

**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 FOR PETITIONERS

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QUESTION PRESENTED

Petitioners are individuals who assigned a patent and conveyed other intellectual property rights to Respondent. The court of appeals “reluctantly” held that Respondent, a large business concern, was absolved of its remaining financial obligations to Petitioners because of “a technical detail that both parties regarded as insignificant at the time of the agreement.” Pet. App. 24. Specifically, because royalty payments under the parties’ contract extended undiminished beyond the expiration date of the assigned patent, Respondent’s obligation to pay was excused under *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), which had held that “a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*.”

A product of a bygone era, *Brulotte* is the most widely criticized of this Court’s intellectual property and competition law decisions. Three panels of the courts of appeals (including the panel below), virtually every treatise and article in the field, and (prior to the government’s change of position in this case) the Patent Office, the DOJ, and the FTC, have all called on this Court to reconsider *Brulotte*, and to replace its rigid *per se* prohibition on patent royalties on post-expiration use with a rule of reason analysis.

The question presented is:

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

PARTIES TO THE PROCEEDINGS

There are no parties to the proceedings other than those listed in the caption.

It is Petitioners' understanding that Respondent Marvel Enterprises, Inc. has been succeeded by merger by an entity called Marvel Entertainment, LLC, and that the latter is wholly owned by The Walt Disney Company.

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INTRODUCTION

Petitioners respectfully ask this Court to overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), Pet. App. 73-85, and to reject its rigid *per se* prohibition of contractual arrangements involving collection of patent royalties based on post-expiration use. Petitioners are in good company. Three panels of the courts of appeals (including the panel below), virtually every treatise and article in the field, numerous *amici* (representing research institutions, IP practitioners, and prominent scholars in the field), and (prior to the Solicitor General’s change of position in the invitation brief in this case) the United States Patent and Trademark Office, the Antitrust Division of the Justice Department, and the Federal Trade Commission, also have called on this Court to reconsider that decision.

This Court has, in recent years, reexamined other outdated competition law decisions in light of a keener awareness of economics and real world business circumstances, and has supplanted rigid *per se* rules, unequal to the realities of the marketplace, with a more flexible, case-by-case analysis under the rule of reason. It is now *Brulotte*’s turn – as Judge Posner has observed, “*Brulotte* does not reflect the Supreme Court’s current thinking about competition and monopoly, but . . . will continue to bind the lower

courts until the Supreme Court decides to overrule it.”¹

◆

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1-26) is reported at 727 F.3d 856. The opinion of the United States District Court for the District of Arizona (Pet. App. 27-45) is reported at 692 F. Supp. 2d 1156. The report and recommendation of the magistrate judge (Pet. App. 46-72) also is reported at 692 F. Supp. 2d 1156 as an attachment to the district court opinion.

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JURISDICTION

The Ninth Circuit entered judgment on July 16, 2013. On September 27, 2013, Justice Kennedy granted an extension until December 13, 2013 (No. 13A304) to file a petition for a writ of certiorari in this matter. The petition was timely filed, and granted on December 12, 2014. This Court’s jurisdiction is invoked under 28 U.S.C. §1254(1).

¹ Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325, 332 (2005).

**CONSTITUTIONAL AND STATUTORY
PROVISIONS INVOLVED**

None.



STATEMENT

A. The *Brulotte* Decision

In *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), Pet. App. 73-85, this Court held, as a matter of federal law, 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, Pet. App. 77. While a “patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly,” the Court observed, “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 t[yl]ing the sale or use of the patented article to the purchase or use of unpatented ones.” *Id.*, 379 U.S. at 33, Pet. App. 78. Consequently, the Court reasoned, the “exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when . . . the patent has entered the public domain.” *Id.*, 379 U.S. at 33, Pet. App. 78-79. In reaching this conclusion, the *Brulotte* Court did not inquire into the nature or frequency of any anti-competitive effects that might flow from patent royalties on post-expiration use: it simply assumed the worst. *See* 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* §23.2a. at 23-9 (2d ed. 2015) (“Hovenkamp IP & Antitrust Treatise”) (*Brulotte* “created a rule of per se illegality” without requiring “any finding of anticompetitive effects in any market”).

As a consequence of *Brulotte*, “willing parties are prohibited from agreeing to [patent] royalties that accrue based on post-expiration use, even if that royalty structure is mutually agreed (a) without any coercion by the licensor, (b) as the most convenient method of measuring the value of the licensed rights, and (c) in exchange for a lower royalty rate overall.”² In other words, *Brulotte* categorically “requires the licensor and licensee to amortize the present value of the license fee over the remaining years of the patent term,” rather than, for example, accruing royalties over the life of the licensed product, “even if a longer amortization period is optimal for the parties.”³

² Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 *Hastings Sci. & Tech. L.J.* 21, 98 (2008).

³ Harold See & Frank M. Caprio, *The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension*, 1990 *Utah L. Rev.* 813, 814 (1990).

B. Factual Background

Petitioner Stephen Kimble invented a toy that allows a child to role play as Spider-Man by mimicking that superhero's web-shooting abilities with foam string. Pet. App. 3. In December 1991, Kimble obtained a patent on his invention. Pet. App. 3-4.

Meanwhile, in December 1990, Kimble met with the president of the predecessor in interest of Respondent Marvel Enterprises, Inc. ("Marvel") to discuss his then-pending patent application and other "ideas and know-how" related to the web-shooting toy. Pet. App. 4. The executive verbally agreed to compensate Kimble if the company used any of his ideas. *Id.*

In 1997, Kimble sued Marvel's predecessor in interest for breach of the verbal agreement and patent infringement, alleging that the company had used his ideas in developing a toy called the Web Blaster without compensating him. Pet. App. 5. After the district court granted summary judgment of noninfringement, the jury found for Kimble on the contract claim. *Id.* Both parties appealed. *Id.*

In 2001, while the appeals were pending, Kimble, Petitioner Robert M. Grabb⁴ and Marvel settled the 1997 litigation. Pet. App. 5-6. Pursuant to the 2001 settlement agreement, Petitioners assigned their

⁴ Mr. Grabb had acquired an interest in Kimble's intellectual property rights prior to the 2001 settlement, and became a party to that agreement. Pet. App. 3 n.1; Pet. App. 29 n.1.

patent to Marvel, as well as conveying the non-patent intellectual property rights to the toy ideas verbally exchanged between the parties during the December 1990 meeting. Pet. App. 9. In return, the agreement provided for a lump-sum payment and an additional running royalty of 3% of “net product sales.” Pet. App. 6. The settlement agreement did not provide for any reduction in the royalty rate after the assigned patent expired. *Id.* At the time the agreement was signed, neither party was aware of the *Brulotte* decision. Pet. App. 6-7 & n.3.

In 2008, after certain disagreements arose between the parties regarding royalty calculation methodology, Petitioners sued Marvel in state court for breach of the 2001 settlement agreement. Pet. App. 8. After removal to federal court, Marvel – which had since become aware of *Brulotte* as a result of sublicensing negotiations with a third party – counterclaimed, seeking a declaration that it would owe no further royalties after the assigned patent expired on May 25, 2010. Pet. App. 7-8 & n.3.

C. The District Court Decision

The district court, adopting the magistrate judge’s report and recommendation, granted summary judgment in favor of Marvel on its declaratory judgment counterclaim. Pet. App. 37. In the absence of a royalty rate reduction at patent expiration or other indication to the contrary, the district court reasoned, the post-expiration royalty was at least

partially attributable to the assigned patent rights, and hence uncollectible in its entirety under *Brulotte*, as the court was “unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.” Pet. App. 35 & 37 & 58-60 (quoting *Brulotte*, 379 U.S. at 32, Pet. App. 77).

D. The Ninth Circuit Decision

The Ninth Circuit “reluctantly” affirmed. Pet. App. 2-3. The 2001 settlement agreement, it held, conveyed “inseparable patent and non-patent rights” and contained neither a post-expiration discount “from the patent-protected rate” nor “some other clear indication that the [post-expiration] royalty at issue was in no way subject to patent leverage.” Pet. App. 3; Pet. App. 18. Consequently, the panel was constrained to “presume that the post-expiration royalty payments . . . [were] for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*,” rendering the obligation to make those royalty payments “unenforceable.” Pet. App. 18. This was true even though “Kimble’s primary leverage in negotiating the [2001] settlement was undoubtedly the jury verdict on the contract claim,” as, “at the time of the negotiations, he [also] was [still] challenging the district court’s decision and likely derived some amount of leverage from his patent infringement appeal.” Pet. App. 22-23.

