No. 13-720

In the Supreme Court of the United States

STEPHEN KIMBLE, ET AL., PETITIONERS

v.

MARVEL ENTERPRISES, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTION PRESENTED

Whether this Court should overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), which held that a license agreement requiring royalty payments for use of a patented invention after the expiration of the patent term is unlawful *per se*.

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This brief is submitted in response to the Court's order inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be denied.

STATEMENT

1. a. The Constitution authorizes Congress to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Art. I, § 8, Cl. 8. The Patent Clause "reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989); see, *e.g.*, *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

Congress has accordingly established a patent system that grants a patentee certain exclusive rights in his invention for a limited term. "[W]hen the patent expires[,] the monopoly created by it expires, too, and the right to make the article * * * passes to the public." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964); see 35 U.S.C. 271(a) (providing that the unauthorized use of a patented invention constitutes patent infringement only "during the term of the patent therefor"). For more than a century before 1995, a patent remained in force for 17 years, measured from the date the patent was issued. 35 U.S.C. 154 (1988). Since 1995, the Patent Act has provided that a utility patent is effective "for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States" or (if the application claimed priority from an earlier, related application) 20 years "from the date on which the earliest such application was filed." 35 U.S.C. 154(a)(2). In some circumstances, the term may be extended to offset delays in the application process. 35 U.S.C. 154(b), 156.

b. In *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), this Court considered the effect of a royalty agreement that required payments for the "use" of a patented invention both before and after the patent term had expired. *Id.* at 29-30. The patent holder had sold a hop-picking machine and issued licenses for its use, but the licensees refused to make the royalty payments called for by the licenses. *Id.* at 30. When the patent holder filed suit to enforce the licenses, the licensees contended that the "extension of the license agreements beyond the expiration date of the patents" constituted patent misuse. *Ibid.*

This Court held that patent royalties could not be collected to the extent that those royalties "accrued after the last of the patents incorporated into the machines had expired." *Brulotte*, 379 U.S. at 30. The Court explained that Congress had authorized patents to be granted for a limited term of 17 years, "[b]ut these rights become public property once the 17-year period expires." *Id.* at 31. In the Court's view, any attempt to continue the patent monopoly beyond the expiration date, including through the collection of royalties for using the patented invention after that date, would "run[] counter to the policy and purpose of the patent laws" by conflicting with "the free market visualized for the post-expiration period." *Id.* at 31, 32 (citation omitted). The Court also stated that using the exclusive rights afforded by a patent as leverage to project royalty payments beyond the patent term "is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones." *Id.* at 33. The Court stated that agreements providing for post-expiration royalties are "unlawful *per se*." *Id.* at 32.

The lower court in *Brulotte* had viewed the licenses there as merely providing for deferred payment of royalties for pre-expiration use of the patented invention. 379 U.S. at 31. This Court described the "intrinsic evidence" in that case as indicating "that the agreements were not designed with that limited view." *Ibid.* Fifteen years later, however, the Court distinguished *Brulotte* when it considered an agreement that established one royalty rate (5%) if a patent issued within five years and a lower rate (2½%) if a patent did not issue. See *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 264-265 (1979). No patent was issued, and the

Court held that the lower royalty rate could be enforced because it did not reflect any attempt to obtain improper leverage from the patent monopoly. *Id.* at 265.

2. In May 1990, petitioner Stephen Kimble applied for a patent for his invention of a glove that allows its wearer to shoot pressurized foam string from the palm, mimicking a gesture of the comic-book hero Spider-Man. U.S. Patent No. 5,072,856; Pet. App. 3-4.[1] Later that year, Kimble discussed his then-pending patent application and other "ideas and know-how" with the president of respondent's corporate predecessor. *Id.* at 4. After the meeting, the company began manufacturing a similar toy called the "Web Blaster." *Ibid.*

In 1997, Kimble sued for patent infringement and for breach of contract on the basis of an alleged oral agreement to compensate him for any use by the company of his ideas. Pet. App. 5. The district court granted summary judgment to respondent on the patent-infringement claim, but a jury later found that respondent had breached a contractual promise to petitioner. *Ibid.* Both parties appealed. *Ibid.*

