of 1988, S. 438 §201, 100th Cong. (1988). In the waning days of the 100th Congress, however, the House and Senate reached agreement on a different version that was far less sweeping.⁸ Rather than applying antitrust rules across the board to all of patent misuse, the final language related only to tying. It required a finding of market power for misuse cases based on an accusation of tying.⁹ The Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, §201, 102 Stat. 4674, 4676 (1988) (codified at 35 U.S.C. §271(d)(5)).

⁷ For examples of competing analyses, see Feldman, *Insufficiency* at 420 n.100.

⁸ For a detailed description of the path of House and Senate versions and final compromise language, see Kenneth J. Burchfield, *Patent Misuse and Antitrust Reform: "Blessed be the Tie?"*, 4 Harv. J.L. & Tech. 1, 2 n.9 (1991).

⁹ For additional details of the 1988 Act and debate, see Feldman, *Insufficiency* at 421-24.

The congressional action on this issue is significant. When Congress has considered but ultimately failed to approve broader language, this Court has warned against taking the steps that Congress rejected: “We will ordinarily not assume that Congress intended ‘to enact statutory language that it has earlier discarded in favor of other language.’” *Chickasaw Nation v. United States*, 534 U.S. 84, 93 (2001) (quoting *INS v. Cardoza-Fonseca*, 480 U.S. 421, 443 (1987) (quoting *Nachman Corp. v. Pension Benefit Guar. Corp.*, 446 U.S. 359, 393 (1980) (Stewart, J., dissenting))). By broadly incorporating antitrust principles into patent misuse cases when Congress discarded that approach, the Federal Circuit ignored this Court’s warnings.

C. THE DANGERS OF FOLLOWING THE FEDERAL CIRCUIT’S LEAD

As a result of the Federal Circuit’s attempt to import antitrust principles into patent misuse, the doctrine has become a confusing tangle that has the potential to distort both antitrust and patent law. One reason for this confusion is the differing ways in which the Federal Circuit imports antitrust’s rule of reason.¹⁰

¹⁰ For a description of the rule of reason and the complexities of its application, see Feldman, *Defensive Leveraging* at 2107 n.140 (1999). The classic description of the rule of reason test appears in Justice Brandeis’s opinion in *Board of Trade v. United States*, 246 U.S. 231, 238 (1918):

(Continued on following page)

The confusion begins with the nature of the rule of reason test itself. The rule of reason involves a laborious inquiry that, as this Court has noted, is burdensome on litigants and on the judicial system. See *GTE Sylvania Inc.*, 433 U.S. at 50 (describing rule of reason trials as complex and burdensome on litigants and the judicial system); *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5 (1958) (noting that the rule of reason inquiry is often wholly fruitless when undertaken and that the analysis requires a tremendously complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries); see also Robert Pitofsky, *Antitrust in the Next 100 Years*, 75 Cal. L. Rev. 817, 830 & n.42 (1987) (citing *United States v. Trenton Potteries Co.*, 273 U.S. 392 (1927), in which the Court refused to apply the rule of reason because of the practical difficulties of the minute inquiry into economic organization required).¹¹

[T]he court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its conditions before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts. This is not because a good intention will save an otherwise objectionable regulation or the reverse; but because knowledge of intent may help the court to interpret facts and to predict consequences.

¹¹ Cf. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 34 (1984) (O'Connor, J., concurring) (comparing rule of reason to
(Continued on following page)

Adding to this confusion, the Federal Circuit’s language at times suggests that courts should apply a two-part test for patent misuse, determining first whether the behavior violates patent policy and then whether the behavior violates antitrust law. *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997). *See also Mallinckrodt*, 976 F.2d at 708. Following this approach, a litigant would have to successfully demonstrate both a patent law violation and an antitrust violation.

Creating even further confusion, the Federal Circuit at times uses the term “rule of reason” correctly to describe the full test that is applied in lieu of a *per se* test.¹² *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d

the peculiar form of *per se* rule applied in tying cases and describing both as requiring extensive and time-consuming economic analysis); *United States v. Topco Assocs.*, 405 U.S. 596, 609-10 (1972) (noting that “[i]nability to weigh, in any meaningful sense, destruction of competition in one sector of the economy against promotion of competition in another sector is one important reason we have formulated *per se* rules”).

¹² The rule of reason requires a detailed series of steps. First, the plaintiff has the initial burden of showing that the behavior restrains competition in a specific market. Second, if the plaintiff meets this initial burden, the burden shifts to the defendant to show that its behavior serves legitimate objectives. Third, if the defendant meets that burden, the plaintiff may show that the defendant could meet its objective using less restrictive alternatives. And finally, the court must weigh the harms and benefits of the restraints with the plaintiff bearing the burden to show that the restraint is unreasonable on balance. *See* Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law*, ¶ 1502, at 345-46, 371-72 (2d ed. 2000).