At the same time, the court of appeals noted that application of *Brulotte*'s *per se* rule compelled an unjust result:

We acknowledge [that] our application of the *Brulotte* rule in this case 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. . . . [¶] The patent leverage in this case 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. 23-25.

Additionally, the Ninth Circuit observed that *Brulotte* was a “frequently-criticized” opinion resting on a “counterintuitive” and “economically unconvincing” rationale, and endorsed the Seventh Circuit’s extensive prior critique of that decision. Pet. App. 24-25 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (Posner, J.)); Pet. App. 2; Pet. App. 16. Consequently, while acknowledging that it was “bound by Supreme Court authority,” the court of appeals called on this Court to reconsider *Brulotte*, noting that other courts, federal agencies, and numerous academic commentators similarly had done so. Pet. App. 2; Pet. App. 24-25 & n.7; Pet. App. 15-16.



SUMMARY OF ARGUMENT

1. The *Brulotte* decision was based on three premises. First, this Court reasoned that patent policy supported its holding because patent *royalties* on post-expiration use somehow extend the patent *right* into the post-expiration period. Second, this Court implicitly assumed that economic considerations supported its conclusion because such royalties are invariably anticompetitive. Finally, this Court presumed that antitrust policy supported its holding because merely having a patent always confers market power and inherently allows the licensor to exercise improper negotiating leverage over the licensee.

Brulotte should be overruled because each of these premises has, in the fullness of time, proven to be mistaken. Indeed, patent policy, economic considerations, and antitrust policy, properly understood, instead each favor reconsidering that decision. Consequently, *Brulotte* is now, quite literally, a rule without a cognizable rationale.

a. As an initial matter, there is a broad consensus among the courts of appeals and experts in the field that patent policy does not support the holding of *Brulotte* because patent *royalties* on post-expiration use do not extend the patent *right* into the post-expiration period. Once a patent has expired, it cannot prevent anyone from practicing the invention – a fact that the contracting parties are well aware of in advance. License payment terms, consequently,

reflect the anticipated value of the authorization to use the patented invention before the patent expires. Even if certain patent royalty payments nominally are measured by post-expiration use, they nonetheless represent an amortization of the predicted value of the pre-expiration authorization. For example, the parties may agree to defer the start of the accrual period, or to lower the royalty rate, in exchange for an extended accrual period. Such a trade-off, however, merely calibrates the value of the pre-expiration authorization to the circumstances – it does not extend in time the patent right to exclude.

Indeed, patent policy, properly understood, favors discarding *Brulotte*. *Brulotte* harms innovation because it impairs the ability of contracting parties, particularly research hospitals and universities, to balance and allocate the risks of developing and commercializing new patentable technologies such as life-saving medical treatments, disincentivizing their initial creation, and thus increasing the likelihood that such technologies will never reach patients and consumers. Such a result certainly is not consonant with either social welfare or the goals of the Nation's patent system.

b. Economic considerations also favor overruling *Brulotte*. As the Justice Department and FTC have acknowledged, patent royalties on post-expiration use can be procompetitive, as they can lower prices and raise output during the patent term by means of an upfront royalty rate reduction, and also lower prices and increase competition *after* the

end of the patent term by encouraging market entry by new, lower-priced competitors. In the closely-related antitrust context, this Court consistently has emphasized that *per se* prohibitions are reserved for practices that are “always or almost always” anti-competitive.⁵ Against this background, the *Brulotte per se* rule makes little sense.

c. Finally, the third premise underlying *Brulotte* – one rooted in antitrust policy – has been undercut by subsequent developments, as both Congress and this Court have, in recent years, pointedly rejected the patent-equals-market-power presumption. See 35 U.S.C. §271(d)(5); *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42, 45-46 (2006). This change in the law has further undermined *Brulotte*’s already-crumbling doctrinal foundations.

d. The prevailing view among experts in the patent, licensing, and antitrust fields is that if *Brulotte* is overruled, patent royalties on post-expiration use should instead be scrutinized using a flexible, case-by-case analysis under the rule of reason. Because the courts of appeals already rely on the rule of reason to review allegations of patent misuse, examining patent royalties on post-expiration use under the same rubric simply would align analysis of such royalties with existing patent misuse law.

⁵ *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886-87 (2007) (internal quotation marks omitted).

2. The doctrine of *stare decisis* does not counsel against reconsideration of *Brulotte*.

First, Petitioners have provided special justification for overruling *Brulotte* that extends beyond a mere explanation for why that precedent was wrongly decided. As Petitioners and their *amici* have demonstrated at length, *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. 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 placing on the shoulders of Congress the burden of the Court’s own error.

Second, reliance interests would not be significantly implicated by reconsideration of *Brulotte*, as the only existing agreements likely to be impacted are either those – like the one at issue in this case – where the parties agreed to patent royalties based on post-expiration use because they were unaware of *Brulotte*, or those where one of the parties purposely entered into such an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*. By contrast, lifting *Brulotte*’s *per se* prohibition will have no effect on agreements that do not run afoul of it.



ARGUMENT

I. ***Brulotte's Per Se Prohibition On Collecting Patent Royalties Based On Post-Expiration Use Should Be Replaced With A Flexible Rule Of Reason Analysis.***

A. **An Authoritative Consensus Embracing Courts, Commentators, *Amici*, And, Prior To The Government's Change Of Position In This Case, Federal Agencies, Favors Overruling *Brulotte*.**

Brulotte is the most widely criticized of this Court's intellectual property and competition law decisions. Virtually every treatise in the field to address the issue, and every article on the subject, denounces *Brulotte* as fundamentally misguided and economically unsound, and calls for it to be overruled and for its rigid *per se* prohibition on patent royalties on post-expiration use to be replaced with a flexible, case-by-case analysis. *See, e.g.*, 3 Roger M. Milgrim & Eric E. Bensen, *Milgrim on Licensing* §18.05 (2014) ("Milgrim Treatise") (*Brulotte* "is so illogical from the standpoint of any economic analysis that it inspires awe that legal reasoning can be so removed from the universe in which it occurs"); Jay Dratler, Jr., *Licensing of Intellectual Property* §4.04[5][d] (1994 & Supp. 2013) ("Dratler Treatise") ("[The] rule of *Brulotte* is an anachronism with little or no economic justification[,] . . . a lonely *per se* outpost in a rule-of-reason world."); William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 380 & 418 (Harvard Univ. Press 2003) ("Landes & Posner")

(*Brulotte* is “wrong,” “dubious,” “anomalous,” and “one of the all-time economically dumb Supreme Court decisions”); John W. Schlicher, *Patent Law, Legal and Economic Principles* §13:218 (2d ed. 2012) (“Schlicher Patent Treatise”) (“[P]ost-expiration royalties should not be a basis for patent misuse,” or, at a minimum, “should not be the subject of a *per se* rule.”); Ian Ayres & Paul Klemperer, *Limiting Patentees’ Market Power without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 Mich. L. Rev. 985, 1027 (1999) (“Our analysis . . . suggests that *Brulotte* should be overruled.”); Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No’s Meet the Nineties* in BROOKINGS PAPERS ON ECONOMIC ACTIVITY: MICROECONOMICS 283, 322 (1997) (“Gilbert & Shapiro”)⁶ (“Economic theory reveals that [the *Brulotte*] . . . doctrine is flawed. . . . [Its] [l]egal reasoning . . . , based on the notion that extending the royalties in time is to ‘enlarge the monopoly of the patent,’ although rhetorically appealing, does not seem to reflect commercial reality or basic economics.”).⁷

⁶ Available at faculty.haas.berkeley.edu/shapiro/ninenono.pdf.

⁷ See also 10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* ¶1782c & 555 (3d ed. 2011 & Supp. 2014) (describing in detail “the error in *Brulotte*”); 1 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley & Christopher R. Leslie, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property*

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Three recent decisions of the courts of appeals, including the Ninth Circuit’s decision in this case, while reluctantly following *Brulotte*, also have called on this Court to reconsider it:

[*Brulotte*] has . . . been severely, and as it seems to us, with all due respect, justly, criticized. . . . However, 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.

Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017-18 (7th Cir. 2002) (Posner, J.); accord *Kimble v. Marvel Enters., Inc.*, Pet. App. 2 & 24-25 & n.7 (noting that although the panel was “bound by Supreme Court

Law §23.2a at 23-7 & 23-13 (2d ed. 2015) (“Hovenkamp IP & Antitrust Treatise”) (“*Brulotte* condemned a post-expiration royalty provision under a per se rule that reflected the hostility of that era toward perceived extension of the patent ‘monopoly.’ . . . [T]hese concerns are misplaced. . . .”); Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* §7:10 (2014) (“Nimmer Treatise”) (“Per se illegality . . . [pursuant to *Brulotte*] is a bad rule.”); See & Caprio, 1990 Utah L. Rev. at 853 (“*Brulotte* . . . is wrongly decided”); Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives to Innovate After MedImmune*, 24 Berkeley Tech. L.J. 971, 1006 (2009) (*Brulotte* was “misguided when . . . decided and . . . [is] certainly out of step with current economic understanding and business practices.”); Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine*, 12 Minn. J. L. Sci. & Tech. 457, 461 n.18 & 480 (2011) (“*Brulotte* has been widely, and justly, criticized as resting on flawed economic reasoning . . . [and] would be hard to defend.”); Server et al., 1 Hastings Sci. & Tech. L.J. at 96-98 (criticizing *Brulotte* as “flawed”).

authority,” the “*Brulotte* rule is counterintuitive and its rationale is arguably unconvincing”); *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-20 & n.4 (9th Cir. 2007) (“[We] are bound to apply [*Brulotte*] . . . if it applies to the case before us . . . [and must leave to the Supreme] Court the prerogative of overruling its own decisions.”) (internal quotation marks omitted); see also Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953, 955 n.7 (2005) (“*Brulotte* [is] wrong in principle – but conclusive on the lower federal judiciary until the Justices deliver the R.I.P.”).

Various federal agencies – prior to the Solicitor General’s change of position in the invitation brief in this case – also had expressed disagreement with *Brulotte*. In formal testimony before Congress, the United States Patent and Trademark Office declared *Brulotte*’s “*per se* condemnation of royalty payments beyond the life of a patent” to be “unsound.”⁸ Similarly, the Antitrust Division of the Justice Department and the Federal Trade Commission, in a joint report issued after receiving testimony from numerous legal and economic experts, expressly agreed that the purported patent policy concerns animating *Brulotte* were based on a mistaken premise, recognized that

⁸ See Testimony of Rene D. Tegtmeyer, Assistant Commissioner of Patents in *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary*, 100th Cong. at 30 & 35 (May 11, 1988) (“H.R. 4086 Hearing”) (available at <http://babel.hathitrust.org/cgi/pt?id=pst.000014967702>).

“[c]ollecting royalties beyond a patent’s statutory term can be efficient,” and concluded that, notwithstanding *Brulotte*’s *per se* prohibition, the agencies would, for antitrust enforcement purposes, “review most agreements that have the potential to extend the market power conferred by a valuable patent beyond that patent’s expiration pursuant to the rule of reason.” U.S. Dep’t of Justice and Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) at 12 & 122 & 118 n.18 (“2007 DOJ/FTC Report”);⁹ *see also* Part I.B.1.a, *infra* (discussing the agencies’ patent policy conclusion in more detail). Not surprisingly, both the Ninth Circuit in this case, Pet. App. 25 n.7, and academic commentators, viewed these pronouncements as a call by the government that *Brulotte* should be overruled. *See, e.g.*, Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives to Innovate After MedImmune*, 24 Berkeley Tech. L.J. 971, 996 (2009) (2007 DOJ/FTC Report suggests that *Brulotte* “ought to be reconsidered”); 2 William C. Holmes, *Intellectual Property and Antitrust Law* §24:3 (2014) (“Holmes Treatise”) (“[Patent royalties on post-expiration use] should not be held *per se* illegal, or to constitute *per se* patent misuse, and should instead be governed by the more flexible rule of reason – a position that is now taken

⁹ Available at <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>.

by both federal antitrust enforcement agencies. . . .”) (citing 2007 DOJ/FTC Report at 122).

Numerous *amici*, representing research institutions, IP practitioners, and prominent scholars in the field, also have asked this Court to reconsider *Brulotte*.¹⁰ (At the merits stage, Petitioners anticipate further support from several additional *amici*.)

Consequently, there exists a wide-ranging, authoritative, and undisputed consensus that *Brulotte*’s rigid *per se* prohibition on collecting patent royalties based on post-expiration use is fundamentally misguided and economically unsound, and should be discarded in favor of a more flexible, case-by-case analysis.

B. The Three Premises Underlying *Brulotte* Have All Proven To Be Incorrect.

The reason *Brulotte* has met with such pervasive criticism is straightforward. The three premises underlying that decision – (i) that patent policy supports its holding because patent *royalties* on

¹⁰ See *Brief Amici Curiae of Memorial Sloan-Kettering Cancer Center et al.* at 9-11 (“Memorial Sloan-Kettering Petition-Stage Amicus Brief”); *Brief Amici Curiae of Center for Intellectual Property Research of the Indiana University Maurer School of Law et al.* at 6-16 (“Legal Scholars Petition-Stage Amicus Brief”); *Brief Amicus Curiae of The Intellectual Property Law Association of Chicago* at 3-7 (“IPLAC Petition-Stage Amicus Brief”).

post-expiration use somehow extend the patent *right* into the post-expiration period, (ii) that economic considerations support its holding because such royalties are invariably anticompetitive, and (iii) that antitrust policy supports its holding because merely having a patent always confers market power and inherently allows the licensor to exercise improper negotiating leverage over the licensee – have each, in the fullness of time, proven to be mistaken.

1. Patent Policy Not Only Does Not Justify *Brulotte's Per Se* Rule, But Actually Favors Discarding It.

Both Marvel, and the government in its invitation brief in this case, argue that *Brulotte's per se* rule should be retained because it is justified by patent policy. BIO 17-20; US CVSG Br. 15-19. Not so. Patent policy, properly understood, favors overruling that decision because patent *royalties* on post-expiration use do not temporally extend patent *rights*, and because *Brulotte* suppresses technological innovation.

a. Patent Policy Does Not Support *Brulotte* Because Patent Royalties On Post-Expiration Use Do Not Temporally Extend Patent Rights.

Brulotte assumes that patent policy supports its *per se* rule because “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; *see also* US CVSG Br. 8 & 16 (*Brulotte* “promote[s] the public’s unfettered access to patented inventions after the expiration of the patent term.”).

There is a broad consensus among the courts of appeals and experts in the field, however, that this premise is mistaken, and that patent *royalties* on post-expiration use do not in fact extend the patent *right* into the post-expiration period.

Once a patent has expired, it cannot prevent anyone from practicing the invention – a fact that the contracting parties are well aware of in advance. License payment terms, consequently, reflect the anticipated value of the authorization to use the patented invention before the patent expires. Even if certain patent royalty payments nominally are measured by post-expiration use, they nonetheless represent an amortization of the predicted value of the pre-expiration authorization. For example, the parties may agree to defer the start of the accrual period, or to lower the royalty rate, in exchange for an extended accrual period. Such a trade-off, however, merely calibrates the value of the pre-expiration authorization to the circumstances – it does not extend in time the patent right to exclude. As a leading treatise has explained,

[w]hen the only payments are for use and such payments are required beyond patent expiration, the patentee may appear to extract

an unauthorized fee for post-expiration use. *However, this appearance is an illusion.* The machine is presumably more valuable while the patent prevents copying; hence, the annual fee for using it would be higher during the early years if it were not stretched out over the machine's useful life. . . . [¶] Competing manufacturers [nevertheless] are free to employ the patented technology the instant the patents have expired.

10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* ¶1782c.3 at 556 (3d ed. 2011 & Supp. 2014) (“Areeda Treatise”) (emphasis added).

Judge Posner has made the same point on behalf of the Seventh Circuit:

‘The *Brulotte* rule incorrectly assumes that a patent license has significance after the patent terminates. When the patent term ends, the exclusive right to make, use or sell the licensed invention also ends. Because the invention is available to the world, the license in fact ceases to have value. Presumably, licensees know this when they enter into a licensing agreement. If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the licensees’ assessment of the value of the license during the patent period. These payments, therefore, do not represent an extension in time of the patent monopoly.’

Scheiber, 293 F.3d at 1017 (quoting Harold See & Frank M. Caprio, *The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 814 (1990) (emphasis in original omitted)).

The Ninth Circuit in this case also endorsed this analysis:

‘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*, 293 F.3d at 1017) (emphasis added).

