No. 13-720

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 RESPONDENT

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QUESTION PRESENTED

Whether this Court should overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), a statutory precedent that Congress has left unchanged for half a century even while modifying other patent misuse doctrines.

CORPORATE DISCLOSURE STATEMENT

Marvel Entertainment, LLC (Marvel) is a successor by merger to Marvel Entertainment, Inc., which was formerly known as Marvel Enterprises, Inc. Marvel is wholly owned by The Walt Disney Company, the shares of which are publicly traded. No publicly held corporation owns 10% or more of the stock of The Walt Disney Company.

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BRIEF FOR RESPONDENT

INTRODUCTION

In *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), this Court interpreted the statutory patent term as circumscribing not only the period of exclusive patent rights but also the time within which royalties may accrue for use of those rights. The clear and narrow rule set out in the decision has proven entirely workable for more than half a century. *Brulotte* forbids the enforcement of a license only insofar as the license requires royalties for the use of a patented invention after the patent ends. Parties have relied on that background rule for drafting countless licenses, creating reliance interests that will be upset if it is now overruled. Moreover, *Brulotte* has been left unchanged by Congress despite specific proposals to modify it, despite the enactment of other changes to patent misuse law, and despite sustained and repeated attention to the Patent Act, including changes to the patent term.

In light of that history, the case should begin and end with *stare decisis*. "Before overturning a long-settled precedent," this Court "require[s] 'special justification,' not just an argument that the precedent was wrongly decided." *Halliburton Co.* v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407 (2014). Petitioners fail to make such a showing. The academic criticism that pervades petitioners' brief—much of it predicated on misreading *Brulotte* and misunderstanding its grounding in patent, not antitrust, law—is neither new nor undisputed. Congress considered the same arguments and was unmoved.

Contrary to petitioners' claim, there is not and has never been a consensus among commentators, courts, or government officials that *Brulotte* was misguided, much less that it should be judicially overruled. Congress heard from supporters as well as detractors of *Brulotte*, just as this Court has in the amicus briefs. Furthermore, Congress heard no evidence—and petitioners have adduced none—to support the sweeping claim that *Brulotte* is harming the American economy. Innovation, patenting, and patent licensing have all flourished in the years since *Brulotte* was decided.

Brulotte is thus accomplishing its purpose. By forbidding licensing arrangements in which the toll of royalties continues to accrue for use of an invention after a patent expires, the decision guarantees that the public receives the full benefit of the patent bargain: free and unrestricted public use of the patented idea, including by licensees, at the end of the patent term. It fits comfortably with other precedents that further the same statutory policy, including the settled rule that a patent holder may not continue to collect royalties for the use of a patented invention after the patent is declared invalid, no matter what contractual promises to the contrary the patent holder extracted from its licensees.

Like other decisions sounding in patent policy, *Brulotte* reflects this Court's understanding of the Patent Act and the balances that Congress has struck in the Act. If *Brulotte* ever needs to be modified or updated to better reflect those policies, Congress is the appropriate institution to do so. The judgment below should be affirmed.

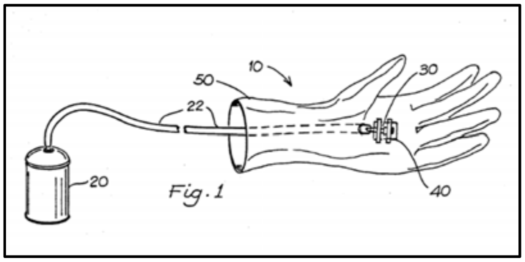
STATUTORY PROVISIONS

The appendix reproduces the current version of 35 U.S.C. § 154, as well as the prior versions applicable when *Brulotte* was decided and when Kimble obtained the patent at issue.

STATEMENT

A. Prior Litigation And Settlement

In 1990, petitioner Kimble applied for a patent on a toy for role-playing as "a spider person" by shooting foam string "from the palm of [the] hand." U.S. Patent No. 5,072,856, col. 3, ll. 30-31 (issued Dec. 17, 1991). Kimble's patented toy was designed to evoke Spider-Man, Marvel's iconic Super Hero renowned for his spider super-powers and web-slinging. The toy consisted of a glove with a valve connected to a canister of foam:



Id. fig. 1; *see id.* col. 3, ll. 35-51. The '856 patent expired no later than May 25, 2010. Pet. App. 49.

In 1997, Kimble sued Toy Biz, Inc. over the sale of a Spider-Man toy called the Web Blaster. *Kimble* v. *Toy Biz, Inc.* (*Kimble I*), No. 97-cv-557 (D. Ariz.). The Web Blaster was "a role play toy" for emulating Spider-Man "by shooting foam string." Pet. App. 49. Kimble alleged that Toy Biz was willfully infringing the '856 patent and was liable for treble damages. Kimble also alleged that the president of Toy Biz had orally agreed at a 1990 meeting to pay him royalties if the company used his invention or related toy ideas and that the company had breached that agreement. First Am. Compl. ¶¶11-31, *reproduced in Kimble* v. *Marvel Enters., Inc.* (*Kimble II*), No. 08-cv-372, Dkt. 49-3 (D. Ariz. July 1, 2009).

The district court granted Toy Biz summary judgment on Kimble's patent infringement claim, holding that under the doctrine of equivalents, Kimble could not show that the Web Blaster possessed an equivalent to the '856 patent's glove or its holder for housing and actuating the toy's valve. Order 7-11, Dkt. 101, *Kimble I* (Feb. 17, 2000). Kimble's contract claim was tried to a jury, which found that Toy Biz had breached an oral agreement and awarded Kimble royalties on "net product sales" of the Web Blaster. Pet. App. 50. Toy Biz's post-trial motion for judgment as a matter of law was denied. Op. 6, Dkt. 175, *Kimble I* (Dec. 26, 2000).[1] Toy Biz appealed from the jury's verdict, and Kimble cross-appealed on his patent infringement claim.

The parties settled in 2001, before any briefing on appeal. Pet. App. 50. By that time, Kimble had assigned an interest in the '856 patent to his lawyer, Robert Grabb (JA24), who is also a petitioner in this Court; Toy Biz had acquired Marvel Entertainment Group out of bankruptcy; and the companies had merged into Marvel Enterprises. The settlement was thus struck between "Marvel Enterprises, Inc." and "'the Patent Holders,'" Kimble and Grabb. JA16.