1419, 1426-27 (Fed. Cir. 1997). At other times, however, the circuit uses the term “rule of reason” to refer only to the portion of the test that considers whether the anticompetitive effects are outweighed by pro-competitive benefits. *Va. Panel Corp.*, 133 F.3d at 868-69. In short, as the Federal Circuit has moved to apply antitrust law to patent misuse cases, it has created a confused and tortured set of doctrines.

Endorsing the Federal Circuit’s move to make patent misuse equivalent to antitrust creates dangers for other doctrinal areas. The first problem relates to antitrust’s rule of reason itself. The doctrinal confusion described above could well bleed over into antitrust law, with courts and litigants citing Federal Circuit patent misuse cases for a description of what the rule of reason is or what an inquiry into anticompetitive effects should look like. If that happens, rather than helping to delineate the boundary between patent and antitrust law, patent misuse could succeed in wreaking havoc in both areas.

The second problem relates to undermining this Court’s recent case law regarding the doctrine of exhaustion. In its 2008 decision in *Quanta*, 553 U.S. 617, this Court re-invigorated the doctrine of exhaustion, which had languished under Federal Circuit jurisprudence. Under the doctrine of exhaustion, once

a product embodying the patented invention is released into the stream of commerce, the patent holder may not control the item further.¹³ In light of this doctrine, a license reaching beyond the point of the patent's exhaustion would, therefore, constitute an impermissible attempt to expand the time or scope of the patent – in other words, it would constitute patent misuse.¹⁴ As a result, the patent holder could not bring an infringement claim against the licensee because the attempted expansion would constitute patent misuse.¹⁵

If patent misuse is tested under the antitrust rule of reason, however, exhaustion becomes irrelevant for most patents. The rule of reason requires a

¹³ See Robin Feldman, *Rethinking Patent Law* 141-44 (Harvard 2012) (describing *Quanta*, the doctrine of exhaustion, and its interaction with patent misuse) (*hereinafter* Feldman, *Rethinking Patent Law*). The doctrine of exhaustion has roots both in the law related to chattels and its preference for the free alienability of property, and in modern economic theory. See *id.* at 144-48.

¹⁴ See *id.*

¹⁵ The *Quanta* case did not involve any breach of contract claims, and thus, this Court declined to consider patent misuse in the context of breach of contract damage claims. See *Quanta*, 553 U.S. at 638 n.7 (noting that, “[The patent holder] does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.”). To the extent that the issue arises in this case, as noted above, *Amici* respectfully urge this Court not to allow patent holders to obtain by contract what they are denied by patent law. See Part III., *infra*.

finding of market power, and most patents are unlikely to generate market power at any point in their 20-year term.¹⁶ Thus, this Court's recently reinvigorated doctrine of exhaustion would become a defunct doctrine for most patents.

II. PATENT LAW IS NOT ANTITRUST; ANTITRUST LAW FOCUSES ON COMPANIES WITH MARKET POWER; PATENT LAWS GENERALLY APPLY TO ALL PATENT HOLDERS – REGARDLESS OF WHETHER THEY HAVE MARKET POWER

The Patent Act and the antitrust statutes exist for different, articulated reasons. A clear separation of the two areas of law is critical to reduce confusion in both patent and antitrust cases.

Specifically, antitrust law focuses its wrath on companies that try to gain or maintain monopoly power by inappropriately suppressing competition and thereby creating anticompetitive effects in the market. *See, e.g., Standard Oil Co. v. United States*, 221 U.S. 1 (1911); *United States v. Am. Tobacco Co.*,

¹⁶ Given that the vast majority of patent holders earn no return on their patents at all, it is unlikely that they hold market power in a properly defined market. *See* Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. Pa. L. Rev. 1, 5 & n.3, 14-15 (2005) (finding that most patent holders earn no returns); *see* Part II., *infra* (explaining the rule of reason and its requirement of a finding of market power).