Virtually every treatise and article on the subject also is in accord. See, e.g., Easterbrook, 42 Hous. L. Rev. at 955 (A “license [does] not create a monopoly. . . . *Brulotte* . . . is problematic because it misses this point. Once the patent expires, the power to exclude is gone and all we have is a problem about optimal contract design. If it is lawful to set royalties as ‘10% during the patent and nothing thereafter,’ why is it forbidden to set them at 5% during and after the patent?”); Ward S. Bowman, Jr., *Patent and Antitrust Law: A Legal and Economic Appraisal* 233 (Univ. of Chicago Press 1973) (criticizing *Brulotte* for failing to explain “how paying ‘machine royalties’ over a period longer than the life of the patent could conceivably be the equivalent of extending the effective life of the patent”); John W. Schlicher, *Licensing Intellectual Property: Legal, Business and Market Dynamics* 195 (John Wiley & Sons, Inc. 1996) (“Schlicher Licensing Treatise”) (“If the patent owner asks that royalties be paid over the twenty-five year period, the royalty rate during the term must be lower. This is so because the value of the patent to the licensee is limited by the difference between the cost and demand during the term. After the term, all others will be able to use the invention freely in competition with those licensees. Unless that license provides them some additional benefit, the rate must be lowered to induce the licensees to agree to pay over the longer period.”).¹¹

¹¹ See also 1 Hovenkamp IP & Antitrust Treatise §23.2a at 23-11 (“It is not even clear that the *Brulotte* arrangement served
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to enlarge the gross amount of royalties payable to the patentee by making them payable for a longer time. The patentee could as easily have charged a higher royalty rate but made the royalty requirement expire with the patents. If adjusted to present value, the licensee would be indifferent among the options.”); Nimmer Treatise at §7:10 (“*Brulotte* reflects a fundamental misdescription of the royalty decision to cover uses after expiration of the underlying rights. That choice does not extend the underlying property right but merely reflects a decision about how to compute and pay the price charged for a license.”); Dratler Treatise at §5.04[6][a][i] (“[The] contractual obligation . . . at issue [in *Brulotte*] hardly extended the term of the patents. Everyone besides the licensee was free to practice the patents after they expired with no payment whatsoever. For example, competing manufacturers could make the same machines freely and even sell them to licensees of the expired patents.”); Server et al., 1 Hastings Sci. & Tech. L.J. at 101 n.231 (“[P]ost-expiration royalties are merely a method of financing the value received by the licensee during the patent term, since upon expiration of the patent, the patentee has nothing of value left to offer in exchange. Following the expiration of the patent, no one can be excluded from exploiting the previously patented invention, and licensees presumably know this fact when they negotiate the royalty terms of their license.”); Christina Bohannon, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475, 516-17 (2011) (“[T]he Court’s reasoning [in *Brulotte*] is faulty. . . . The patent holder can charge as much as it wants for the use of the invention during the patent term, and the entire amount that the licensee is willing to pay can be allocated to use of the patent during the term. The licensee is indifferent as to how the total payment will be allocated and will not pay another monopoly price for use of the patented invention after the patent has expired.”); Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1, 41-42 & n.186 (2011) (“Post-term royalties are later payment for value already received (the value of access to the patent during its term). . . . The relevant ‘extension of the monopoly’ post-term royalty inquiry, therefore, is not when payment occurs, but whether the discounted present value of the aggregate royalty

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Until the Solicitor General's change of position in the invitation brief in this case, the government, too, had agreed with this analysis. In the 2007 DOJ/FTC Report, the Antitrust Division of the Justice Department and the FTC, citing the Seventh Circuit's opinion in *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." 2007 DOJ/FTC Report at 118 n.18.

payments exceeds the value of accessing the patent during its (remaining) term. [¶] The market ensures that equivalence will always exist regardless of when actual payment is made."); Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677, 710 n.120 (1986) ("It is important to note that post-expiration royalty provisions do not entirely circumvent the limited-time provision of the Patent Act or the Constitution. The . . . patent term influences the price that the licensee will pay for the product in two ways. Knowing that the product will eventually be available royalty-free may induce the licensee to pay less for it in the first place. The licensee will also bargain down the royalty rate because it knows that after the patent lapses it will have to compete with rivals who enjoy free use of the invention."); Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1630 (1990) ("A licensee will pay a fixed amount for a license, and the courts should not care whether the licensee pays that amount up front, in ten years, or in a hundred years.").

Faced with the consensus view that no patent policy justifies *Brulotte*'s blanket prohibition on collecting patent royalties based on post-expiration use, the government and Marvel have little to say.

The government's invitation brief neither acknowledges its own agencies' prior conclusion, nor engages the substance of the consensus position. Instead, the government's brief 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 CVSG 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,¹² 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.¹³ An

¹² See *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).

¹³ See *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

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agreement providing for patent royalties on post-expiration use, by contrast, indisputably does not preclude the public at large from practicing the invention after patent expiration.

Marvel, in turn, asserts (BIO at 19) that patent policy justifies *Brulotte's per se* prohibition because allowing royalties on post-expiration use leaves “open the time for determining and capturing the value of the invention,” substituting the “success which the licensed product enjoyed after expiration for success during the term of the patent.” (internal quotation marks and brackets omitted). But this argument does not advance the ball much, as it simply amounts to a formalistic assertion that patent policy should proscribe royalties on post-expiration use because such royalties accrue after expiration. Indeed, it is telling that even the commentators whose work Marvel cites in support of this argument (*id.*) do not actually back retaining *Brulotte's* rigid *per se* prohibition.¹⁴

to be in the prior art. See *Scott Paper*, 326 U.S. at 251. It is a well-established principle of patent law that proving, by clear and convincing evidence, literal infringement by an accused product or process 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).

¹⁴ See Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793, 802-03 (1988) (refusing to endorse *Brulotte's per se* prohibition because “[s]ome practices that have been characterized as patent misuse when forced on a licensee have escaped this characterization when licensors can prove licensees assumed

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At the end of the day, “it’s hard to see *what* policy, other than an empty formalism, could possibly justify the *Brulotte* rule of *per se* illegality.” Thomas F. Cotter, *Postexpiration Patent Royalties*, Comparative Patent Remedies, Nov. 5, 2014, <http://comparativepatentremedies.blogspot.com/2014/11/postexpiration-patent-royalties.html> (emphasis in original). The government’s (and Marvel’s) defense of *Brulotte* on patent policy grounds is unconvincing precisely because it relies 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) (internal quotation marks omitted); *see also* Dratler Treatise at §4.04[5][d] (“In attempting to draw a bright line outlawing royalties after patent expiration, [*Brulotte*] relies on formal distinctions, rather than economic substance. . . .”). No patent policy supports the *per se* rule announced in *Brulotte*.

them voluntarily,” and thus “legalizing *voluntary* extensions of [the] patent term” nevertheless “makes . . . sense”) (emphasis in original); Louis Altman, *Is There An Afterlife? The Effect of Patent or Copyright Expiration on License Agreements*, 64 J. Pat. Off. Soc’y 297, 310-12 (1982) (criticizing *Brulotte* for irrebuttably “assuming that patents *always* affect the bargaining relationship by their mere *presence*” so as to “taint an otherwise acceptable business deal”) (emphases in original); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 417 (2003) (endorsing application of “a flexible test under equitable principles,” rather than a *per se* rule, “when faced with behavior that appears to extend the physical or temporal scope of a patent grant”).

b. Patent Policy Compels Overruling *Brulotte* Because Its *Per Se* Rule Suppresses Innovation And Interferes With The Goals Of The Patent System.

Indeed, patent policy, properly understood, favors discarding the rigid *per se* prohibition on collecting patent royalties based on post-expiration use. Why? Because *Brulotte* discourages technological innovation and does significant damage to the American economy, categorically proscribing licensing practices that would provide unique procompetitive benefits and further the goals of the patent system.

As the Justice Department and the FTC have explained, and as the government reiterates in its invitation brief in this case (US CVSG Br. 14), patent royalties on post-expiration use “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.*” 2007 DOJ/FTC Report at 12 (emphasis added); *see also id.* at 118 & 122 (same).¹⁵

¹⁵ *See also* Gilbert & Shapiro at 322 (“Permitting royalties to be paid over a longer term can, under reasonable conditions, reduce the deadweight loss from a patent monopoly. Thus, allocative efficiency considerations should permit a licensor and licensee to agree to longer royalty terms. . . . [A]lthough the license agreement may appear to extend the duration of the

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The pernicious consequence of *Brulotte's per se* prohibition, then, is that it *suppresses* rather than encourages innovation:

[*Brulotte's*] prohibition of post-term royalties causes affirmative social harm. By unnecessarily limiting flexibility in private-ordering regarding timing of payments, it . . . unduly restricts access and exploitation of the patented invention . . . [and] needlessly (and ironically) interferes with . . . promotion of innovation policy

Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marq. Intell. Prop. L. Rev. 1, 42-43 (2011).¹⁶

patent license, its effect is to allow that licensor to recover the same present value royalties, but with a lower social cost.”); Ayres & Klemperer, 97 Mich. L. Rev. at 1027 (“Negotiating a lower per-unit royalty in return for a longer royalty time period is likely to reduce the deadweight loss of supra-competitive pricing.”); Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 995 (“Spreading out the cost of the license over a longer period of time is . . . efficient because it reduces deadweight loss.”).

