

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

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STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,

*Petitioners,*

v.

MARVEL ENTERPRISES, INC.,

*Respondent.*

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

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**SUPPLEMENTAL BRIEF FOR PETITIONERS**

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## INTRODUCTION

Courts of appeals do not casually characterize decisions of this Court as “dubious . . . [in] reasoning” and “out of touch with the Supreme Court’s current thinking,” or lightly call for them to be overruled – yet each of the last three appellate panels to apply *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) has done just that. Pet. 15 (citing cases).

In academia, where tenure is obtained by saying something different, unanimity is rare – yet there is an undisputed authoritative consensus among treatises and commentators in the patent, licensing, and antitrust fields that *Brulotte*’s rigid *per se* prohibition on collecting patent royalties based on post-expiration use is misguided, and should be discarded in favor of a more flexible, case-by-case analysis. Pet. 12-16 (citing treatises and articles); Reply 2-3 n.2 (same).

Until a few weeks ago, the government was part of this consensus. It had publicly declared *Brulotte*’s “*per se* condemnation of royalty payments beyond the life of a patent” to be ““**unsound**,”” Reply 1-2 n.1 (quoting 1988 U.S. Patent and Trademark Office position paper) (emphasis added), and had expressly agreed, following extensive hearings at which it had received testimony from numerous legal and economic experts, that the purported patent policy concerns animating *Brulotte* were based on a mistaken premise. Pet. 19 (quoting 2007 DOJ/FTC Report). Not surprisingly, both the Ninth Circuit in this case, Pet. App. 25 n.7, and academic commentators, Pet. 16, viewed

these pronouncements as a call by the government that *Brulotte* should be overruled.

The Solicitor General now commits the United States to a contrary position, all the while protesting that no flip-flop has occurred. US Br. 14-15 n.4. Importantly, the government's newly-announced approach neither is based on any additional agency analysis, nor purports to draw on any specialized agency expertise. Rather, the government's defense of *Brulotte* relies precisely on the kind of "formalistic line drawing," divorced from economic reality, that this Court has said cannot justify *per se* prohibitions. *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 887 (2007) (quotation marks omitted). Review in this case therefore is warranted despite – in fact, all the more because of – the government's shift in position.

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## ARGUMENT

### I. The Government Does Not Address Petitioners' Main Argument As To Why Patent Policy Does Not Justify A Blanket Prohibition On Collecting Patent Royalties Based On Post-Expiration Use.

The invitation brief suffers from a basic analytical defect. The government never even mentions, let alone rebuts, petitioners' primary argument on the merits – that patent policy does not justify *Brulotte*'s *per se* rule because patent *royalties* on post-expiration

use do not extend the patent *right* into the post-expiration period. Pet. 17-22; Reply 8-9.

The government contends that *Brulotte* was correctly decided, and a rigid *per se* prohibition on collecting patent royalties based on post-expiration use consequently is justified, because such a rule “promote[s] the public’s unfettered access to patented inventions after the expiration of the patent term.” US Br. 8 & 16. In other words, the government endorses the Court’s assumption in *Brulotte* that “exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period.” *Id.*, 379 U.S. at 33, Pet. App. 78-79.

As petitioners have explained at length, however, there is a broad consensus among the courts of appeals and experts in the field that this assumption underlying *Brulotte* is mistaken, and that patent policy arguments such as the one advanced by the government here, based on that assumption, therefore are incorrect. Pet. 17-22 (citing cases and secondary materials). As the Ninth Circuit explained in this case:

The Supreme Court’s majority opinion [in *Brulotte*] reasoned that by extracting a promise to continue paying royalties after expiration of the patent, the patentee extends the patent beyond the term fixed in the patent statute and therefore in violation of the law. That is not true. After the patent expires, anyone can make the patented process or

product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish. *For a licensee in accordance with a provision in the license agreement to go on paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because . . . if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower.* The duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.'

Pet. App. 24-25 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (Posner, J.)) (emphasis added).

Until a few weeks ago, the government had agreed with this analysis. In the 2007 DOJ/FTC Report, the Antitrust Division and the FTC, citing *Scheiber*, concluded that the purported patent policy concerns animating *Brulotte* were based on a mistaken premise, because “[o]nce a patent expires, a licensee can use the patent for no charge,” and it “is therefore unclear how a licensor could persuade a licensee to pay more than the amount the licensee would be willing to pay to use the patent during its term.” U.S. Dep’t of Justice and FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting*

*Innovation and Competition* 12 & 122 (Apr. 2007) (“2007 DOJ/FTC Report”) at 118 n.18 (*available at* <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>).