To "avoid the further expense and distraction of litigation" (JA17), Marvel purchased the '856 patent from Kimble and Grabb without admitting any liability for infringement or breach of contract (JA18, 21). In exchange, Marvel agreed to pay Kimble and Grabb $516,214.62, plus

> 3% of "net product sales" (as such term is used in the Judgment) excluding refill royalties made after December 21, 2000. For purposes of this paragraph …, "net product sales" shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as

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[1] Toy Biz argued in part that the alleged oral contract violated New York's statute of frauds because it could not be performed within one year. Op. 2. In denying the motion, the district court stated that Toy Biz could have "ended its obligation" within one year "by permanently terminating sale of the toy." *Id.* 4. However, ceasing to sell toys within the first year of the alleged contract would not have terminated a royalty obligation for future years. *See, e.g.*, *Shirley Polykoff Adver., Inc.* v. *Houbigant, Inc.*, 374 N.E.2d 625, 626-627 (N.Y. 1978).

> sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

JA18-19. The settlement does not contain an express end date for royalties, which may have been because the expected lifecycle for most toys is short. It was Grabb and Kimble, not Marvel, who proposed this "concept of a final deal," including royalties for all future sales "based on the patent." JA26.

The parties executed a separate assignment of the '856 patent. JA24-26. As a condition of settlement, the parties withdrew their cross-appeals and stipulated to a revised judgment, which the district court entered, dismissing Kimble's action with prejudice and vacating the jury verdict. JA18; Pet. App. 50. Thus, contrary to petitioners' suggestion (at 5), there is no final adjudication that the oral agreement asserted by Kimble existed or is enforceable.

Petitioners were paid more than $6 million in royalties during the term of the '856 patent. Pet. App. 7.

B. Proceedings Below

In 2007, disputes arose between the parties about the limits of the settlement agreement. Kimble and Grabb maintained that they were entitled to full patent royalties on products even when web-shooting was only one of several functions the toy performed. Pet. App. 68-69. In petitioners' view, multi-function toys and "all other Web Blaster products currently on the market would infringe the Patent," thus triggering Marvel's royalty obligation. JA28. Although the patent would expire in 2010, petitioners also maintained that they were entitled to patent royalties "for many many years to come," "as long as there is a Web Blaster toy" of any type on the market. JA30.

Petitioners ultimately sued in state court for breach of the settlement agreement. Marvel removed the action to federal court. JA2. In its answer, Marvel counterclaimed for a declaratory judgment that its royalty obligations did not extend beyond the expiration of the '856 patent. Answer ¶¶31-35, 46-49, Dkt. 12, *Kimble II* (Aug. 4, 2008).

Petitioners then reversed course. Recognizing that "[o]nce the ['856] Patent expires, there can be no infringement" and thus no royalties for "product sales that would infringe the Patent," petitioners sought to reinterpret the settlement agreement as providing for both patent and non-patent royalties, the latter owed for the use of unpatented toy ideas Kimble allegedly disclosed at the 1990 meeting. Pls.' Mot. for Summ. J. 4-5, Dkt. 49, *Kimble II* (July 1, 2009).

Marvel moved for summary judgment under *Brulotte*. Def.'s Mot. for Summ. J. 7, Dkt. 54, *Kimble II* (July 15, 2009). In invoking *Brulotte*, Marvel accepted petitioners' characterization of the settlement agreement as contemplating royalties for the use of both patented and unpatented ideas. *Id.* 13-14 & n.12.[2] Even so construed, however, the royalty obligation was unenforceable under *Brulotte* and settled circuit law. *Id.* 12-17.

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[2] Marvel understood the agreement as transferring both the '856 patent and whatever unpatented ideas Kimble claimed to have disclosed at the 1990 meeting. Pet. App. 56-57. For years, Marvel paid petitioners royalties for web-shooting role-play toys in a good faith effort to honor the settlement, without undertaking any infringement analysis.

A magistrate judge recommended that Marvel's motion be granted (Pet. App. 53-60), and the district court agreed (*id.* 34-37). The district court recognized that an agreement to pay royalties for the use of both patented and unpatented intellectual property may extend beyond the expiration of the patent without violating *Brulotte*, but only if there is a discernible "distinction between the royalties" for the two kinds of rights, such as a lower royalty rate in the post-expiration period. *Id.* 35 (discussing *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979)). The court found no such distinction in the settlement. *Id.* 37. It thus held that "the royalty provision is unenforceable after the expiration of the ['856] patent." *Id.*

The parties subsequently stipulated to the dismissal with prejudice of all other remaining claims and counterclaims, and Kimble appealed. JA12.

The court of appeals affirmed. The court articulated the rule set forth by *Brulotte*, *Aronson*, and later decisions as follows:

> [A] license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate. This is because—in the absence of a discount or other clear indication that the license was in no way subject to patent leverage—we presume that the post-expiration royalty payments are for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*.

Pet. App. 18.[3] The court determined that the settlement agreement "did not include a discounted rate" post-expiration or any "other clear indication that the [post-expiration] royalty was in no way subject to patent leverage." *Id.* 20, 21. Thus, "*Brulotte*'s presumption must apply," and the obligation to pay royalties ends when the patent expires. *Id.* 23.

In so holding, the court of appeals speculated that "Kimble's primary leverage" in the settlement was "the jury verdict," rather than the '856 patent. Pet. App. 22. The court did not consider that the jury verdict rested on an oral agreement that violated the statute of frauds, whereas the infringement question was premised on a case-specific application of the doctrine of equivalents and would be reviewed *de novo* on appeal. *Supra* pp.4-5 & n.1. In any event, the court correctly recognized that *Brulotte* provides "bright-line rules" (Pet. App. 16) obviating any need to undertake the "impossible" task of attempting to determine what the parties would have agreed to absent any improper patent leverage (*id.* 23). Although the court also suggested that application of *Brulotte* "arguably deprive[d] Kimble of part of the benefit of his bargain" (*id.* 23-24), Kimble presented no evidence that the parties would have agreed to a higher royalty rate had they accounted for *Brulotte*.[4]

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[3] The agreement in this case was not a license but rather an assignment. JA24-26. In opposing certiorari, Marvel noted that petitioners had never attempted to distinguish *Brulotte* on that basis. Opp. 5 n.2. Petitioners have now definitively waived any argument along those lines by agreeing that *Brulotte* "applies to patent assignments" with full force. Pet. Supp. Br. 10.

