No. 13-720

IN THE
Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,

Petitioners,

v.

MARVEL ENTERPRISES, INC.,

Respondent.

On Writ of Certiorari to the United States
Court of Appeals for the Ninth Circuit

BRIEF OF *AMICUS CURIAE* THE LICENSING EXECUTIVES SOCIETY (U.S.A. AND CANADA), INC. IN SUPPORT OF NEITHER PARTY

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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 in which royalty payments for use of a patented invention accrue after the expiration of the patent term is unlawful *per se*.

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INTRODUCTION

The *per se* rule of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) has received substantial criticism in the years since the opinion issued. Much of that criticism, however, derives not from the rule itself, but from the misapplication of the rule in subsequent case law, which has improperly expanded the scope of the rule. The Court now has the opportunity to clarify the *per se* rule, restoring it to its original—and much less controversial—boundaries.

INTEREST OF *AMICUS CURIAE*[1]

The Licensing Executives Society (U.S.A. and Canada), Inc. (LES) is the global leader in the business applications of intellectual property (IP) rights and their management, and it is devoted to standards development, education, and certification. It is an independent, non-profit, professional society that promotes best practices in IP transactions, IP protection, and IP strategy. LES counts among its members lawyers as well as experts in the IP strategy, business management, accounting,

[1] Pursuant to this Court's Rule 37.6, we note that no counsel for any party authored this brief, in whole or in part, nor did anyone other than the Licensing Executives Society (U.S.A. and Canada), Inc. and its counsel make any contribution, monetary or otherwise, to fund the preparation or submission of this brief. Petitioners and Respondent have consented in writing to the filing of this brief in letters that LES has lodged with the Court.

business development, supplier management, program management, sales, marketing, and IP valuation fields. Among these are representatives of innovation oriented companies from all business sectors, government agencies, and university labs. LES is a community of approximately 4000 IP management professionals, and it is part of a world-wide network (LES International or LESI) of more than 9,000 IP management practitioners in 32 sister societies.

SUMMARY OF THE ARGUMENT

As originally issued, the *per se* rule of *Brulotte* was very narrow, applying only to a specific set of circumstances. It has since been expanded by subsequent case law to capture situations expressly disclaimed in the original opinion. Absent correction by this Court, the *per se* rule will continue to render otherwise legal license agreements unenforceable when they should be upheld, both as a matter of law and as a reflection of the parties' intent.

ARGUMENT

A. Background

Brulotte arose over the sales of hop-picking machines that were covered by seven patents. *Brulotte*, 379 U.S. at 30. The terms of the sales included a flat-sum purchase price, as well as an ongoing license requiring additional annual royalty payments based on use. *Id.* at 29. The duration of the license extended beyond the date by which all seven patents expired. *Id.* at 30.

Although the lower court found that the license's extension into post-expiration territory reflected only "a reasonable amount of time over which to spread the payments for use of the patent," *id.* at 31, the Court disagreed. In doing so, it considered several terms that it found notable. In particular, "[t]he royalty payments due for the post-expiration period are, by their terms, for use during that period, and are not deferred payments for use during the pre-expiration period." *Id.* at 31. The license covered patented hop-picking machines only, and did not include any unpatented articles. *Id.* It also included restrictions on assignments and relocation of the machines, both before and after the expiration of the patents. *Id.* at 32. And, "peculiarly significant" to the Court, the annual royalty payment calculations "were the same for the post-expiration period as they were for the period of the patent." *Id.* at 31.

The Court stated that the license terms were "apt and pertinent to the protection of the patent monopoly, and their applicability to the post-expiration period is a telltale sign that the licensor was using the licenses to protect its monopoly beyond the patent period." *Id.* at 31-32. The Court then issued its holding that "[i]n light of those considerations, we conclude that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." *Id.* at 32.