While the appeals were pending, the parties settled. Pet. App. 5. As part of the settlement, respondent agreed to purchase the patent in exchange for a lump-sum payment and a running royalty on respondent's future sales of the disputed product. *Id.* at 5-6. In relevant part, the settlement agreement provided that "[t]he purchase price for the Patent shall be payable to the Patent Holders as follows:"

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[1] Robert Michael Grabb later acquired an interest in the patent (Pet. App. 3) and is also a petitioner in this Court.

a. $516,214.62 upon execution and delivery of this Agreement; and

b. 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

Id. at 6.

The patent expired on May 25, 2010. Pet. App. 4. The settlement agreement "has no expiration date," *id.* at 6, however, and the parties appear to construe that contract to require respondent to continue paying royalties for sales that occurred after the patent expired. The parties have represented that they were unaware of *Brulotte* when they negotiated the agreement. *Id.* at 7 n.3.

3. A dispute under the settlement agreement eventually arose, and petitioners filed a new suit alleging breach of contract. Pet. App. 7-8. Respondent successfully removed the suit to federal district court and filed a counterclaim seeking a declaratory judgment that it was not obligated to pay royalties for sales made after the patent's expiration. *Id.* at 8. In a report and recommendation, the magistrate judge agreed with respondent that, in light of *Brulotte,* petitioners are precluded from recovering royalties for post-expiration sales. *Id.* at 53-60.

The district court adopted the magistrate judge's report and recommendation. Pet. App. 41. The court held that *Brulotte* made the royalty provision "unenforceable after the [patent's] expiration." *Id.* at 37. In so holding, the court rejected petitioners' contention that the settlement agreement had created enforceable non-patent rights, explaining that the agreement had not drawn any distinction between the royalties for patent and non-patent rights. *Id.* at 34-37.

4. The court of appeals affirmed. Pet. App. 1-26. The court discussed this Court's decisions in *Brulotte* and *Aronson*. *Id.* at 10-18. It concluded that, taken together, those decisions establish that "a license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate." *Id.* at 18. Applying that principle, the court of appeals concluded that the settlement agreement here did not adequately distinguish between patent and non-patent rights. *Id.* at 18-23. Instead, "there was only one rate for all rights, and it was the same for both patent and Web Blaster rights." *Id.* at 21. The court noted that the parties could have structured their agreement to separate the patent and non-patent royalty streams (even if they had not provided for different rates), but that they had not done so. *Id.* at 20, 21 & n.5.

The court of appeals acknowledged that applying *Brulotte* to render part of the agreement unenforceable "arguably deprives Kimble of part of the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement." Pet. App. 23-24. The court also stated that the Seventh Circuit's criticism of *Brulotte* in *Scheiber* v. *Dolby Laboratories, Inc.*, 293 F.3d 1014, 1017 (2002), cert. denied, 537 U.S. 1109 (2003), was "particularly apt in this case," because any "patent leverage * * * was vastly overshadowed by what were likely non-patent rights, and Kimble may have been able to obtain a higher royalty rate had the parties understood that the royalty payments would stop when the patent expired." Pet. App. 25. The court nevertheless concluded that it was "bound to follow *Brulotte* and [could not] deny that it applies here." *Id.* at 25-26.

DISCUSSION

Fifty years ago, this Court construed the Patent Act to prohibit a patent holder from contracting to extend its right to compensation for use of a patented invention beyond the limited patent term established by Congress. See *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964). Petitioners do not ask this Court to resolve any disagreements about *Brulotte*'s scope or application, but instead urge (Pet. i, 2, 12) the Court to grant certiorari for the sole purpose of overruling *Brulotte*. The Court does not lightly reverse settled interpretations of federal statutes, however, particularly where, as here, Congress has amended related aspects of a statutory scheme without disturbing this Court's longstanding construction. Petitioners' criticisms of *Brulotte* do not provide the "special justification" that this Court requires to overrule its own precedent. *Halliburton Co.* v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407 (2014).