¹⁶ See also John W. Schlicher, *Licensing Intellectual Property: Legal, Business, and Market Dynamics* 196 (John Wiley & Sons, Inc. 1996) (“Schlicher Licensing Treatise”) (patent royalties on post-expiration use are “[p]rocompetitive” because “extension of the payment period reduces the cost of producing or using the patent or operating under the license, . . . [which in turn] increases the value of the patent and increases innovation”); See & Caprio, 1990 Utah L. Rev. at 846 & n.228 (“*Brulotte* is simply wrong” because it “invalidate[s] a multitude of economically beneficial licensing agreements, thereby discouraging businesses from entering into efficient business

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Put another way, *Brulotte* harms innovation because it impairs the ability of contracting parties to balance and allocate the risks of developing and commercializing new patentable technologies, disincentivizing their initial creation, and thus increasing the likelihood that such technologies will never reach patients and consumers.

Two examples illustrate this point.

Federal and state government laboratories, academic research institutions, and research hospitals conduct wide-ranging medical research. Such entities

frequently grant licenses for early-stage technology that has not been fully developed and that is, as yet, of unknown or speculative commercial value. In such cases, their licensees face a particular risk that no viable product or process will be developed during

arrangements . . . [and suppressing] incentives to exploit an invention.”); Memorial Sloan-Kettering Petition-Stage *Amicus* Brief at 5-9 & 11-13 (*Brulotte*’s “inflexible rule interferes with transactions that are beneficial to the licensor, the licensee, and the general public . . . [and] prevents universities and small businesses (as well as large companies) from devising contractual arrangements that maximize the potential benefit of the universities’ technological advancements”); Legal Scholars Petition-Stage *Amicus* Brief at 3, 4-6 (“*Brulotte* hinders the innovation needed to make our economy vibrant” by discouraging “flexible licensing agreements needed for commercialization of inventions.”); IPLAC Petition-Stage *Amicus* Brief at 7 (“*Brulotte* causes affirmative social harm.”) (internal quotation marks omitted).

the patent term. This risk is particularly acute with respect to pharmaceutical innovations, where development costs and failure rates are very high and many years of development, clinical trials, and regulatory review are required before the product ever reaches the commercial market.

Brief *Amici Curiae* of Memorial Sloan-Kettering Cancer Center et al. at 12-13 (“Memorial Sloan-Kettering Petition-Stage *Amicus* Brief”). In such situations, “the licensee may strongly prefer to defer a large share of license payments from the development phase (generally within the life of the patent), in favor of royalties on eventual sales that may begin toward the end of the patent term and extend for years thereafter,” so that the payment amount is tied to the extent of any eventual commercial success or failure of the product. *Id.* at 6-7. By preventing such willing parties from structuring their licensing transactions in a way that makes the most business sense, *Brulotte* creates a risk that they will not reach agreement at all, discouraging investment in and development of the invention to begin with, and thus increasing the likelihood that life-saving medical treatments will never make it out of the laboratory. Such a result disserves the Nation and the goals of its patent system. *See id.* at 5 & 13.

A similar problem arises when, for example, a licensee attempts to introduce a pioneering technology into a market where the current industry standard already has been the subject of extensive infrastructure

investment. (Imagine, for example, trying to introduce hydrogen cars into a market where everyone uses gasoline-powered ones, and refueling and repair facilities are in place only for the latter.) In such a situation, the improved technology has to overcome a significant barrier to entry, making deferral of royalty accrual critical to the ability of that technology to gain acceptance and get off the ground. Here, too, *Brulotte's* prohibition on post-expiration royalty accrual impairs innovation incentives and interferes with the goals of the patent system, increasing the likelihood that breakthrough technologies will never see the light of day.¹⁷

¹⁷ See also Legal Scholars Petition-Stage *Amicus* Brief at 4-5 (giving additional examples); 3 Milgrim Treatise at §18.05 (“Both licensor and licensee may be better served by an arrangement in which the royalty rate is low but the term of royalty extended. The low royalty rate might help the licensee in the early investment phase and thereby encourage it to take the risks to launch new, and thus inherently risk-prone, technology. The extended life [in turn] might give the licensor the expectation of ultimate reward, if the project thus jointly sponsored takes commercial root. In establishing a royalty arrangement of this character, moreover, both parties would recognize that, at the expiration of the statutory exclusivity period conferred by the patent, others will be free to practice the previously patented invention without any power on the part of the licensor or licensee to prevent it. But astute business people are willing to conclude, in the appropriate situation, that securing a marketing foothold and developing on-line know-how makes sense and that the interests of both licensor and licensee are best served by doing so.”); Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 983-984 (“Especially in situations where substantial development of the invention is required before it can be marketed, potential

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The government’s invitation brief acknowledges that the *Brulotte* rule inflicts economic harm and suppresses innovation (US CVSG Br. 14), but tries to sidestep the implications of that admission by arguing that the rule is “narrow and clear.” US CVSG Br.

licensees may be unwilling to devote their available funds to paying off licensing fees. Licensees who are just starting out may not even have the money to make the payment. Furthermore, at the time of the negotiation, before the risky business of development and commercialization has been completed successfully, the parties may be unable to accurately determine the benefits that will flow from the invention. In contrast, a running royalty provision insures that the licensee will not have to pay if the invention turns out to be worthless. At the same time, it gives the patent holder the assurance of a fair return on a successful invention.”); ABA Section of Antitrust Law, *Intellectual Property Misuse: Licensing And Litigation* 138 (2000) (“With many new products and processes, neither the licensor nor the licensee knows how commercially valuable the product (or process) will turn out to be. This is one of the main reasons why many licenses provide for royalties to be paid out over a period of time rather than a single lump-sum payment: if the product turns out to be a success, both parties will share in the proceeds, but if it turns out to be a failure, the licensee’s cost is limited. . . . [¶] Allowing the parties the flexibility to stretch out payments over a longer period simply gives them another option, one that may be economically preferable to both parties. . . . [The *Brulotte*] rule, which encourages all payments to be made during the life of the patent, can prevent some of these mutually beneficial deals.”); *Scheiber*, 293 F.3d at 1017 (“If royalties are calculated on post-patent term sales, the calculation is simply a risk-shifting credit arrangement between patentee and licensee.”) (internal quotation marks omitted); Easterbrook, 42 Hous. L. Rev. at 955 (“Once the patent has expired, there is no market power; and both sides may gain by longer-term royalties that not only share risk but also link payments to an idea’s staying power.”).

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 the commercialization of life-saving medical treatments by universities and research hospitals such as the Memorial Sloan-Kettering Cancer Center 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.

Marvel, in turn, asserts (BIO 8-14) that the adverse impact on innovation of *Brulotte's per se* prohibition on accrual of patent royalties based on post-expiration use (“accrual postponement”) is somehow negated because *Brulotte* permits postponing, into the post-expiration period, payment of patent royalties already accrued based on pre-expiration use (“payment postponement”). Simple payment postponement, however, is no substitute for accrual postponement – as the government’s invitation brief implicitly acknowledges by not repeating Marvel’s argument. Payment postponement, by hypothesis, does not redistribute the risk of product failure between the licensor and the licensee, and thus does not allow parties to balance and allocate the risks of developing and commercializing new technology in the same way that permitting accrual of

patent royalties directly on post-expiration use does. Forcing universities and research hospitals such as the Memorial Sloan-Kettering Cancer Center, and their potential development and commercialization partners, to accrue patent royalties prior to patent expiration, but then allowing them to postpone payment of funds already owed, as Marvel suggests, BIO 13, would do *nothing* to address the development and commercialization risk at issue.

Consequently, because experts in the field agree that *Brulotte's per se* rule discourages technological innovation and interferes with the goals of the patent system – a conclusion grounded in the government's own agency analysis – patent policy, properly understood, favors overruling that decision.

2. Economic Considerations Do Not Justify *Brulotte's Per Se* Rule Because Patent Royalties On Post-Expiration Use Usually Are Procompetitive.