221 U.S. 106 (1911).¹⁷ To create the harm that antitrust law examines, a firm ordinarily must have market power. Without market power, a firm cannot raise prices or limit supplies, and thereby create the type of anticompetitive effects that antitrust law recognizes. Thus, where no market power exists, antitrust is generally unconcerned by firm behavior. This is particularly true for the rule of reason, which always requires a finding of market power.¹⁸

In contrast, the goal of patent law is to promote the progress of the useful arts for the overall benefit of society. U.S. Const. art. I, §8, cl. 8 (giving Congress the power to grant patents for limited times to “promote the Progress of . . . useful Arts”). From a historic perspective, a patent can be analogized to a government franchise – something granted for a limited time in pursuit of a particular goal.¹⁹ The limits chosen on the time and scope of a patent represent the balance Congress has created between the promotion of

¹⁷ For a more in depth analysis of the differences between antitrust and patent laws, see Robin Feldman, *Patent and Anti-trust: Differing Shades of Meaning*, 13 Va. J.L. & Tech. 1, 4-5 (2008) (*hereinafter* Feldman, *Differing Shades*).

¹⁸ See Feldman, *Differing Shades* at 3-4.

¹⁹ See *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, No. 13-854, slip op. at 6, n.2 (S. Ct. Jan. 20, 2015) (Thomas, J., dissenting) (*citing* Caleb Nelson, *Adjudication in the Political Branches*, 107 Colum. L.R. 559, 567 (2007)) (for the historic perspective that under English common law, patents fall within the category of franchises the government has created for reasons of public policy, rather than core private rights like property, and that the Framers adopted a similar scheme).

invention in the grant of the patent and the potential harms to invention that flow from the existence of that patent. Such potential harms are not limited to the type of effects that raise concerns under antitrust law. Other potential harms that arise from the existence of patents include the burden on downstream innovation when there is an over-proliferation of patents governing every step of development and the wasteful research required to invent around existing patents. To these potential harms, one can add the societal costs of defending against assertions of patents that may be invalid or may have been asserted against an inappropriate target. Such costs are of notable concern today with the emergence of modern patent trolling.

Of particular relevance for this case, the harms that arise from the existence of patents include the disincentives to innovation that result from allocating potential rewards to early-stage inventors over late-stage inventors. The process of invention is often evolutionary with one invention building on those that have gone before. The structure of the patent system balances the reward that may be gained by early stage inventors by ensuring that incentives will be available to those who come later.

In the patent system, every potential inventor is important because any one may be the inventor who takes the next step forward. A contract provision that limits the capacity and incentive for even one potential innovator to make scientific leaps after the

expiration of the patent disrupts the balances created by Congress in the Patent Act.

Antitrust rules, however, are not designed to reach all parties in the market but focus primarily on parties who have market power. As this Court has explained, a patent is no guarantee of market power. *Ill. Tool Works*, 547 U.S. at 45-46; *see also* Robin Feldman, *Rethinking Patent Law* (arguing that a patent provides no more than an opportunity to bargain). No one may be interested in the patented invention or there may be sufficient substitutes so that the patent holder does not have power in a properly defined market. For example, the holder of a patent on acetaminophen would still have to compete with those who produce other pain-relieving compounds, such as aspirin, ibuprofen, and naproxen. Thus, even when patents generate a high level of revenue, that revenue may not translate into market power. Most important, the vast majority of patent holders earn nothing at all from their patents, an indication of how few patent holders could ever be said to possess market power.²⁰

Despite the lack of market power for most patents, patent rules apply to all. The patent rules do not say, for example, that we grant a patent for twenty years, but the 20-year limit only applies to patent holders who have market power. Rather, the boundaries

²⁰ *See* Parchomovsky & Wagner, 154 U. Pa. L. Rev. at 5 & n.3.

of the patent grant, as delineated in the Patent Act, apply with equal force to all patent holders.

Quite simply, a patent is not a guarantee that a patent holder will earn anything. It is a time-limited opportunity to try to capture a return on an invention. The market's inability to recognize or calculate the value of an invention is one of the hazards built into the 20-year patent term. One cannot go to the patent office at the end of the patent term and ask for a few more years on the grounds that the market is not ready yet to determine its true value. That is a decision for Congress to make, if it sees fit.

Nor can a patent holder secure extra time up front by anticipating that its industry may need more time and building such time into each license provision. If the 20-year term is ill-suited for any particular industry, including the life sciences, those arguments are appropriately directed to Congress. Thus, when the briefs of parties and others in this case argue for allowing contracting parties to balance and allocate the risk of developing and commercializing a product,²¹ they are asking this Court to redistribute the balances that Congress has chosen. *Amici* respectfully suggest that those requests are misdirected.

²¹ See Pet'r's Br. on Merits 29-36; Br. on Pet. of Memorial Sloan-Kettering Cancer Center et al. as *Amici Curiae* 5-9; Br. on Pet. of the Center for Intellectual Property Research of the Indiana University Maurer School of Law et al. 3-6.