Petitioners' primary argument (Pet. 2-3, 12-35; Cert. Reply Br. 1) is that *Brulotte* reflects an obsolete understanding of antitrust principles related to monopoly power and therefore cannot be justified on economic grounds. But *Brulotte* is not, as petitioners suggest (Pet. 2), rooted solely or even primarily in principles of "competition law." Rather, it reflects the Court's interpretation of the Patent Act and the policies of the federal patent laws, which the Court has long construed to promote the public's unfettered access to patented inventions after the expiration of the patent term. In any event, petitioners have not identified any serious practical harm that warrants overturning *Brulotte*, and this case would not provide a suitable vehicle for taking that extraordinary step. The petition for a writ of certiorari should be denied.

A. Principles Of *Stare Decisis* Apply With Special Force To Statutory-Interpretation Decisions Such As *Brulotte*

1. "[T]his Court does not overturn its precedents lightly," because *stare decisis* "promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process." *Michigan* v. *Bay Mills Indian Community*, 134 S. Ct. 2024, 2036 (2014) (citation omitted). "The Court has said often and with great emphasis that the doctrine of *stare decisis* is of fundamental importance to the rule of law." *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 172 (1989) (citation and internal quotation marks omitted).

The Court has repeatedly explained, moreover, that principles of *stare decisis* apply with "special force in the area of statutory interpretation," because such decisions implicate "the legislative power" and "Congress remains free to alter what [the Court has] done." *Patterson*, 491 U.S. at 172-173; accord, *e.g.*, *Halliburton*, 134 S. Ct. at 2411; *Bay Mills Indian Community*, 134 S. Ct. at 2036; *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2068 (2011); *John R. Sand & Gravel Co.* v. *United States*, 552 U.S. 130, 139 (2008). When the Court construes a federal statute, its interpretation effectively becomes a part of the statutory scheme. Subsequent efforts to alter or repeal that interpretation therefore should generally be directed to Congress, not to the Court.

2. *Brulotte* reflects the Court's interpretation of the patent laws—specifically, of the legal effect of the expiration of the patent term established by the Patent Act. After observing that the Constitution grants Congress the power to "secure 'for limited times' to inventors 'the exclusive right' to their discoveries," the *Brulotte* Court explained that "Congress exercised that power by 35 U.S.C. § 154," which at that time provided for a patent term of 17 years. 379 U.S. at 30. The Court noted that the patentee may convey to others his exclusive rights in the patented invention, but it emphasized that those rights "become public property once the 17-year period expires." *Id.* at 31. The Court therefore concluded that "'whatever the legal device employed' a projection of the patent monopoly after the patent expires is not enforceable." *Id.* at 32 (quoting *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)).

Petitioners contend (Pet. 36; Cert. Reply Br. 9-10) that principles of *stare decisis* apply with reduced force here because *Brulotte* is not rooted in any specific statutory text. That fact does not vitiate the applicability of usual principles of statutory *stare decisis*. In *Halliburton*, for instance, the Court applied *stare decisis* to a presumption that it described as "a substantive doctrine of federal securities-fraud law," even though that presumption was "a judicially created doctrine designed to implement a judicially created cause of action." 134 S. Ct. at 2411 (citation omitted); see *CBOCS West, Inc.* v. *Humphries*, 553 U.S. 442, 452, 457

(2008) (applying *stare decisis* in concluding that a civil-rights statute included retaliation claims, even though the statutory text did not refer to those claims and the underlying construction derived from "an older case, where the Court placed less weight upon the textual language itself" than do more recent decisions).[2]

3. *Stare decisis* principles carry particular force here because *Brulotte* has survived repeated amendments to related provisions of the Patent Act over the last five decades.

Section 154 itself has been amended several times since *Brulotte* was decided—most significantly in 1994, when Congress changed the basic length of a patent term. See Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a), 108 Stat. 4983-4985; see also p. 2, *supra* (describing that change). More generally, Congress recently engaged in a widescale reexamination and revision of the patent laws, culminating in the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). Yet Congress has not displaced the Court's judgment in *Brulotte* that the patent laws reflect an affirmative policy of terminating a patentee's right to collect royalties for use of an invention after the expiration of the patent term. Such "long congressional acquiescence * * * enhance[s] even the usual precedential force" accorded to the Court's "interpretations of statutes." *Watson* v. *United States*, 552 U.S.