The government’s brief neither acknowledges the agencies’ prior position, nor engages petitioners’ argument on this point. Instead, the government blithely asserts that “*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.” US Br. 17. Yet the cases the government cites are readily distinguishable, as they all involved attempts to extend the duration of patent rights *against the public at large*, either (i) by virtue of patent-like state-law rights conferred after patent expiration,<sup>1</sup> or (ii) through contracts that precluded challenges to patent validity, thereby potentially extending the duration of patent rights that might otherwise have been extinguished as a result of a successful invalidity challenge.<sup>2</sup> Royalties on

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<sup>1</sup> *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169 (1896).

<sup>2</sup> *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945).

Although *Scott Paper* nominally involved a contractual restriction on a non-infringement defense, in substance the defense was one of invalidity, as the accused product was alleged to be in the prior art. *Scott Paper*, 326 U.S. at 251. It is an elementary principle of patent law that proving literal infringement by

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post-expiration use, by contrast, indisputably do not preclude the public at large from practicing the invention after patent expiration, and, indeed, encourage new market entrants who can supply the public while undercutting the licensee on price. Pet. 28-29 & n.13 (citing authorities). And even with respect to the royalty-paying licensee, the public is not harmed, for, as the government itself previously had recognized, the “countervailing benefit to society from allowing” royalties on post-expiration use “is the reduction in royalty rate, and hence prices, during the patent period that occurs as the licensor adjusts the license to induce a licensee to accept the longer term.” 2007 DOJ/FTC Report at 118 n.20 (quotation marks omitted).

Consequently, as a respected academic has commented in response to the government’s brief in this case, “it’s hard to see *what* policy, other than an empty formalism, could possibly justify the *Brulotte* rule of per se illegality: once the patent expires, it is free for anyone to use without payment, other than a party who voluntarily agreed to continue paying a license fee (presumably for some other benefit, such as amortization).” Thomas F. Cotter, “Postexpiration Patent Royalties” (Nov. 5, 2014) (*available at* <http://comparativepatentremedies.blogspot.com/2014/11/post-expiration-patent-royalties.html>). The government’s

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something which then turns out to be in the prior art invalidates the patent claim, as “that which infringes if later, anticipates if earlier.” *Miller v. Eagle Mfg. Co.*, 151 U.S. 186, 203 (1894).

failure even to acknowledge this argument significantly weakens the force of its position.

## **II. *Stare Decisis* Does Not Foreclose Reconsideration Of *Brulotte*.**

Perhaps cognizant of the inconsistency between its newly-announced position on the merits and its previous public statements on the issue, the government leads with a procedural argument – *stare decisis*. US Br. 8-11.

Notably, the government does not endorse the suggestion, championed by Respondent (Opp. 20-21), that discarding *Brulotte* somehow would implicate reliance concerns. Pet. 37-38; Reply 13.

The government instead focuses on this Court’s recent decision in *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407, 2411 (2014). US Br. 7-9. Under *Halliburton*, the government asserts, the atextual judge-made rule announced in *Brulotte* nonetheless must be treated as “statutory” for *stare decisis* purposes, and thus may not be reconsidered absent “special justification,” because it is a “substantive doctrine” of patent law derived from the policy of limited patent terms. US Br. 7-9 (quotation marks omitted).

There are two significant problems with the government’s position.

First, the government’s argument proves too much. The Court’s opinion in *Brulotte* simultaneously

cited *two* limited patent term provisions – Art. I, § 8 of the Constitution, which “authorizes Congress to secure ‘for limited times’ to inventors ‘the exclusive right’ to their discoveries,” and 35 U.S.C. § 154, which, at the time, provided for a 17-year patent term. *Brulotte*, 379 U.S. 30, Pet. App. 74-75. To the extent that the *per se* rule announced in *Brulotte* is statutory for *stare decisis* purposes because it was fashioned against the background principle of limited patent terms embodied in section 154, that *per se* rule, by parity of reasoning, is also at least partly constitutional for *stare decisis* purposes, as it was equally fashioned against the same background principle of limited patent terms embodied in Art. I, § 8. And in constitutional cases, of course, this Court has never hesitated to reconsider prior decisions, as “correction through legislative action is practically impossible.” *Payne v. Tennessee*, 501 U.S. 808, 828 (1991) (quotation marks omitted).