In short, a patent is no more than the grant of an opportunity.²² There is no guarantee that the market will recognize the value of an invention or that the inventor will be able to capture that value during the patent term. The true genius of an invention and its many applications may not be known until long after the patent has expired. These and other limitations are essential elements of the patent grant and part of a built-in balance, with the goal of ultimately benefiting society. Antitrust law, with its ear tuned to market power and different types of harms, is ill-suited to handle the questions that arise for patent law and patent misuse.

III. SIMILAR TO THIS COURT'S REFUSAL TO APPLY ANTITRUST PRINCIPLES IN *OCTANE*, THIS COURT SHOULD RECTIFY LOWER COURTS' THINKING BY UPHOLDING *BRULOTTE* WHILE REMOVING THE TAIN OF ANTITRUST-LIKE *PER SE* LANGUAGE IN *BRULOTTE* AND REAFFIRMING A PREFERENCE FOR A FLEXIBLE TEST APPLYING PATENT PRINCIPLES

The asymmetries between patent and antitrust law make it difficult to simply borrow a test or principle from one area and apply it to the other. This Court encountered a similar issue last term when it rebuffed an effort to import antitrust tests into patent

²² Feldman, *Differing Shades* at 11; Feldman, *Rethinking Patent Law* at 23-25.

law in a different context. Specifically, in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 132 S. Ct. 1749 (2014), this Court rejected the Federal Circuit’s decision to import a test from antitrust’s sham litigation rules into the doctrines for applying the Patent Act’s fee-shifting provision. In rejecting the Federal Circuit’s approach, this Court held that the relevant antitrust test “finds no roots” in the Patent Act’s language. *Id.* at 1757.

This case creates a circumstance, similar to that in *Octane*, in which this Court is being asked to endorse the importation of a test from antitrust principles into patent law doctrines. *Amici* note that this Court did not use any antitrust principles to arrive at its holding in *Brulotte*. There was, however, an unfortunate use of a term borrowed from the body of antitrust laws that has caused much of the resulting confusion in this area of patent licensing: “[W]e conclude that a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*.” *Brulotte*, 379 U.S. at 32 (emphasis added). Commentators have argued that the *per se* language in the *Brulotte* decision means that all payments past the expiration of a patent are impermissible. The extensive criticism of *Brulotte* flows from that interpretation and from the concerns that modern economic theory would suggest for such a rigid rule.²³

²³ See, e.g., 10 Phillip Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles* (Continued on following page)

This Court, however, has already signaled a path away from such a rigid conclusion. As early as *Brulotte* itself, this Court indicated its willingness to consider upholding a license if the payments that extended beyond expiration of the patent were analogous to extended payments for use prior to the patent's end. *Brulotte*, 379 U.S. at 33-34; *see also Zenith Radio Corp.*, 395 U.S. 100 (rejecting the license but framing the inquiry in terms of whether the agreement was a reasonable business convenience for the parties). Similarly, in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), this Court upheld a patent license agreement – despite the failure of the patent to issue – on the grounds that the agreement contained a two-tiered scheme with different royalty payments depending on whether the patent issued. Such a provision reflects an appropriate recognition of the patent holder's diminished control of the invention without an active patent in place. Thus, *Brulotte* creates a much less rigid rule than some interpretations have suggested. Much of the confusion in *Brulotte's* application can be alleviated by removing the taint of the “*per se*” language.

As this line of decisions has demonstrated, there may be sound reasons why a provision extending royalties beyond the expiration of a patent might be

and Their Application §1782(c) (2004); Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers on Econ. Activity, Microeconomics 283, 322 (1997).

perfectly acceptable under patent law principles. Patent holders should have the opportunity to show that such a provision is acceptable. For example, a patent holder arguing that a particular license with payments beyond the expiration of a patent serves the same purpose as a long-term payment plan could support that argument with a showing that the licensee was a startup or other small business, for whom cash flow was a challenge.

To continue along this line, courts need not engage in an amorphous balancing inquiry. Rather, once freed to consider the issue, the lower courts can identify circumstances in which extended royalty provisions are acceptable under patent principles, particularly provisions that in some measure reflect the diminished control a patent holder enjoys when a patent expires. These categories, of course, must fit together with supportable logic – rather than representing ad hoc justification to reach the desired result. *See* Robin Feldman, *A Conversation on Judicial Decision-Making*, 5 *Hastings Sci. & Tech. L.J.* 1 (2013) (arguing that the Federal Circuit has too often relied on rules of convenience, rather than developing rules of general applicability and noting that it is not a matter of rules verses standards, but a problem of being faithful to the principle for which the rule is a proxy). Nevertheless, signaling the continuation of a path this Court has already begun would free the lower courts to develop the case law that would provide the type of guidance sorely needed for businesses that must draft licensing provisions.