[2] As respondent notes (Br. in Opp. 22 n.6), antitrust decisions invoked by petitioners for the Court's willingness to overturn its established rules are distinguishable because "the Court has treated the Sherman Act as a common-law statute." *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 899 (2007); see *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997).

74, 82-83 (2007) (citation and internal quotation marks omitted).

Congress has specifically considered, but ultimately failed to enact, proposals that would have altered the *Brulotte* rule. In November 1988, Congress reformed the defense of patent misuse. See Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676 (adding 35 U.S.C. 271(d)(4) and (5)). Although petitioners portray (Pet. 32) that amendment as implicitly casting doubt on *Brulotte*'s soundness, other bills pending at the same time would have directly altered or overruled *Brulotte*'s holding. One bill that passed the Senate in October 1988 would effectively have adopted the rule that petitioners now urge by limiting patent misuse to "practices or actions or inactions" that "violate the antitrust laws." S. 438, 100th Cong., 2d Sess. § 201(3). Earlier that year, a House committee considered another bill that would have defined patent misuse in relevant part as "*unreasonably* entering into a royalty agreement that provides for payments *beyond the expiration of the term of a patent*, except when the parties have mutually agreed to such payments after the issuance of the patent." *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary*, 100th Cong., 2d Sess. 3-4 (May 11, 1988) (emphases added). Congress ultimately declined, however, to enact either of those proposals.

B. Petitioners Have Not Identified A Special Justification For Overruling *Brulotte*

"Before overturning a long-settled precedent," the Court "require[s] 'special justification,' not just an argument that the precedent was wrongly decided."

Halliburton, 134 S. Ct. at 2407 (quoting *Dickerson* v. *United States*, 530 U.S. 428, 443 (2000)). Petitioners primarily argue (Pet. 2-3, 12-35; Cert. Reply Br. 1) that *Brulotte* reflects a judge-made antitrust rule that is based on outdated economic analysis.[3] Their criticisms of the *Brulotte* rule have substantial force in the context of antitrust law. But *Brulotte* is not based solely, or even principally, on antitrust concerns. Indeed, petitioners identify no decision that has imposed antitrust *liability* on parties who enter into agreements of the sort at issue in *Brulotte*. Rather, *Brulotte* ultimately reflects the Court's interpretation of the Patent Act and the policies of the federal patent laws, which the Court has repeatedly viewed as precluding enforcement of legal or contractual provisions that would impair the public's access to formerly patented inventions after the relevant patents expire. Petitioners have not identified any special justification for repudiating *Brulotte* as an expression of that deep-rooted patent-law principle.

1. Petitioners—along with many of the commentators and lower-court decisions that they cite—have treated *Brulotte* as an antitrust rule animated solely by competition-law concerns. It is true that aspects of *Brulotte*'s reasoning reflect the type of economic analysis commonly used in antitrust cases. Compare *Brulotte*, 379 U.S. at 33 (analogizing license agreements extending beyond the patent term to "an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones"), with *Illinois Tool Works Inc.* v.

[3] See also Center for Intellectual Prop. Research Amicus Br. 6-15; Intellectual Prop. Law Ass'n of Chi. Amicus Br. 3-4; Memorial Sloan-Kettering Cancer Ctr. Amicus Br. 3-4.

Independent Ink, Inc., 547 U.S. 28, 31 (2006) (noting that the "presumption of market power, applicable in the antitrust context when a seller conditions its sale of a patented product (the 'tying' product) on the purchase of a second product (the 'tied' product), has its foundation in the judicially created patent misuse doctrine"). In addition, *Brulotte*'s statement that license agreements extending beyond the term of the patent are "unlawful *per se*" (379 U.S. at 32) evokes the language of antitrust law. See, *e.g.*, *Illinois Tool Works*, 547 U.S. at 40. Petitioners accordingly contend (Pet. 30) that *Brulotte* established an "irrebuttabl[e] presum[ption] that merely having a patent conferred market power and inherently allowed the licensor to exercise improper leverage over the licensee."