[4] Petitioners say (at 6) that they were unaware of *Brulotte* at the time they proposed their "concept of a final deal" for the set-

On the same day that the court of appeals affirmed the district court decision in this case, it ordered further proceedings in related litigation, still ongoing, in which Kimble is claiming a breach of the alleged 1990 oral agreement. *Marvel Entm't LLC* v. *Kimble*, 533 F. App'x 749, 750 (9th Cir. 2013). In the parallel litigation, petitioners now claim that the settlement agreement at issue in this case required "royalties only for the [Web Blaster] that was litigated" in 1997, plus infringing products, and that it is the alleged 1990 oral agreement that requires post-expiration non-patent royalties. Kimble Aff. ¶¶9-12, Dkt. 62-1, *Marvel Entm't LLC* v. *Kimble*, No. 10-cv-792 (D. Ariz. July 15, 2014).

SUMMARY OF ARGUMENT

Petitioners' request to overrule *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), should be rejected on *stare decisis* grounds. Petitioners fail to meet the demanding standard this Court requires to overrule a precedent. *Brulotte* interpreted the limited patent term, 35 U.S.C. § 154, and the congressional policies reflected in the Patent Act as forbidding enforcement of a patent license insofar as the license requires royalties for use of the patent after the patent expires. That rule is clear and narrow and leaves open ample flexibility for licensing parties to structure royalty payments over time.

Stare decisis applies with particular force here because *Brulotte* has been left undisturbed by Congress for more than fifty years. During that time, Congress made other changes to patent misuse law but chose not to modify *Brulotte*, despite considering the same argu-

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tlement agreement (JA26). Marvel informed the court of appeals at oral argument that it also did not take account of *Brulotte* during the negotiations. Pet. App. 7 n.3.

ments that petitioners now present to this Court. Congress also repeatedly altered the Patent Act—including adjusting the patent term—in ways that implicitly accounted for *Brulotte*. Congress's judgment not to modify *Brulotte* while making these other changes should be respected. Its decision is unsurprising in light of the complete absence of evidence that *Brulotte* is impeding innovation, patenting, or patent licensing.

Stare decisis also weighs heavily because *Brulotte* governs contract and property rights and has given rise to reliance interests that would be upset if it is overruled. In light of its clear rule, the parties to a patent license do not need to specify the end date for royalties and may instead reasonably rely on *Brulotte*'s background rule that royalties cease to accrue by law when the patent expires. Overruling *Brulotte* could revive long-dead licenses and spur needless and wasteful litigation over licenses without an express end date for royalties.

Even setting aside *stare decisis*, *Brulotte* was correctly decided as a matter of patent policy. Its rule against post-expiration royalties is a sensible implementation of the limited statutory patent term. An essential part of the bargain at the heart of the patent system is that, when the patent term ends, all rights associated with the patent terminate and the patented idea is committed to the public domain for the free and unrestricted use of all. The same policy concerns animate other well-settled patent precedents, including the rule that a licensee may not be required to continue to pay royalties after a patent is invalidated. Private parties are properly forbidden from attempting to evade those congressional judgments.

Petitioners' argument that the "three premises" of *Brulotte* have been eroded by later developments rests on a misconception of *Brulotte*'s foundations. The decision condemns pre-expiration misuse of the patent to extract post-expiration royalties; it does not, as petitioners claim, mistakenly equate post-expiration royalties with a temporal extension of the monopoly right to exclude. *Brulotte* also does not rest on the economic assumptions that post-expiration royalties are anticompetitive or that a patent confers market power. Those are antitrust concepts. Fundamentally, however, *Brulotte* sounds in patent policy. Subsequent developments in antitrust law do not show that *Brulotte* was wrongly decided, much less that it should be overruled. If anything, the modern problems of royalty stacking and nuisance litigation by non-practicing entities have made *Brulotte* even more relevant and necessary.

Finally, if the Court were to reconsider and modify *Brulotte*, the Court should reject petitioners' request to import the rule of reason into this context. Agreements for post-expiration royalties should remain at least presumptively unlawful because they violate the policies of the Patent Act.

ARGUMENT

I. PETITIONERS FAIL TO DEMONSTRATE ANY SPECIAL JUSTIFICATION FOR DEPARTING FROM *STARE DECISIS*

Petitioners' request to jettison *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), fails to meet the demanding standard for departing from the principle of *stare decisis*. *Stare decisis* "promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process." *Payne* v. *Tennessee*, 501 U.S. 808, 827 (1991). As such, *stare decisis* is "'of fundamental importance to the rule of law.'" *Hilton* v. *South Carolina Pub. Rys. Comm'n*, 502 U.S. 197, 202 (1991). This Court will not depart from precedent absent "'special justification.'" *Michigan* v. *Bay Mills Indian Cmty.*, 134 S. Ct. 2024, 2036 (2014).

Stare decisis and the important interests it serves demand far more than criticism of a decision's merits. That a precedent might have been wrongly decided "as an initial matter" is not itself a "special justification" for overturning settled law. *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 175 n.1 (1989); *see also Edelman* v. *Jordan,* 415 U.S. 651, 671 n.14 (1974) ("'[I]n most matters it is more important that the applicable rule of law be settled than that it be settled right. … This is commonly true even where the error is a matter of serious concern, provided correction can be had by legislation.'" (quoting *Burnet* v. *Coronado Oil & Gas Co.*, 285 U.S. 393, 406 (1932) (Brandeis, J., dissenting))).

Stare decisis applies with "special force" to decisions Congress may alter through further legislation. *Halliburton Co.* v. *Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2411 (2014) (internal quotation marks omitted). Considerations of *stare decisis* are also "at their acme in cases involving property and contract rights." *Payne*, 501 U.S. at 828; *cf. Landgraf* v. *USI Film Prods.*, 511 U.S. 244, 271 (1994) ("contractual or property rights" are "matters in which predictability and stability are of prime importance"). Both principles come together in patent cases, like this one, where this Court has warned about the particular need to "be cautious before adopting changes that disrupt … settled expectations." *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002).