B. The Scope of the Rule is Narrow

While issued as a *per se* rule, the *Brulotte* holding is narrow and limited to its specific set of circumstances. The holding itself is cast "in light of" the considerations identified above, suggesting that, had one or more of those conditions not been present, the holding would not have applied. If that suggestion is correct, it means that the holding might not apply to:

- "Deferred" payments made during the post-expiration period but incurred during the patent term;
- Licenses including non-patented articles;
- Licenses without restrictions on the assignment and relocation of the covered articles; or
- Royalty payment calculations that are different for the post-expiration period than the pre-expiration period.

In each case, the condition would not be a "royalty agreement that projects beyond the expiration date of the patent." For example, royalty payments that are *incurred* pre-expiration but *paid* post-expiration do not project an agreement beyond the life of the patent. They instead provide what the lower court in *Brulotte* described as "a reasonable amount of time over which to spread the payments for use of the patent." *Id.* at 31. Similarly, a license including non-patented articles could have a post-expiration term

that is not necessarily an extension of the patent term and thus not *per se* illegal, as could a license that provides different terms for the pre- and post-expiration periods. While courts might be able to find such terms impermissible in specific cases, depending on individual circumstances, the possibility remains that such terms are not impermissible in all cases.

The Court also distinguished the *Brulotte* license from one that extended beyond the life of some, but not all, of its subject patents, suggesting that a patent license might survive the expiration of one or more patents as long as at least one remains unexpired. *Id.* at 33, citing *Automatic Radio Co. v. Hazeltine*, 399 U.S. 827 (1950). In that event, a term that extends beyond the expiration of one or more patents might be attributable to the patent(s) that remain viable. While an evaluation of that license would be fact-specific, it should not fall under the *per se* bar of *Brulotte*.

C. Subsequent Case Law Has Applied The Rule Too Broadly

Despite the nuances in the *Brulotte* holding, lower courts have applied it broadly in subsequent decisions. For example, the Eleventh Circuit relied on *Brulotte* to void a license that covered both patents and trade secrets. *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1371 (11th Cir. 1983). The court explicitly rejected the argument that *Brulotte* was limited to licenses exclusively covering patent rights, stating that "[t]he licenses in that case were for 'use,' which encompasses more than just patent

rights." *Id.* That analysis, however, ignores the fact that the *Brulotte* voided the license because of the expiration of the patents; the license contained no surviving intellectual property rights. *See Brulotte*, 379 U.S. at 32 ("The contracts are, therefore, on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period."). The *Mestre* license was more akin to the one in *Hazeltine* in that it covered both expired and unexpired intellectual property rights. As explained above, the *Brulotte* Court did not consider such a situation to fall within its *per se* rule.

The Sixth Circuit similarly broadened the rule when it used *Brulotte* to void a license that required one party to file for related patents, but applied regardless of whether any patents ultimately issued. *Boggild v. Kenner Prods.*, 776 F.2d 1315, 1321 (6th Cir. 1985). Although the license thus covered unpatented articles—the licensee's first royalty payments were triggered by the filing, not issuance, of the first related patent application—the Sixth Circuit considered it a "hybrid" patent and non-patent license similar to the one in *Mestre* (and, it believed, *Brulotte*), and held that it fell within the scope of the *per se* rule, thus making the same error as the Eleventh Circuit. *Id.* at 1319. That holding runs contrary to the *Brulotte* language excluding non-patented articles from its analysis. Indeed, this Court previously noted that a license that accounts for the possibility that a patent might not issue does not fall within the *Brulotte* rule. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1978) (enforcement of a royalty agreement based on a

contingent patent is "consistent with the principles treated in *Brulotte*"). Although *Boggild* acknowledged *Aronson*, it distinguished that case by finding that the parties in *Boggild* "assumed a high likelihood that valid patents would issue." *Boggild*, 776 F.2d at 1321. Regardless of the parties' expectations, however, the license indisputably covered unpatented articles at the time of its formation and envisioned the possibility that the articles would remain unpatented throughout the term of the license. *Id.* at 1317.