As petitioners explain (Pet. 30-34), such a presumption would have no place in modern antitrust law. When *Brulotte* was decided, a patent was presumed to give the patent holder market power. See, *e.g.*, *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 16 (1984) ("[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power."). But Congress subsequently eliminated that presumption in the context of patent misuse achieved through tying arrangements, 35 U.S.C. 271(d)(5), and for antitrust purposes the Court no longer presumes that patents create market power, see *Illinois Tool Works*, 547 U.S. at 45-46. More generally, antitrust law has in many respects shifted away from *per se* rules toward the rule of reason. See, *e.g.*, *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 886-887 (2007); *State Oil Co.* v. *Khan*, 522 U.S. 3, 17, 22 (1997); *Continental T.V.,* *Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 57-59 (1977). As a result, federal agencies enforcing the antitrust laws generally analyze "restraints in intellectual property licensing arrangements" under "the rule of reason." U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 3.4, at 16 (Apr. 6, 1995), www.justice.gov/atr/public/guidelines/0558.pdf.

In fact, licensing arrangements that extend patent royalties beyond a patent term may sometimes be economically efficient. Such agreements "may permit licensees to pay lower royalty rates over a longer period of time, which reduces the deadweight loss associated with a patent monopoly and allows the patent holder to recover the full value of the patent, thereby preserving innovation incentives." U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 12 (Apr. 2007) (DOJ/FTC Report), www.justice.gov/atr/public/hearings/ip/222655.pdf. Such arrangements may also allow parties to overcome "incomplete contracting," which "occurs when imperfect contracting conditions prevent a licensor from negotiating a satisfactory royalty rate that reflects the patent's true value." *Id.* at 118-119. The Ninth and Seventh Circuits have criticized *Brulotte*'s purported economic justification on similar grounds. See Pet. App. 23-25 & n.7; *Zila, Inc.* v. *Tinnell*, 502 F.3d 1014, 1019-1020 (9th Cir. 2007); *Scheiber* v. *Dolby Labs., Inc.*, 293 F.3d 1014, 1017-1018 (7th Cir. 2002), cert. denied, 537 U.S. 1109 (2003); see also Pet. 19-21 & n.9 (noting similar criticisms from academics).[4]

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[4] Apparently relying on the DOJ/FTC Report, petitioners assert that the Justice Department and the FTC "have called on this

2. Petitioners apparently believe that the *Brulotte* rule's unsuitability for use as a principle of antitrust law is a sufficient basis to overrule the decision. The *Brulotte* rule was never intended, however, and it has not been understood, to establish a rule of antitrust law. Petitioners cite no case in which the formation of an agreement like the one at issue in *Brulotte* has been treated as a *violation* of the antitrust laws. Rather, in this case as in *Brulotte* itself, the consequence of the rule is simply that an agreement to pay royalties for post-expiration use of a patented invention cannot be enforced in court. The rule is thus one of contract enforceability, not of antitrust liability.

Although some aspects of *Brulotte*'s analysis reflect antitrust-type reasoning, the Court ultimately framed its decision as an interpretation of the Patent Act and "the policy and purpose of the patent laws." 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256). The Court explained that the patent laws contemplate that the invention disclosed in the patent will "become public property once the 17-year period [prescribed in 35 U.S.C. 154] expires." 379 U.S. at 31. In light of that "policy and purpose," the Court concluded that contracts for the payment of royalties after a patent ex-

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Court to reconsider" *Brulotte*. Pet. 2; see Pet. 16. That is incorrect. The DOJ/FTC Report explains that, in conducting *antitrust* review of agreements like the one at issue in *Brulotte*, those agencies would generally apply the rule of reason rather than a *per se* rule. See DOJ/FTC Report 122. The Report also states that some agreements rendered unenforceable by *Brulotte* would likely have procompetitive effects. See *id.* at 12, 122. The Report expresses no view, however, about the soundness of the *Brulotte* rule as a matter of patent law, nor does it recommend that *Brulotte* be reconsidered or overruled by this Court.

pires are void because they invade "the free market visualized for the post-expiration period." *Id.* at 32-33.