Each of these considerations favors hewing to *Brulotte* and leaving any changes to that doctrine in the hands of Congress.

A. *Brulotte* Is A Narrow And Workable Rule That Implements The Statutory Patent Term

1. *Brulotte* presented the question whether, under the Patent Act, a patent holder may charge royalties for a licensee's use of the invention "in the post-expiration period," after "the patent has entered the public domain." 379 U.S. at 33. The Court concluded that patent royalties for post-expiration use of an invention are incompatible with the purposes of the patent laws.

In *Brulotte*, Thys Co. licensed its patented hop-picking machines to farmers in return for royalty payments based on the quantity of hops picked using the machine. This Court reviewed Thys's judgment to collect unpaid royalties and concluded that the judgment must be reversed "insofar as it allows royalties to be collected" for using the machines after all applicable patents had expired. *Brulotte*, 379 U.S. at 30.

The starting point for the Court's analysis was the fact that patents are issued "for limited times." *Brulotte*, 379 U.S. at 30. A patent holder's rights to the invention expire as Congress ordains in 35 U.S.C. § 154. That statutory termination of patent rights strikes a balance between the inventor's period of patent protection and the interests of the public in benefiting freely from an invention after the patent expires, as envisioned by the Constitution's Patent Clause. *Brulotte*, 379 U.S. at 30-31. At the end of the patent term, the patented invention becomes "public property." *Id.* at 31. Attempts to continue to collect royalties on the use of an invention committed to the public domain are, *Brulotte* concluded, contrary "'to the policy and purpose of the patent laws,'" as reflected in the limited patent term. *Id.*; *see infra* pp.34-35.

2. *Brulotte*'s reach is narrow and directly proportionate to its purpose. It prohibits only royalties based on the use of a patented invention occurring after the patent's term has expired. *Brulotte* thus preserves ample flexibility for the licensing parties. Parties have free rein to structure royalties as they see fit during the patent term to meet their commercial needs. This may include deferring royalties, establishing minimum or maximum royalty payments, or making the payments contingent on certain outcomes as a means of dealing with uncertainty and risk.

In addition, as the Court recognized in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969), the parties to a patent license may agree to calculate the total sum of royalty payments based on the use or sale of the patented invention during the statutory term, but to spread the payments of those royalties over a period of time that extends past the patent's expiration. *See Brulotte*, 379 U.S. at 31 (contemplating "deferred payments for use during the pre-expiration period"); *see also* ABA Section of Antitrust Law, *Intellectual Property and Antitrust Handbook* 496 (2007) (licensees may "satisfy payment obligations on a deferred schedule that extends beyond the life of the patent")*;* DOJ & FTC, *Antitrust Enforcement and Intellectual Property Rights* 117 (2007) (*2007 DOJ/FTC Report*) (*Brulotte* affects "only agreements in which royalties actually *accrue* on post-expiration use").[5]

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[5] If the parties agree on the present value of the patent license, they can likewise agree to many different payment options that are all equivalent to that agreed-upon value (lump-sum, royal-

This ability to defer payment for use of a patent during its term is often overlooked by *Brulotte*'s critics. The petition did not recognize it. Pet. 22-27. Although petitioners now appear to acknowledge the point (at 35-36), it is not clear their amici do, and petitioners continue to endorse without qualification many academic articles that misunderstand *Brulotte*'s narrow rule (*e.g.*, *id.* 4, 30 & n.16, 33 n.17).[6]

Brulotte's limited reach was confirmed in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), which petitioners do not even acknowledge. In *Aronson*, a license negotiated while a patent application was pending provided that if the patent were granted within five years, the licensee would pay a 5% royalty on product sales, but otherwise, the licensee would pay a 2.5% royalty indefinitely. *Id.* at 259. As this Court explained, in those circumstances, the 2.5% royalty obligation clearly was not for use of the patent after its term—it applied only if no patent issued—and non-patent royalties do not implicate *Brulotte*'s narrow rule. *Id.* at 264-265.

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ties paid during the patent term, royalty payments based on use during the patent term but paid later, etc.). *See, e.g.*, Berk et al., *Fundamentals of Corporate Finance* 85-99 (2d ed. 2012) (discussing how to value different payment systems).

[6] *See, e.g.*, Center for IP Research Br. 3-4 (wrongly stating that *Brulotte* prohibits amortized payments that extend beyond the patent term); 1 Hovenkamp et al., *IP and Antitrust* § 23.2b (2d ed. 2015) (wrongly reading *Brulotte* as "limit[ing] the ability of patentees to amortize royalty payments over longer periods than the remaining life of the patent"); 2 Schlicher, *Patent Law, Legal and Economic Principles* § 11:27 (2d ed. 2012) (wrongly criticizing *Brulotte* for preventing parties from "spreading royalties over a longer period" than the patent term); Cotter, *Misuse*, 44 Hous. L. Rev. 901, 939 n.169 (2007) (wrongly advising parties, "[i]n the wake of *Brulotte*," to "structure their transactions so that all royalties attributable to the patent are paid before the end of the term").

Taken together, *Brulotte* and *Aronson* permit parties to contract for a "hybrid" license that extends beyond the expiration of the patent term, provided that the license clearly distinguishes between royalties for use of a patented invention during the patent's term, and royalties for the post-expiration use of unpatented ideas, such as trade secrets, know-how, or other intellectual property. *See* 3 Milgrim & Bensen, *Milgrim on Licensing* § 18.07 & n.19 (rev. ed. 2015); ABA Section of Antitrust Law, *Intellectual Property Misuse* 82 (2000); Opp. 11 (collecting cases).

3. *Brulotte*'s reach is limited in another respect: *Brulotte* acts only as a shield, not a sword. 1 Dratler, *Licensing of Intellectual Property* § 5.04 (2015). It does not provide an affirmative cause of action. Unlike some other patent misuse doctrines, it does not render the patent itself unenforceable against third parties. *Brulotte* only operates to limit the enforceability of a licensee's royalty obligation, and only insofar as the license requires royalties to use the patent after the patent expires. 379 U.S. at 30.