In establishing a *per se* prohibition on patent royalties on post-expiration use, this Court in *Brulotte* did not inquire into the nature or frequency of any anticompetitive effects that might flow from such royalties: it simply assumed the worst. *See* 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-9 (*Brulotte* “created a rule of *per se* illegality” without requiring “any finding of anticompetitive effects in any market”). In other words, the second, implicit

premise underlying *Brulotte* is that such arrangements are invariably anticompetitive.

A wide-ranging and authoritative consensus has since emerged, however, that this premise, too, is incorrect. Indeed, as the Justice Department and the FTC have acknowledged, and as the government confirms in its invitation brief in this case (US CVSG Br. 14), “[c]ollecting royalties beyond a patent’s statutory term can be efficient.” 2007 DOJ/FTC Report at 12 & 118 & 122; *see also* Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1630 (1990) (“[A]greements that extend royalty terms simply are not anticompetitive.”); Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901, 949 (2007) (little “evidence that the challenged provision [in *Brulotte*] was likely to have any significant impact upon competition.”); ABA Section of Antitrust Law, *Intellectual Property Misuse: Licensing And Litigation* 137 (2000) (an “effort by the patent holder to extract payment from the licensee after the patent has expired . . . is least harmful to society from an economic perspective” and can be “economically neutral or procompetitive”).

In addition to the unique benefits that such licensing arrangements can provide in allowing contracting parties to balance and allocate the risks of developing and commercializing new patentable technologies, *see* Part I.B.1.b., *supra*, patent royalties on post-expiration use have two other procompetitive effects.

First, as the Justice Department and the FTC have pointed out, permitting patent royalties on post-expiration use can lower prices and raise output during the patent term:

The countervailing benefit to society from allowing the licensor greater freedom to contract 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 (internal quotation marks omitted); *see also* Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677, 712 n.124 (1986) (“[S]tretching out the computation period decreases royalties during the patent period and may operate to increase output during that time.”); Kelley Hershey, Note, *Scheiber v. Dolby Laboratories, Inc.*, 18 Berkeley Tech. L.J. 159, 171 (2003) (“[A] lower royalty rate over a longer period of time allows a company to charge more competitive prices, thereby attracting its customers from competing technologies in the pre-expiration market. . . . [A] lower price may [also] allow more businesses to afford to license and use the technology, thereby increasing competition for the same product in the pre-expiration market.”).

Second, permitting patent royalties on post-expiration use also can lower prices and increase competition *after* the end of the patent term despite the fact that the licensee continues to pay royalties, because others need not:

[I]n the great majority of cases no rival is foreclosed from the market by post-expiration royalties, since the licensee is not restrained from licensing competing technologies either before or after the patents expire. Indeed, to the extent that the user of the machine must pay royalties on expired patents while new entrants into the machine market do not charge such royalties, the practice encourages rather than discourages new entry. . . . As a result, the post-expiration royalties will make the market more, rather than less, attractive to new entrants.

1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-7; *see also* 10 Areeda Treatise ¶1782c.1. at 552 (“The Supreme Court [in *Brulotte*] failed to see that anti-competitive foreclosure is barely conceivable. . . .”); *cf.* *Leegin*, 551 U.S. at 906 (“The purpose of antitrust law . . . is the protection of competition, not competitors.”) (internal quotation marks and emphasis omitted).¹⁸

¹⁸ *See also* Bohannon, 96 Iowa L. Rev. at 517 & n.159 (2011) (“[R]oyalty payments that extend beyond the expiration of a patent do not foreclose access to the public domain any more than do other payments on business debts. . . . To the contrary, requiring royalties on unpatented technology might actually encourage new entrants who are not bound by the license and will be able to undercut the former patentee’s price.”); Schlicher Licensing Treatise at 196 (“[A post-expiration] royalty provision is highly unlikely to limit competition [after patent expiration]. . . . The agreement does not prevent unlicensed companies from entering [the market] in the postexpiration period. . . . If such entry occurs, there will be no loss in postexpiration

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In the closely-related antitrust context, this Court repeatedly has emphasized that resort “to *per se* rules is confined to restraints . . . that would always or almost always tend to restrict competition and decrease output,” i.e., ones that “have manifestly anticompetitive effects,” “lack any redeeming virtue,” and “would be invalidated in all or almost all instances under the rule of reason.” *Leegin*, 551 U.S. at 886-87 (internal quotation marks and ellipses omitted). From this perspective, *Brulotte*’s *per se* prohibition makes little sense: “[t]he small number of cases suggesting anticompetitive possibilities indicates that post-expiration royalty provisions should be treated under a rule of reason, with proof of anticompetitive effects required.” 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-7. The failure of *Brulotte*’s second premise thus lends further support to the conclusion that that decision should be overruled.

resource allocation. This device does not provide a profitable mechanism to limit competition in the postexpiration period and separately exploit that limitation.”); *Hershey*, 18 Berkeley Tech. L.J. at 171 (“[A]fter expiration of the patent, higher prices from licensees bound by the continued royalty obligation may encourage entry into the market by new firms, thereby increasing competition for the same product in the post-expiration market.”).

3. Antitrust Policy Does Not Justify *Brulotte*'s *Per Se* Rule, Which Relies On The Outdated Irrebuttable Presumption That Patents Confer Market Power.

Finally, the third premise underlying *Brulotte* – one rooted in antitrust policy – has, as the government acknowledges (US CVSG Br. 12-14), been undercut both by subsequent Congressional action and a later decision of this Court.

Brulotte – relying on an analogy to tying cases – irrebuttably presumed that merely having a patent conferred market power and inherently allowed the licensor to exercise improper negotiating leverage over the licensee. *See id.*, 379 U.S. at 33, App. 78-79; *see also* 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-9 (*Brulotte* “created a rule of per se illegality that required . . . [a] presumption that a patent created market power for the purpose of tying arrangements or patent misuse” while demanding no “proof of coercion”); Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901, 924-25 (2007) (“[In] *Brulotte*, the proposition that the patent conferred monopoly power upon the patent owner appears to have been assumed, rather than proven.”).

One unfortunate but predictable consequence of this conclusive presumption was that the *Brulotte* rule became a trap for the unwary, and an instrument of injustice when wielded by large, sophisticated licensees to deny small inventors their contractually-guaranteed royalties under circumstances where the

licensors had no actual market power, and had applied no coercion. *See, e.g., Scheiber*, 293 F.3d at 1016 (licensee allowed to avoid payment under *Brulotte* even though licensee itself had suggested royalties on post-expiration use in exchange for lower overall royalty rate); *Indust. Promotion Co. v. Versa Prods., Inc.*, 467 N.W. 2d 168, 172, 173-74 & n.4 (Wis. Ct. App. 1991) (same); *Delaney v. Marchon, Inc.*, 627 N.E.2d 244, 246 (Ill. App. Ct. 1993) (licensee sought to avoid payment on ground that “its own form [license agreement] . . . was illegal and unenforceable” under *Brulotte*); *see also* Dratler Treatise at §4.04[5][d] (“[*Brulotte*] conjure[s] up patent ‘leverage’ where none in fact exists.”); Bowman, *Patent and Antitrust Law* at 232 (criticizing *Brulotte* for relying on a “leveraging fallacy”).

Indeed, this case presents a similar scenario. As the Ninth Circuit explained, *Brulotte* compelled it to attribute improper negotiating leverage to Petitioners, absolving Marvel – a large business concern – of its financial obligations, merely because these individuals possessed a patent, even though that patent already had been held noninfringed by the district court at the time the agreement was negotiated. Pet. App. 22-23 & 25.

The force of *Brulotte*’s patent-equals-market-power presumption, however, has been severely undercut by two subsequent events.

First, in 1988, Congress enacted a new statutory provision, 35 U.S.C. §271(d)(5), which states that

tying cannot constitute patent misuse “unless, in view of the circumstances, the patent owner has market power in the relevant market.” See Act of Nov. 19, 1988, Pub. L. No. 100-703, §201, 102 Stat. 4676. This development made “it clear that Congress did not intend the mere existence of a patent [any longer] to constitute the requisite ‘market power.’” *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006).

Second, in 2006, this Court followed suit in *Illinois Tool Works*, and, overruling four of its prior decisions, held that, in the antitrust tying context, “a patent [also] does not necessarily confer market power upon the patentee.” *Id.*, 547 U.S. at 45-46.

This change in the law of tying – to which *Brulotte* had analogized patent royalties on post-expiration use – delivered yet another blow to that opinion’s already crumbling doctrinal foundation:

[In finding *per se* unenforceability] solely from the face of the agreement without inquiry into the actual negotiations of the parties, . . . [*Brulotte* is now] clearly out of step with modern, more realistic assessments of licensing practices. The better approach would address whether, realistically viewed, any wrongful leveraging actually occurred.

Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* §9:9 (2014) (“Nimmer Treatise”); see also Dreyfuss & Pope, 24 Berkeley Tech. L.J. at 987 (“In this new environment, the result in *Brulotte* . . . is

highly questionable. Without knowing how much economic power the patent conferred, there is no way to determine whether the contractual promise to continue payments beyond the term of the patent was produced by leverage.”); Holmes Treatise at §24:4 (“While patent royalty arrangements are not expressly covered [by §271(d)(5)], they would seem to be subject to the same basic logic. Unless the patentee has market power in the economic sense of an ability to affect market prices or output, the fact that it has selected a particular royalty mechanism seems unlikely to affect, let alone injure, competition within the overall market.”).¹⁹

The government acknowledges the fall of the patent-equals-market-power presumption, US CVSG Br. 12-14, but contends that its demise does not matter because “[t]he *Brulotte* rule was never intended . . . to establish a rule of antitrust law.” US CVSG Br. 15. But this argument misses the point. As the government concedes, in creating a *per se* prohibition on patent royalties on post-expiration use, *Brulotte* grounded its conclusion, at least in part, in

¹⁹ See also Landes & Posner at 380-81 (enactment of section 271(d)(5) has rendered *Brulotte* rule “particularly anomalous”); A. Douglas Melamed & Ali M. Stoeppelwerth, *The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 Geo. Mason L. Rev. 407, 418 n.44 (2002) (*Brulotte* is “wrongly decided from the vantage point of contemporary antitrust analysis because deferring royalty payments probably does not constitute creation of additional market power.”).

“antitrust-type reasoning.” US CVSG Br. 15. The obsolescence of that antitrust-based premise, in turn, necessarily undermines the holding of *Brulotte*, and provides yet another reason for overruling that decision.²⁰

C. Licensing Arrangements Involving Patent Royalties On Post-Expiration Use Should Instead Be Scrutinized Using A Flexible Rule Of Reason Analysis.

The prevailing view among experts in the patent, licensing, and antitrust fields is that if *Brulotte* is overruled, patent royalties on post-expiration use should instead be scrutinized using a flexible, case-by-case analysis under the rule of reason:

The fact that payments are to be made . . .
based on post-expiration uses . . . [does] not

²⁰ Indeed, the position taken by the Antitrust Division and the FTC in the 2007 DOJ/FTC Report that the agencies will, for antitrust enforcement purposes, “review most agreements that have the potential to extend the market power conferred by a valuable patent beyond that patent’s expiration pursuant to the rule of reason,” *id.* at 122, provides yet another justification for overruling *Brulotte*. On the present state of the law, patent royalties on post-expiration use are treated more leniently for criminal antitrust enforcement purposes than they are in contractual disputes between private parties. As this Court observed in a recent case in which it discarded another outdated categorical competition-law principle, such a scenario suggests that the harsher *per se* rule ought to be abandoned, as “it would be unusual for the Judiciary” to apply “a rule of severity for a special category of . . . [civil] cases.” *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 45 (2006).

reflect patent leverage or coercion in and of [itself]. . . . What is at issue is . . . whether the assessment of value is skewed by the presence of market power, by a set of actions beyond the pale of the rule of reason, or by actual coercion. . . . [R]ule of reason analysis, coupled with traditional judicial tools to confront fraud and coercion, . . . [is] much better suited [to addressing this issue] than *per se* or artificial rules that presume a harm or use of leverage that may not in fact be present.

Nimmer Treatise §13:31; *see also* 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-7 (“The small number of cases suggesting anticompetitive possibilities indicates that post-expiration royalty provisions should be treated under a rule of reason, with proof of anticompetitive effects required.”); Holmes Treatise at §24:3 (“[Patent royalties on post-expiration use] should not be held *per se* illegal, or to constitute *per se* patent misuse, and should instead be governed by the more flexible rule of reason. . . .”); Dratler Treatise at §4.04[5][d] (“[The] rule of *Brulotte* is an anachronism with little or no economic justification[,] . . . a lonely *per se* outpost in a rule-of-reason world.”); Hershey, 18 Berkeley Tech. L.J. at 160 (“[T]he *per se* rule against post-expiration royalties should be replaced with a rule of reason approach.”).

Marvel argues (BIO 19-20) that because the rule of reason originates in antitrust law, it is not up to the task of policing potential patent misuse. But, here, as elsewhere, “a page of history is worth a volume of logic.” *New York Trust Co. v. Eisner*, 256

U.S. 345, 349 (1921). The rule of reason framework has not, for many years, been an antitrust-only test. Rather, the courts of appeals also have, for decades, “invoked antitrust’s rule of reason as a determinant in most patent misuse cases.” 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12; *see also id.* §3.2 at 3-6 – 3-13 (surveying cases in this area). Relying on the rule of reason if *Brulotte* is overruled would thus simply harmonize the analysis of patent royalties on post-expiration use with existing patent misuse law.

Under a rule of reason analysis, the court would first ask whether the patentee to whom royalties on post-expiration use are payable had market power in the relevant market at the time the agreement was negotiated, as “it may not be possible to exercise any leverage at all from a patent, if that patent does not confer any market power upon its owner.” *County Materials Corp. v. Allan Block Corp.*, 502 F.3d 730, 735 (7th Cir. 2007); *see also* 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12.1 (“[P]roving misuse will require an accused infringer to demonstrate that the patentee has power in a relevant market.”); 2007 DOJ/FTC Report at 12 (“The starting point for evaluating practices that extend beyond a patent’s expiration is analyzing whether the patent in question confers market power.”); *id.* at 122 (“The first step in the Agencies’ analysis is to assess whether the patent at issue confers market power upon its holder, and if so, whether the patent holder’s conduct unreasonably extends that market power beyond the patent’s statutory term.”). While “the exclusionary right

granted by a patent may be relevant to the market power inquiry, demonstrating misuse will require a full-fledged economic inquiry into the definition of the market, barriers to entry, and the like.” 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12.1; *see also* DOJ/FTC Report at 12 (“[C]ollecting royalties beyond the statutory term . . . [does] not have the potential to cause competitive concern unless the patent in question is associated with market power, i.e., when the patent holder can profitably maintain prices above, or output below, competitive levels for a significant period of time.”) (internal quotation marks omitted).

If the licensee meets its threshold burden of demonstrating the patentee’s market power,

‘the finder of fact must [next] decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature, and effect.’

County Materials, 502 F.3d at 735 (quoting *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997)); *see also* 1 Hovenkamp IP & Antitrust Treatise §3.2e. at 3-12.1 (“[P]roving patent misuse will [also] typically involve . . . proof that the patentee’s conduct was an unreasonable restraint on competition. This in turn means that the conduct had an anticompetitive effect that outweighs any procompetitive benefits that flow from it. . . . [A] rule

of reason inquiry should involve a detailed analysis of the procompetitive benefits as well as the anticompetitive harms of any given act. Thus, patentees will be given an opportunity to justify their conduct or licensing restrictions.”); 2007 DOJ/FTC Report at 122 (in scrutinizing patent royalties on post-expiration use, “the Agencies consider . . . whether a firm is exercising . . . market power beyond the patent’s statutory term so as to prevent expansion by those already in the market, or deter entry of substitute products or processes.”).

In this case, of course, application of such a rule of reason analysis on remand would not need to go beyond the first step, as *Kimble* and *Grabb* quite obviously did not have any market power in the superhero role-playing toy market at the time the agreement was negotiated in 2001 (or, for that matter, at any other time).

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

Finally, the doctrine of *stare decisis* does not counsel against reconsideration of *Brulotte*.

1. It is common ground among the parties in this case (BIO 8) and the government (US CVSG Br. 9) that *Brulotte* did not interpret the *words* of any statutory or constitutional provision. *See also Scheiber*, 293 F.3d at 1018 (*Brulotte* is “a free-floating product of a misplaced fear of monopoly,” rather than being an “interpretation of the patent clause of the

Constitution, or of the patent statute or any other statute.”); 1 Hovenkamp IP & Antitrust Treatise §23.2a. at 23-13 (noting that “the language of the Patent Act nowhere condemns . . . a contract” providing for patent royalties on post-expiration use).

Marvel and the government nonetheless argue (BIO 21-22 & 24; US CVSG Br. 7-9) that overturning *Brulotte* is a matter for Congress, not this Court, because *Brulotte* is a “statutory precedent.” Specifically, focusing on this Court’s recent decision in *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407, 2411 (2014), the government asserts that 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 CVSG Br. 7-9 (internal quotation marks omitted).