Brulotte thus does not rest solely, or even predominantly, on assumptions about market power. Rather, it reflects an affirmative vision of the scope and purposes of the patent laws and of the legal effect of a patent term's expiration. Indeed, the *Brulotte* Court explicitly invoked a line of precedents that have stressed the importance of the public's right to practice an invention without limit once a patent expires. For example, the Court cited *Singer Manufacturing Co.* v. *June Manufacturing Co.*, 163 U.S. 169 (1896), which held that a state unfair-competition law was preempted by the patent laws. See *Brulotte*, 379 U.S. at 31. In *Singer*, the Court declared it "self evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property. It is upon this condition that the patent is granted." 163 U.S. at 185.

Similarly, the *Brulotte* Court relied on *Scott Paper* for the proposition that "any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws." 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256). In *Scott Paper*, the Court held that the assignor of a patent was not estopped from defending a later infringement suit under the same patent on the ground that his product was a copy of an earlier, expired patent. 326 U.S. at 257-258. The Court emphasized that the patent system reflects a bargain ultimately designed for the public's benefit: "By the patent laws Congress has given to the inventor opportunity to secure the material rewards for his invention for a limited time, on condition * * * that upon the expiration of the patent the public be left free to use the invention." *Id.* at 255. Of particular importance here, the Court explained that the anticipated public benefit when a patent expires is not merely the right "to manufacture the product or employ the process disclosed by the expired patent," but also the ability of the "consuming public at large" to "receive the benefits of the unrestricted exploitation, by others, of [the patent's] disclosures." *Ibid.* Accordingly, a manufacturer will not be permitted to "restrict himself, by express contract * * * from using the invention of an expired patent," because that "would deprive him[] and the consuming public of the advantage to be derived from his free use of the disclosures." *Id.* at 255-256.

When considered as an expression of patent policy, *Brulotte* fits comfortably within a line of precedents establishing that the federal patent laws are not indifferent to what happens when a patent's prescribed term expires. Rather, those laws reflect an affirmative congressional policy judgment that the patented invention should thereafter be freely available for exploitation by others and for enjoyment by the general public. In appropriate circumstances, that federal policy may preclude enforcement of a contractual or state-law restriction on manufacture or use of the formerly patented invention. As the Court explained in holding preempted a state law that prohibited the copying of unpatented designs, "after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public *as a matter of federal law*." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989) (emphasis added); see, *e.g.*, *Sears,* *Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964) ("[W]hen the patent expires the monopoly created by it expires, too, and the right to make the article—including the right to make it in precisely the shape it carried when patented—passes to the public."); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964) ("To forbid copying would interfere with the federal policy, found in [the Patent Clause] and *in the implementing federal statutes*, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.") (emphasis added).

3. *Brulotte* and *Scott Paper* are not the only instances in which this Court has construed the patent laws to void contractual agreements that were freely negotiated between patent owners and consenting licensees. In *Edward Katzinger Co.* v. *Chicago Metallic Manufacturing Co.*, 329 U.S. 394 (1947), for example, the Court held that federal law precluded the enforcement of a "contract not to challenge the validity" of a patent. *Id.* at 400-402. The Court explained that, although the patent licensee had agreed to that condition, that agreement could not "override congressional policy." *Id.* at 402. Similarly in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), the Court held that a licensee was not required to continue paying royalties while challenging the validity of the underlying patent, notwithstanding the terms of the parties' license agreement. The Court emphasized that "enforcing th[e] contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain." *Id*. at 674.