Further, despite petitioners' efforts to transform this dispute into an antitrust case (Pet. Br. 13-18, 41-45), *Brulotte* does not give rise to antitrust liability, including the threat of treble damages or criminal sanctions. Instead, *Brulotte* implements core considerations of patent law and policy, which are distinct from antitrust concerns, and sometimes point in different directions. *See infra* pp.42-43; AIPLA Br. 4-13; Feldman Br. 19-24.

To be sure, *Brulotte* analogized a patent holder's effort to obtain post-expiration royalties to the antitrust concept of market tying—that is, tying together the pre- and post-expiration markets for use of the patent—and its "*per se*" condemnation of post-expiration royalties evokes the language of antitrust law. *See Brulotte*, 379 U.S. at 32-33. But that analogy came only on the heels of *Brulotte*'s discussion of patent law and policy. The case arose as an effort to enforce a license in state court, not an antitrust suit, and this Court has never since understood it to create an antitrust rule. The decision's analogy, in dicta, is hardly a special justification to overrule it.

B. *Stare Decisis* Weighs Heavily Here Because Congress Has Considered And Rejected Proposals To Modify Or Overrule *Brulotte*

1. *Brulotte* is a statutory decision that could be abrogated or altered by Congress

Brulotte rests squarely on an interpretation of the statutory patent term. The operative reasoning of the decision cited the relevant statute, 35 U.S.C. § 154, and interpreted it as reflecting a considered policy judgment about the time within which royalties may accrue for the use of a patent. *Brulotte*, 379 U.S. at 30-31; *see infra* pp.34-35 (discussing patent policy rationale). If Congress disagrees with that interpretation of its policies, it may modify or overrule *Brulotte*.

Petitioners argue (at 49-50) that *Brulotte* is not directly commanded by the text of § 154, but even if that were so, that does not lessen the force of *stare decisis*. When "Congress may overturn or modify any aspect of" the decision, the "ordinary principles of *stare decisis*" apply. *Halliburton*, 134 S. Ct. at 2411.[7]

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[7] Petitioners also argue (at 50-51) that *Brulotte* may be more readily overruled because it cited both the Patent Act and the Patent Clause and is thus "at least partly constitutional." Nothing in this Court's precedent supports that suggestion. Many decisions

For example, the *Halliburton* petitioners urged the Court to overrule the fraud-on-the-market presumption of reliance recognized in *Basic, Inc.* v. *Levinson*, 485 U.S. 224 (1988). That presumption is not directly commanded by the text of the statute *Basic* interpreted, 15 U.S.C. § 78j(b), or by the implementing regulation, 17 C.F.R. § 240.10b-5. Indeed, the Court acknowledged that "the presumption is a judicially created doctrine." *Halliburton*, 134 S. Ct. at 2411. Nevertheless, the Court concluded that the "'special force'" of statutory interpretation *stare decisis* applied to the *Basic* presumption because "'Congress remains free to alter what'" the Court has done. *Id.* (quoting *John R. Sand & Gravel Co.* v. *United States*, 552 U.S. 130, 139 (2008)).

The Court has taken the same approach to 35 U.S.C. § 101, which states that "any new and useful process, machine, manufacture, or composition of matter" is eligible for patent protection. The Court has interpreted § 101 to exclude from patent-eligibility "laws of nature, physical phenomena, and abstract ideas." *Bilski* v. *Kappos*, 561 U.S. 593, 601 (2010). Those exceptions are "not required by the statutory text," but are nevertheless "a matter of statutory *stare decisis*." *Id.* at 601-602. Congress may alter them but has not done so.

In similar fashion, the Court adhered to the *Feres* doctrine, which bars service members from suing the

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cite provisions of the Constitution, but they are not thereby transformed into interpretations of it. *Brulotte*'s application has always been tied to the patent term set by statute, which does not remotely approach the outer bounds of Congress's authority to authorize patents for "limited Times." *See Eldred* v. *Ashcroft*, 537 U.S. 186, 199 (2003) (copyright term of life plus 70 years is still "'limited'"). Congress remains free to abrogate or modify *Brulotte* at any time, and thus *stare decisis* applies with special force.

government for torts arising out of activity incident to service. *United States* v. *Johnson*, 481 U.S. 681, 686 (1987). Although the *Feres* bar is arguably unsupported by the text of the Federal Tort Claims Act, *id.* at 695 (Scalia, J., dissenting), the Court nevertheless concluded that it would not deviate from the forty-year-old doctrine when "Congress 'possesses a ready remedy' to alter a misinterpretation of its intent," *id.* at 686.

Like the precedents confirmed in *Halliburton*, *Bilski*, and *Johnson*, *Brulotte* has stood for decades without modification by Congress. The principle of *stare decisis* commands its retention absent a "special justification" that petitioners have not offered.

These examples all stand in sharp contrast to the Court's approach to the Sherman Act, which the Court has understood as "a common-law statute" for which *stare decisis* "is not as significant" as in other statutory domains. *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 899 (2007). The Patent Act is not such a statute and the Court has never treated it that way. Nor has Congress: Since enacting the Patent Act in 1952, Congress has substantively amended it on thirty-three occasions, most recently with a comprehensive overhaul in the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). By contrast, the Sherman Act has been amended only nine times since its enactment over 124 years ago, and four of those amendments were simply to raise the fines and criminal punishments for existing antitrust violations. For *stare decisis* purposes, the Patent Act is nothing like the Sherman Act.

Petitioners also attempt (at 52 & n.21) to place *Brulotte* on par with what they characterize as "atextual patent doctrines" that the Court has overruled, but their cases are wide of the mark. *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670-673 (1969), actually confirms *Brulotte* and rests on the same patent policy concerns. *Infra* pp.37-39. *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313 (1971), cites *Brulotte* approvingly, *id.* at 344 n.40, and concerns broadly applicable common law preclusion questions, not simply the Patent Act, *id.* at 320-327. In *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 517 (1917), the Court overruled a recent tying decision that Congress had enacted a statute to abrogate. None of these cases provides a basis for ignoring or weakening *stare decisis* here.