To the extent parties suggest that subsuming patent misuse under antitrust is necessary to avoid errant economic implications in early patent misuse cases, *Amici* note that economic theory has advanced considerably since the early cases related to both patent misuse and antitrust. Without the benefit of modern economic analysis, early cases in both domains assumed that a patent conferred market power. These cases also displayed a less robust understanding of the market conditions necessary for tying arrangements to create economic harm and of the need to analyze the full implications of what might appear to be an improper tying arrangement. Congress's 1988 amendments, however, and this Court's own decisions, have moved away from any such implications. Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, §201, 102 Stat. 4674, 4676 (1988) (tying does not constitute patent misuse without market power); *Ill. Tool Works*, 547 U.S. at 45-46 (ruling in an antitrust case that patents do not automatically confer market power). Raising concerns at this point would be a distraction from the issues at hand.

IV. CONTRACTS SHOULD NOT PROVIDE AN END RUN AROUND PATENT LAW

This Court has had experience with the problems that can arise when the law related to patent agreements is used as end run around the limits imposed in other doctrinal arenas. In particular, during the development of antitrust law in the late nineteenth and early twentieth centuries,

this Court tried separating contract and patent law into different baskets.²⁴ With breach of contract claims, courts would consider antitrust defenses, but with patent claims, courts would not.

In the wake of these early cases, patent holders used the notion of separating patent and contract law to game the antitrust system. Feldman, *Rethinking Patent Law* at 138 (noting that in testimony before Congress, one German manufacturer commented that he could simply avoid U.S. antitrust laws through patent licensing). In light of such strategic behavior, this Court rejoined patent and contract law, which ensured that patents could not be used to create an end run around antitrust law. In particular, in *Mercoïd*, 320 U.S. at 667, this Court explained that without such an approach, “[p]rivate business would function as its own patent office and impose its own law upon its licensees.”

The issues in the present case raise similar concerns. Just as this Court refused to allow licensing contracts to be an end run around the antitrust system, neither should this Court allow licensing contracts to be an end run around the patent system. If patent holders can contract around patent law, any constraints imposed by the Patent Act can be easily

²⁴ For a detailed description of this history and a discussion of the problems of allowing patents, contracts, and antitrust to create end runs around each other, see Robin Feldman, *Rethinking Patent Law* at 136-78.

circumvented. Patent holders could simply file breach of contract claims and be free of any Patent Act restraints. In short, this Court should ensure that modern case law does not, once again, separate out contracts from patent law, such that contracts become an end run around the patent system.



CONCLUSION

Since the development of the doctrine of patent misuse, this Court has consistently held that such cases should be decided according to patent principles and not antitrust. This approach reflects the distinctly different goals and structures of the two areas of legislation. Of particular importance, antitrust focuses on the anticompetitive effects that can be caused by parties who have market power. The limitations of the Patent Act, however, apply to all patent holders, not just those with market power.

Moreover, a key restriction of the 20-year patent term lies with the limited opportunity patent holders have to try to capture a return on their invention. The market's inability to recognize or calculate the value of an invention is one of the hazards built into such a limited term. Thus, a contract provision that hampers the capacity and incentive for even one potential innovator to make scientific leaps after the expiration of the patent disrupts the balances created by Congress in the Patent Act. When parties request such terms, they are asking this Court to redistribute

the balances that Congress has chosen, a petition that is best directed to Congress.

This does not mean that all payments beyond expiration of the patent are improper. There may be sound reasons why a provision extending royalties beyond the expiration of a patent might be perfectly acceptable under patent law principles, and this Court has already signaled a path away from any rigid rejection of all such provisions.

In searching for the appropriate test for identifying circumstances in which such a provision would be proper under patent law principles, antitrust's rule of reason would be a poor fit. Of greatest concern, by asking this Court to choose between antitrust's rule of reason and its *per se* test, the parties are asking the Court to continue a path initiated by the Federal Circuit almost 30 years ago, when the circuit began trying to apply antitrust to patent misuse doctrine. The circuit's approach is in contravention of precedent from Congress and this Court, and it has created great confusion in the doctrine of patent misuse. Endorsing the circuit's approach risks creating additional confusion – for both patent misuse and antitrust – as well as undermining this Court's recent exhaustion jurisprudence.

Amici respectfully ask this Court to clarify that patent law is not antitrust law, and to continue to move the lower courts away from the *per se* language in *Brulotte*. Both of these actions would free the lower courts to develop case law to provide the type

of guidance businesses need, framed according to proper patent principles.

Respectfully submitted,

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