Like the rule announced in *Brulotte*, those established principles of patent law may operate to invalidate contracts that, from the perspective of the contracting parties, optimally allocate risk or otherwise vindicate the parties' bargain. And each, like the rule in *Brulotte*, may occasionally void agreements that both parties expected in good faith would be enforceable. As the Court observed in *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), however, "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is 'to promote the progress of science and useful arts.'" *Id.* at 511 (quoting U.S. Const. Art. I, § 8, Cl. 8). Petitioners' economic critique of *Brulotte* does not provide a sufficient justification for overturning that settled rule of patent policy.

4. Petitioners also urge (Pet. 22-30) the Court to overrule *Brulotte* because of its harmful economic consequences. But the rule established by *Brulotte* is narrow and clear: An agreement to pay patent royalties for "use" of a patented invention after the patent expires is invalid. 379 U.S. at 31. *Brulotte* specifically distinguished that sort of contract term from the permissible practice of "deferred payments for use during the pre-expiration period." *Ibid.*

Subsequent decisions confirm the narrowness of *Brulotte*'s rule. In *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), the Court described *Brulotte* as "[r]ecognizing that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time." *Id.* at 136. Later, in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Court distinguished *Brulotte* and upheld an agreement, made while a patent application was pending, in which the applicant's counterparty agreed to pay a lower royalty if the patent was not granted. *Id.* at 264-265. The Court explained that the lower royalty, "far from being negotiated 'with the leverage' of a patent, rested on the contingency that no patent would issue within five years." *Id.* at 265 (citation omitted).

Under *Brulotte*'s narrow ruling, private parties enjoy significant leeway in structuring license agreements to spread payments over a period longer than the patent term, and to contract for non-patent royalties. Indeed, the court below observed that the parties in this case could have written their agreement differently to achieve the same financial goals while avoiding *Brulotte*'s prohibition. See Pet. App. 21 n.5. The possibility that lower courts or contracting parties may sometimes misunderstand *Brulotte*'s narrow scope provides no sound basis for casting aside a 50-year-old interpretation of a federal statute. Nor do petitioners contend that the court of appeals misapplied *Brulotte* here. Rather, petitioners urge the Court to grant review for the sole purpose of overruling *Brulotte* outright. Nothing in petitioners' arguments so discredits that decision as to provide the "special justification" required for that extraordinary step. *Halliburton*, 134 S. Ct. at 2407 (citation omitted).

C. This Case Would Be A Poor Vehicle For Reexamining *Brulotte* Because The Contract At Issue Involved An Outright Sale Of The Underlying Patent, Not A Royalty-Bearing License

Brulotte involved a patent owner's attempt to impose license conditions extending beyond the term of the patent, thereby improperly extending the patentee's exclusive rights. See 379 U.S. at 31. In this case, however, the settlement agreement between petitioners and respondent was explicitly structured as a sale of the patent in its entirety. See Pet. App. 5-6. The agreement described the obligation of respondent to pay 3% of its net product sales not as a license royalty, but as the "purchase price for the Patent." *Id.* at 6; see *ibid.* (settlement agreement defining "net product sales" to mean "sales that would infringe the Patent *but for the purchase and sale thereof*") (emphasis added).

It is far from clear that the concerns that animated *Brulotte* should apply with equal force to the arms-length sale of a patent, which the Patent Act provides "shall have the attributes of personal property." 35 U.S.C. 261. As the Ninth Circuit has previously observed, "the sale of intellectual property alone * * * is a considerably more complex matter than the contract at issue in *Brulotte*, and the concepts underlying *Brulotte* do not necessarily transfer to that context readily." *Zila*, 502 F.3d at 1021. The court below, however, did not address the distinction between license and sale, instead analyzing the parties' agreement as though it were an ordinary patent license. See Pet. App. 18-26; Br. in Opp. 5 n.2. If this Court granted certiorari, it would therefore be required either to decide in the first instance whether the *Brulotte* rule applies in this meaningfully different context—a step that would be inconsistent with the Court's repeated admonitions that it is "a court of review, not of first view," *Nautilus, Inc.* v. *Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2131 (2014) (quoting *Cutter* v. *Wilkinson*, 544 U.S. 709, 718 n.7 (2005))—or to ignore a salient difference between this case and *Brulotte*.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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