2. Congress considered but ultimately declined to adopt changes to *Brulotte* while modifying other aspects of patent misuse

Stare decisis has particular force here, for Congress engaged extensively with *Brulotte* and decided not to modify it. This is not a case in which Congress overlooked the decision in question, or in which legislative changes were proposed but never actively considered. To the contrary, in 1988 Congress enacted detailed reforms to patent misuse law. At the time, Congress considered several proposals to modify or overrule *Brulotte*. Ultimately, it did neither. Congress chose to go only so far and no further, and that judgment should be respected.

a. In the 100th Congress, changes to the law of patent misuse were the focus of sustained legislative attention. Several different approaches were considered in both chambers.

S. 1200—In May 1987, Senator DeConcini introduced S. 1200, which proposed amending the patent misuse provisions in 35 U.S.C. § 271(d) to require proof that "in view of the circumstances" the patent holder's licensing practices, actions, or inactions "violate the antitrust laws" as a prerequisite to a finding of patent misuse. S. 1200, 100th Cong. § 201 (1987).[8] The Judiciary Committee's Report accompanying S. 1200 noted that the bill drew its impetus, in part, from Judge Posner's criticism of several patent misuse cases, including *Brulotte*. S. Rep. No. 100-83, at 65 (1987).

S. 438—Although S. 1200 was not enacted into law, the Senate amended a second bill, which would have also required proof of an antitrust violation before any finding of patent misuse. S. 438, 100th Cong. (as amended Aug. 25, 1988). Again, the accompanying Committee Report stated that the bill was responding to patent misuse decisions, specifically naming *Brulotte* among them. S. Rep. No. 100-492, at 16 (1988). S. 438 passed the Senate on October 4, 1988. 134 Cong. Rec. 28,011 (1988).

H.R. 4086—Representative Kastenmeier introduced the House's own patent misuse bill in March 1988. H.R. 4086, 100th Cong. (1988). Instead of requiring an antitrust violation as a prerequisite to finding patent misuse, H.R. 4086 identified six specific licensing and sale practices that would constitute patent misuse, and six practices that would not. H.R. 4086 § 2. Under those proposed changes, "unreasonably entering into a royalty agreement that provides for payments beyond the expiration of the term of a patent" would have constituted "illegal extension" of the patent and

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[8] Similar measures addressing patent misuse and antitrust implications for patent licensing had been considered several times before. *See, e.g.*, S. 2525, 99th Cong. (1986); S. 2944, 99th Cong. (1986); H.R. 4070, 99th Cong. (1986); H.R. 4808, 99th Cong. (1986); H.R. 557, 100th Cong. (1987); S. 635, 100th Cong. (1987).

would have rendered the patent unenforceable in infringement litigation—a harsher sanction than *Brulotte* itself provides. *Id.* (proposed 35 U.S.C. § 271(d)(1), (d)(2)(D)). But the bill would have provided a safe harbor for agreements entered into "after the issuance of the patent" and "mutually agreed" to by both parties, rather than imposed on the licensee. *Id.* Representative Kastenmeier explained that the bill was intended to modify "the Supreme Court decision in *Brulotte* v. *Thys*, 379 U.S. 29 (1964)," by permitting "an exception which authorizes … post-expiration royalties when the parties, for their convenience, agree to such an approach after the issuance of a patent." 134 Cong. Rec. 3261-3262 (1988).

During the House hearing on H.R. 4086, witnesses raised the same policy arguments against *Brulotte* that petitioners and their amici now make and offered the same proposed changes. *See Patent Licensing Reform Act of 1988: Hearing Before the Subcomm. on Courts, Civil Liberties, & the Admin. of Justice of the H. Comm. on the Judiciary*, 100th Cong. 11-12, 35-36, 39, 47-48 (1988) (*1988 Hearing*).

Other witnesses, however, opposed the change. Professor Herbert Schwartz, the author of a leading patent treatise and an active practitioner, argued that patent misuse ought to be retained in its current form. In particular, he argued that a patent holder's attempt to expand the "temporal scope of his or her exclusivity beyond the fixed life of the patent," in violation of *Brulotte*, "is uncalled for regardless of whether his or her actions are pro-competitive or anti-competitive." *1988 Hearing* 134-135 (statement). Professor Schwartz also explained that Congress could address any need for additional incentives for innovation by "increasing the scope of the patent grant," rather than "decreasing the scope of patent misuse." *Id.* 135.

Professor Robert Merges agreed, explaining that *Brulotte*, *Aronson*, and the circuit cases implementing them tend to "strike down practices that … have significant anticompetitive effects—and, notably, only limited social benefits." *1988 Hearing* 189 (statement). Although he expressed some support for legislative reforms, he also noted that "Congress has determined that 17 years of exclusivity," which was the patent term at the time, "provides enough incentive" to stimulate the desired level of innovation and that "[p]arties are simply not free to circumvent" Congress's limits through licensing arrangements. *Id.* Professor Merges further explained that "licensing activity [was] vigorous" under existing law. *Id.* 169; *see also id.* 131 (statement of Prof. Schwartz).

After this hearing, the House subcommittee continued to work to "narrow the provisions of [S. 1200] … to meet the objectives urged by the proponents of reform without undoing the entirety of patent misuse." 134 Cong. Rec. 32,294 (1988) (statement of Rep. Kastenmeier).

H.R. 4972—In October 1988, the Senate passed an amended version of a House bill, H.R. 4972, 100th Cong. (as amended Oct. 14, 1988), that incorporated the Senate's proposal to require an antitrust violation as a prerequisite to finding any form of patent misuse. 134 Cong. Rec. 30,689 (1988); *see id.* at 32,471 (statement of Sen. Leahy). The House, however, refused to pass "such a sweeping and inflexible view" of patent misuse. *Id.* at 32,295 (statement of Rep. Kastenmeier). Instead, the House would only agree to a compromise bill that eliminated the possibility of patent misuse for refusing to license a patent and that imposed a market-power requirement before misuse may be found for tying a patent license or the sale of a patented product to the purchase of another product or patent license. *Id.*

The compromise version of H.R. 4972 ultimately enacted into law—the Patent Misuse Reform Act, Pub. L. No. 100-703, tit. II, § 201, 102 Stat. 4674, 4676 (1988) (amending 35 U.S.C. § 271(d))—thus represented a "careful balance of the interests of proprietors" and the public, "while simultaneously furthering the goals of stimulating the dissemination of innovation through the freer use of licensing agreements for patented products." 134 Cong. Rec. 32,295-32,296 (1988) (statement of Rep. Kastenmeier). Senator DeConcini, who had favored broader changes, observed that the compromise bill "leaves the rest for us to address in the future." *Id.* at 32,471.