Second, petitioners have, in any event, provided “special justification” for overruling *Brulotte* that extends beyond a mere explanation for why that “precedent was wrongly decided.” *Halliburton*, 134 S. Ct. at 2407. As the petitioners and their *amici* have demonstrated at length (Pet. 22-30, Reply 4-7), *Brulotte* damages the American economy and suppresses innovation because the licensing practices it forbids would provide unique procompetitive benefits – something that has not previously been brought to the Court’s attention. The government’s brief acknowledges that the *Brulotte* rule inflicts economic harm (US Br. 14),

but tries to sidestep the implications of that admission by arguing that the rule is “narrow and clear.” US Br. 19-20. But that is no answer at all. The government does not explain, for example, how the adverse effects of the *Brulotte* rule on commercialization of life-saving medical treatments by universities and research hospitals such as the Memorial Sloan-Kettering Cancer Center (Reply 5-6) are in any way mitigated by the supposed narrowness and clarity of *Brulotte’s* *per se* prohibition. Nor does the government demonstrate what alternative contractual arrangements, permitted by *Brulotte*, would allow such research institutions to balance and allocate the risks of developing and commercializing new technology in the same way that permitting accrual of patent royalties directly based on post-expiration use would.

Reply 5-6.

“*Stare decisis* is not an inexorable command; rather, it is a principle of policy and not a mechanical formula of adherence to the latest decision.” *Payne*, 501 U.S. at 828 (quotation marks omitted). Where, as here, a new, and largely undisputed, understanding of the harmful real-world economic consequences of *Brulotte’s* *per se* rule has emerged since the Court last considered the issue, nothing compels “plac[ing] on the shoulders of Congress the burden of the Court’s own error” – even assuming, *arguendo*, that *Brulotte* is susceptible to Congressional correction. *Monell v. Dep’t of Soc. Servs.*, 436 U.S. 658, 695 (1978) (quotation marks omitted).

### **III. There Is No Vehicle Problem Precluding Re-examination Of *Brulotte*.**

Finally, as a desultory afterthought, the government argues that because this case involves a patent assignment rather than a patent license – and this Court has not expressly held that the *per se* prohibition on collecting patent royalties based on post-expiration use applies to assignments – there is a vehicle problem that precludes reexamination of *Brulotte*. US Br. 20-21. The government’s attempt to manufacture a procedural obstacle fails for two reasons.

First, the government’s argument is illogical. If this Court were to grant certiorari for the purpose of overruling *Brulotte*, it would not *need* to decide whether that *per se* rule applies to assignments, as the rule would, by hypothesis, cease to exist.

Second, it is in any event plain – and the parties in this case agree (Opp. 5-6 n.2) – that *Brulotte*’s *per se* proscription applies to patent assignments. Every court of appeals to consider the issue – including the Ninth Circuit opinion in *Zila* cited by the government (US Br. 21) – has so held.<sup>3</sup> And with good reason. To

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<sup>3</sup> See *Kimble v. Marvel Enters., Inc.*, Pet. App. 6 & 25-26 (*Brulotte* “applies” to “purchase” of patent); *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1016, 1022 (9th Cir. 2007) (*Brulotte* applies to “agreement . . . that assigned all rights in . . . [an] invention . . . in return for royalty payments and company stock.”); *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 882-83, 885-86 (7th Cir. 1986) (*Brulotte* applies to a “contract involv[ing] an assignment of

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the extent that *Brulotte* is animated by concerns about either improper patent leverage during contract negotiations or collection of royalty payments based on post-expiration use, *id.*, 379 U.S. at 33, Pet. App. 77-78, those concerns apply with equal force (or equal lack of force) both to patent licenses and patent assignments. The government articulates no cogent argument to the contrary.

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## CONCLUSION

As Judge Easterbrook has observed, “*Brulotte* [is] wrong in principle – but conclusive on the lower federal judiciary until the Justices deliver the R.I.P.”

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rights in a ‘method and apparatus’ invented by the plaintiff” and “transferr[ing] the patent”); *see also Cohn v. Compax Corp.*, 451 N.Y.S. 2d 171, 174 (App. Div. 1982) (“no conceptual significance in the distinction” between “a licensing agreement” and “a full assignment and sale of all . . . [patent] rights” for purpose of addressing issue of “whether a sale of rights under pending patent applications is enforceable where the consideration consists of periodic payments, based on use, to continue unabated and undiminished until the expiration of the last patent issued on the basis of the pending applications.”).

Respondent’s citation to the Hovenkamp IP & Antitrust treatise for a “contrary view” (Opp. 6 n.2) appears to be in error – nowhere in the cited chapter do the authors endorse the proposition that *Brulotte* does not apply to assignments. *See generally* 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* §23.2e (2d ed. 2013).

Frank H. Easterbrook, *Contract and Copyright*, 42  
Hous. L. Rev. 953, 955 n.7 (2005).

The petition for a writ of certiorari should be granted.

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