More recently, the Seventh Circuit cited *Brulotte* to void a license that covered both expired and unexpired patents. *Scheiber v. Dolby Labs.*, 293 F.3d 1014 (7th Cir. 2002). In that case, the subject license covered a United States patent that expired in 1993 and a Canadian patent that expired two years later. *Id.* at 1016. The licensee proposed license terms by which it would pay a lower royalty rate in exchange for continuing all payments through to the expiration of the Canadian patent. *Id.* Although the court would have preferred to allow the license to remain in force, it felt constrained from doing so by the *per se* rule of *Brulotte*. *Id.* at 1018 ("We have no authority to overrule a Supreme Court decision no matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court's current thinking the decision seems."). The court looked to *Aronson* for relief, but noted that *Aronson* had reaffirmed *Brulotte*, and by doing so, bound the court to adhere to (what it perceived as) *Brulotte*'s *per se* rule.

In fact, the *Scheiber* court had two separate bases to find that the license was not subject to the rule.

First, the presence of unexpired patents placed the *Scheiber* license squarely within the scope of *Hazeltine*, which *Brulotte* was careful not to disturb or capture. *See supra*, at 5. Second, the duration of the license was the result of the licensee's bargain for a lower royalty rate. The parties intended to capture the value of the patent term only, but did so over a longer period in order to lower the payment, making any post-expiration royalty payment attributable to the United States patent a "deferred payment[] for use during the pre-expiration period" such that the *per se* rule did not apply. *Brulotte*, 379 U.S. at 31. In the face of such results, the need for clarification of the *per se* rule is apparent.

Rather than clarifying the rule, Petitioners and certain *amici* have asked the Court to abandon the *per se* rule in favor of a traditional rule of reason analysis. Although LES takes no position on whether the Court should do so, we note that it is possible to do so while preserving the protections offered by the *per se* rule.

The *Brulotte* court implemented its *per se* rule to protect the public against abuse of the patent system, particularly against abuses related to impermissible extensions of the duration of a patent's limited monopoly. *Brulotte*, 379 U.S. at 33 ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent 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.").

Accordingly, any rule-of-reason analysis should focus on whether a post-expiration royalty provision is contrary to the public interest. Provisions likely to be deleterious to the public interest should receive a lower level of deference than those less likely to harm the public, with the highest level of deference reserved for those provisions that affect only the parties to the agreement.

In evaluating the effect of a specific provision, courts should always consider the public interest and general considerations of equity. Additional factors to consider include:

- The relative bargaining power of the parties;
- The sophistication of the parties;
- The intent of the parties and underlying commercial interests;
- The likelihood of other entrants to the relevant market post-expiration;
- The existence of commercially reasonable alternatives to the licensed product, both pre- and post-expiration;
- The complexity and cost of developing the patented technology and/or the licensed product;

- The existence and nature of any non-patent intellectual property rights exchanged by the agreement;

- The remaining term of the licensed patent at the time the license was executed; and

- The balance of benefits the respective parties have received under the license agreement at the time of review.

The above list is not exhaustive, however, and no one factor should be dispositive. In any analysis, the overriding focus should be on protecting the public, not providing a safety valve for parties to escape from the binding nature of ill-advised contracts.

CONCLUSION

Left unchecked, the ongoing expansion of *Brulotte*'s *per se* rule will unduly restrict the freedom to contract and will continue to render license agreements unenforceable when they should be upheld, both as a matter of law and as a reflection of the parties' intent. To that end, the Court now has the opportunity to return the *per se* rule to its original boundaries. In light of the considerations originally noted in *Brulotte*, a patentee's use of patent rights to anchor royalties or other obligations that project beyond the expiration date of the patent should be unlawful *per se* only when there is no well-reasoned basis for maintaining the post-expiration royalties or other obligations. Such agreements may be presumed valid unless it can be shown that the patentee is improperly leveraging the patent to

extend its monopoly beyond the expiration date in a manner deleterious to the public interest.

Respectfully submitted,

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