The extensive congressional debate and the enactment of a carefully calibrated compromise powerfully rebut petitioners' argument for overruling *Brulotte*. Congress heard the arguments on all sides, including the arguments for abrogating or modifying *Brulotte*, and decided to leave *Brulotte* undisturbed. Were Congress to change its mind in the future, it could always revisit this decision. But the ball is squarely in Congress's court and should remain there.

b. Congress's decision not to disturb *Brulotte* while altering other aspects of patent misuse is a far cry from the examples offered by petitioners (at 54-55), where Congress failed to take any substantive action. *See* U.S. Br. 41-43, *Blonder-Tongue Labs., Inc.* v. *University of Ill. Found.*, No. 70-338 (U.S. Jan. 8, 1971) (all bills proposed to modify rule of estoppel died in committee); Resp. Br. 35 n.14, *Illinois Tool Works Inc.* v.

Independent Ink, Inc., No. 04-1329 (U.S. Sept. 28, 2005) (similar).[9] Rather, because Congress enacted the 1988 Patent Misuse Reform Act while "specifically consider[ing] and reject[ing]" an alternative that would have overruled *Brulotte*, "[t]here could hardly be a clearer indication of congressional agreement with" *Brulotte*'s rule. *Runyon* v. *McCrary*, 427 U.S. 160, 174-175 (1976).

Petitioners also miss the mark when they contend (at 53-54) that the 1988 Act is irrelevant because Congress did not consider the *exact* change they now advocate. This Court has never required perfect overlap in the manner petitioners suggest. In any event, some proposals, such as S. 1200 and S. 438, would have required an antitrust violation as a prerequisite to finding patent misuse (including misuse based on post-expiration royalties), which is equivalent to the standard petitioners propose (at 45-49). The competing House proposal, H.R. 4086, would have abrogated *Brulotte* where the parties mutually agreed to post-expiration royalties after issuance of the patent and would otherwise have judged those royalties on their reasonableness. *Supra* pp.22-23. Far from being "unduly complicated" (Pet. Br. 53), that approach would have provided "clearer … guidelines" than wholesale "reliance on the amorphous 'rule of reason,'" *1988 Hearing* 172 (statement of Prof. Merges).

Evaluating the wisdom of such competing proposals and the need, if any, for reform is quintessentially a task for Congress. The 1988 Act reflected Congress's considered judgment not to alter *Brulotte*. The

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[9] Moreover, *Illinois Tool Works Inc.* v. *Independent Ink, Inc.* is an inapt comparison because it concerns the Sherman Act, where *stare decisis* has less force. 547 U.S. 28, 32 (2006); *see supra* p.20.

Court should decline petitioners' invitation to override that judgment.

c. Congress has also enacted other significant changes to patent law against the backdrop of *Brulotte*. In particular, Congress has twice modified the patent term since *Brulotte*, effectively extending the period for charging royalties. For each reform, Congress carefully adjusted the statutory period to achieve a balance between proper incentives for innovation and the public's interest in exploiting an invention. Not only did Congress make those changes without altering *Brulotte*, but the balance it struck implicitly accounts for *Brulotte* and would be disturbed if *Brulotte* were overruled.

In 1984, Congress passed the Drug Price Competition and Patent Term Restoration Act, Pub. L. No. 98-417, 98 Stat. 1585 (Hatch-Waxman Act), which recognized that many patented new drugs cannot be commercialized until the sometimes-lengthy FDA review process is complete. H.R. Rep. No. 98-857, at 17 (1984). To offset that regulatory delay, Congress permitted patent holders to apply for a commensurate extension of the patent term, not to exceed five years. 35 U.S.C. § 156. It also created periods of non-patent exclusivity of up to seven-and-a-half years. 21 U.S.C. § 355(c)(3)(E)(ii).

With these new patent extensions and exclusivity periods, Congress sought to ensure "that research intensive companies will have the necessary incentive to increase their research and development activities," H.R. Rep. No. 98-857, at 41, while still protecting the interests of the "production-intensive sectors of the pharmaceutical industry," who might be harmed by an excessively long patent term, *Innovation and Patent*

Law Reform: Hearings Before the Subcomm. on Courts, Civil Liberties, & the Admin. of Justice of the H. Comm. on the Judiciary, 98th Cong. 386 (1984) (*1984 Hearings*) (statement of Gerald Mossinghoff, Asst. Secretary & Comm'r of Patents & Trademarks).[10]

Congress again altered the patent term in 1994 to move away from a term of 17 years from patent issuance to a term of 20 years from the earliest filing date. Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a)(1), 108 Stat. 4809, 4983-4984 (amending 35 U.S.C. § 154). Congress also put in place a system of patent term adjustments to compensate for certain types of delay at the PTO. Patent Term Guarantee Act of 1999, Pub. L. No. 106-113, app. I, § 4402(a), 113 Stat. 1501, 1501A-557 to 1501A-560.

There was no groundswell to modify or overrule *Brulotte* at any juncture in any of these legislative processes. In fact, during hearings on the Hatch-Waxman Act, amicus the Association of the Bar of the City of New York expressly asked Congress *not* to abrogate *Brulotte*'s prohibition on post-expiration royalties. *1984 Hearings* 2600-2601.

3. Any future modification of *Brulotte* is best left to Congress

All of the many changes that Congress has made to the Patent Act since 1964—including the 1988 patent misuse reforms, the changes to the patent term described above, and the comprehensive overhaul of the patent system in the America Invents Act—were made

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[10] Congress thus responded to the same sorts of concerns now raised by, for example, amicus Memorial Sloan Kettering (at 11). *See also infra* pp.47-48 (discussing life-sciences industry).

with *Brulotte* in place. Thus, every time Congress has returned to the Act to recalibrate the incentives for optimal innovation, it has struck a balance that implicitly assumes that royalties on post-expiration use are forbidden. *See, e.g.*, *Merck & Co.* v. *Reynolds*, 559 U.S. 633, 648 (2010) (Congress is presumed to be "aware of relevant judicial precedent" when it legislates). Overruling *Brulotte* now will upset those congressional policy judgments. The decision may be more relevant to some legislative judgments than others, but at this point it is embedded in the law, and a change in direction risks unintended consequences.