There are two significant problems with this position.

First, this argument proves too much. The Court’s opinion in *Brulotte* simultaneously cited *two* limited patent term provisions – Art. I, §8, cl. 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 seventeen-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, cl. 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) (internal 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 Petitioners and their *amici* have demonstrated at length, *see* Parts I.B.1.b. & I.B.2., *supra*, *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.

“*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 (internal quotation marks omitted). This Court has not, in similar circumstances, “hesitated to overrule an earlier decision and settle a matter of continuing concern, even though relief might have been obtained by legislation.” *United*

States v. Reliable Transfer Co., 421 U.S. 397, 409 n.15 (1975). Nor has this Court been reluctant to overrule other decisions espousing atextual patent doctrines when they had proven to be misguided.²¹ 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) (internal quotation marks omitted).

2. In another variation on the "Congress-knows-best" theme, Marvel (BIO 23) and the government (US CVSG Br. 11) argue that Congress has somehow ratified *Brulotte* by considering in 1988, but not enacting, a proposed bill, H.R. 4086. See *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House*

²¹ See, e.g., *Lear, Inc. v. Adkins*, 395 U.S. 653, 663-71 (1969) (overruling prior decision and rejecting the common-law doctrine of patent licensee estoppel); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 321 (1971) (overruling prior decision and rejecting the "judge-made doctrine" of mutuality of estoppel in patent litigation); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917) (overruling judge-made patent misuse rule).

Committee on the Judiciary, 100th Cong. (May 11, 1988) (“H.R. 4086 Hearing”).²²

This argument is unconvincing for two reasons.

First, H.R. 4086 would not simply have replaced *Brulotte’s* rule of *per se* illegality with rule of reason analysis. It would, instead, have created a complicated two-tiered rule that went further. Under H.R. 4086, if the agreement that established patent royalties on post-expiration use was executed at the time the subject patent had already issued, such royalties would have been *per se legal*. If, on the other hand, such an agreement was executed before patent issuance, then the royalties would have been subject to rule of reason analysis – even after the subject patent issued. *See* H.R. 4086 Hearing at 3-4 (text of proposed bill) (patent misuse defined 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.”). The fact that Congress did not enact this unduly complicated and far-reaching proposal sheds no light on its views about the simpler and more measured step of replacing *Brulotte’s per se* prohibition with a flexible rule of

²² Available at <http://babel.hathitrust.org/cgi/pt?id=pst.000014967702>.

reason analysis for all patent royalties on post-expiration use.²³

Second, this Court, in any event, has warned against “the danger of placing undue reliance on the concept of congressional ‘ratification,’” *Patterson v. McLean Credit Union*, 491 U.S. 164, 175 n.1 (1989), and repeatedly has reconsidered its own precedent notwithstanding Congressional inaction. Thus, for example, in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 41, 45-46 (2006), this Court overruled four prior decisions and rejected “the patent-equals-market-power presumption” in the anti-trust tying context, notwithstanding respondent’s argument in that case that Congress had considered, but failed to enact, such a change on several occasions. *See id.*, Brief for Respondent Independent Ink, Inc. at 34-35 & n.14 (enumerating six proposed but unenacted bills addressing the issue).²⁴ Similarly, in *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 320, 327 n.17, 339-42 (1971), this Court, in overruling a prior decision and rejecting the “judge-made doctrine” of mutuality of estoppel in patent litigation, refused to find Congressional ratification of

²³ The other proposed and enacted legislation cited by Marvel (BIO 23-24 & nn.7-8) and the government (US CVSG Br. 10-11) is even less relevant, as it had nothing specifically to do with patent royalties on post-expiration use.

²⁴ This brief is available at http://www.americanbar.org/content/dam/aba/publishing/preview/publiced_preview_briefs_pdfs_05_06_04_1329_Respondent.authcheckdam.pdf.

the prior rule despite “the introduction of several bills” to effect relevant changes, congressional hearings on the issue, and an intervening reform of the patent statute. Congress’ failure to act here similarly presents no bar to overruling *Brulotte*.

3. In the closely-related antitrust context, this Court consistently has emphasized that reconsideration of *per se* prohibitions particularly is warranted when the relevant government agencies and the academic literature, in light of intervening experience and analysis, come to the conclusion that application of a more nuanced approach such as the rule of reason is appropriate:

Stare decisis, we conclude, does not compel our continued adherence to the *per se* rule [at issue]. As discussed earlier, respected authorities in the economics literature suggest the *per se* rule is inappropriate, and there is now widespread agreement that [the challenged practices] . . . can have procompetitive effects. . . . It is also significant that both the Department of Justice and the Federal Trade Commission – the antitrust enforcement agencies with the ability to assess the long-term impacts of . . . [these practices] – have recommended that this Court replace the *per se* rule with the traditional rule of reason.

Leegin, 551 U.S. at 900 & 907 (overruling prior decision to the contrary); *see also Illinois Tool Works*, 547 U.S. at 33 (overruling several prior decisions and rejecting *per se* rule in view of the “extensive scholarly comment and a change in position by the

administrative agencies charged with enforcement of the antitrust laws”); *State Oil Co. v. Khan*, 522 U.S. 3, 15, 18, 21 (1997) (overruling prior decision and holding that “there is insufficient economic justification for *per se* [rule at issue]” in light of the “considerable body of scholarship” showing that “the theoretical underpinnings” of that rule have been “called into serious question”); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 47-48, 57-59 (1977) (overruling prior decision and substituting rule of reason analysis for *per se* rule in view of fact that the “great weight of scholarly opinion has been critical of the [prior] decision.”). Given the authoritative consensus in the academic and professional literature that *Brulotte* should be overruled, and the criticism of that decision by the United States Patent and Trademark Office, the Antitrust Division of the Justice Department, and the Federal Trade Commission prior to the Solicitor General’s change of position in the invitation brief in this case, *Brulotte’s per se* rule should be reconsidered for the same reason.

Marvel (BIO 22 n.6) and the government (US CVSG Br. 10 n.2) nonetheless contend that the reasoning of these antitrust decisions does not apply to *Brulotte* because “the Court has treated the Sherman Act as a common-law statute.” *Leegin*, 551 U.S. at 899. But the doctrine of patent misuse also originated, and, to a significant extent still exists, as a body of common law rules. See 1 Hovenkamp IP & Antitrust Treatise §3.2a (discussing history of patent misuse doctrine); *id.* at §3.3 (describing particular types of conduct that may constitute patent misuse).

Consequently, as one academic commentator has noted in discussing this case, “the ‘patent-misuse’ issue [in *Kimble v. Marvel Enterprises* is] . . . similar to the antitrust questions that the Court so commonly arrogates to itself.” Ronald Mann, *Is The Patent Act More Like The Sherman Act Or The Securities Laws?* SCOTUSblog, Dec. 4, 2014, <http://www.scotusblog.com/2014/12/is-the-patent-act-more-like-the-sherman-act-or-the-securities-laws>.²⁵

4. In some instances, overruling a prior decision implicates reliance concerns. This is not one of them. Overruling *Brulotte* will open the door to procompetitive, innovation-supporting licensing practices going forward. At the same time, the only existing agreements likely to be impacted are either those – like the one at issue in this case – where the parties agreed to patent royalties based on post-expiration use because they were unaware of *Brulotte*, Pet. App. 7 n.3, or those where one of the parties purposely entered into such an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*. In either case, a change in the law that would require parties to live up to their

²⁵ Marvel also contends (BIO 21) that *Brulotte* should be retained because it articulates a “bright-line” rule. If this were a sufficient basis for preserving poorly-reasoned decisions, no case announcing a *per se* prohibition – a quintessential bright-line rule – could ever be reconsidered. The fact that, on the contrary, this Court has, in recent years, consistently replaced *per se* prohibitions with rule of reason analysis (US CVSG Br. 13-14) fully answers Marvel’s argument.

voluntarily-undertaken contractual obligations can hardly be said to upset their reasonable expectations.

Against this background, Marvel's assertion (BIO 20-21) – unendorsed by the government – that overruling *Brulotte* would somehow disrupt licenses that do *not* provide for patent royalties based on post-expiration use is demonstrably illogical. By hypothesis, lifting *Brulotte's per se* prohibition cannot have any effect on agreements that do not run afoul of it.



CONCLUSION

The judgment of the court of appeals should be vacated, and the case remanded with directions for the lower courts to evaluate the agreement in this case under the rule of reason.

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