Congress is in a far better position to consider those consequences and to fine-tune the balances and compromises at the heart of the patent system. Unlike this Court, Congress does not face the blunt question of whether to overrule *Brulotte* and may instead consider myriad intermediate approaches, as the 1988 legislative record demonstrates. Congress thus has "the greater capacity 'to weigh and accommodate the competing policy concerns and reliance interests' involved in" this area. *Bay Mills*, 134 S. Ct. at 2037-2038.

The long history of congressional attention to the patent term, patent licensing, patent misuse, and specifically *Brulotte* also illustrates that Congress is eminently capable of addressing petitioners' concerns, should it find any merit in them. Petitioners' claim that *Brulotte* "produces a number of serious and harmful consequences" is thus more "appropriately addressed to Congress." *Halliburton*, 134 S. Ct. at 2413.

C. *Brulotte* Has Not In Any Measurable Way Harmed Innovation Or Inventors

It is unsurprising that Congress has opted not to change *Brulotte*. Despite academic criticism, there is no evidence that *Brulotte* has impeded desirable patent licensing or innovation. Petitioners and their amici cannot point to a single actual licensing opportunity that failed because of *Brulotte*. Indeed, the many praiseworthy inventions mentioned by amici (*e.g.*, Memorial Sloan Kettering Br. 10-11) were all invented, disclosed, and commercially produced with *Brulotte* in effect. Despite petitioners' "speculative protestations to the contrary, there is simply no evidence that [*Brulotte*] has caused or will cause" a stifling of research or development. *United States* v. *International Bus. Machs. Corp.*, 517 U.S. 843, 856 (1996) (citation omitted) (adhering to *stare decisis*).[11]

The record that Congress compiled in 1988 before ultimately declining to modify *Brulotte* demonstrated that patent licensing was robust at the time, as was patentable innovation in a wide variety of fields. *See supra* p.24. That is even more true today. *E.g.*, PTO, *U.S. Patent Statistics: Calendar Years 1963-2013* (2014) (number of annual issued U.S. utility patents more than tripled since 1964); Watanabe, *Patent Licensing and the Emergence of a New Patent Market*, 9 Hous. Bus. & Tax L.J. 445, 449 & n.24 (2009) (estimated U.S. annual patent licensing revenues grew several hundred percent in the 1990s and exceeded $150 billion by 2006).

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[11] *Compare Leegin*, 551 U.S. at 903 (overruling *Dr. Miles Med. Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911), in part because that decision in fact "led[] rational manufacturers to take wasteful measures").

Brulotte also has not disadvantaged inventors. Petitioners claim (at 41-42) that it functions as a "trap for the unwary" and invites sharp practices by sophisticated licensees. However, other contract remedies already exist to address that supposed problem. The court of appeals noted that a *quantum meruit* theory might be available in other circumstances, not present here, if a patent holder could demonstrate that "the amount of royalties paid was lower than the fair market value of the [licensee]'s use of the license." Pet. App. 26 n.8.[12] Similarly, if a licensee requests a royalty extending beyond expiration of the patent, knowing the royalty will be unenforceable when the patent expires, the licensor might have a claim for fraudulent inducement. *See, e.g.*, *Held* v. *Kaufman*, 694 N.E.2d 430, 431-433 (N.Y. 1998). Petitioners did not seek any such relief, nor could they, given that they proposed the structure of the agreement (JA26-27) and there was no evidence of any overreaching by Marvel.

In any event, *Brulotte* is hardly an arcane rule lurking in surprise. Although the parties to this particular settlement apparently did not consider it when entering into their agreement (*supra* n.4), *Brulotte* is discussed in virtually every modern licensing guide. *See, e.g.*, 1 Dratler § 4.04[5] ("axiomatic" rule); 1 Einhorn & Bensen, *Patent Licensing Transactions* § 3.07 (rev. ed. 2014) ("abundantly clear" rule); Jager, *Licensing Law Handbook* § 3:5 (2013) ("readily apparent" consideration for licensors).

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[12] Petitioners received more than $6 million in royalties (Pet. App. 7)—far in excess of the fair market value of use of the '856 patent. Indeed, there is no evidence that the patent had any commercial value at all unless combined with Marvel's own Spider-Man intellectual property.

D. Overruling *Brulotte* Would Upset The Settled Expectations Of Licensing Parties

The interests of *stare decisis* are "at their acme" here, for *Brulotte* affects "property and contract" rights, and parties who reasonably relied on that decision will have their expectations disturbed if it is overruled. *See Payne*, 501 U.S. at 828; *see also Hilton*, 502 U.S. at 202 ("*Stare decisis* has added force when the legislature, in the public sphere, and citizens, in the private realm, have acted in reliance on a previous decision, for in this instance overruling the decision would dislodge settled rights and expectations or require an extensive legislative response.").

Petitioners contend (at 57-58) that reliance concerns are absent here because overruling *Brulotte* will affect only licenses in which the parties agreed to post-expiration royalties, perhaps unaware of the decision. But petitioners' assumption seriously underestimates the disruption of overruling *Brulotte*. The decision has been a background legal principle for five decades. In light of its clear rule, it has not been strictly necessary to specify an end date for patent royalties, which terminate by law upon expiration of the licensed patent. Although "most licenses specify their duration," some instead rely on "gap-filler rules under contract and intellectual property law," such as *Brulotte*. 1 Nimmer & Dodd, *Modern Licensing Law* § 9:3 & n.1 (2014); *see* 1 Epstein, *Eckstrom's Licensing in Foreign and Domestic Operations* § 3:13 & n.2 (2015) ("not always necessary to specify the term … of the license," which "may be limited by law" (citing *Brulotte* as an example)); Nordhaus, *Patent License Agreements* 179 (1967) ("In the absence of an expressed term, a license under a patent is implicitly coextensive in time with the unexpired life of the patent.").

The parties to such licenses were entitled to rely on *Brulotte* in drafting the language of their agreements. If *Brulotte* is overruled, any patent license requiring royalties without a stated end date could well be enforceable even after the expiration of the patent. Indeed, decades-old licenses to already expired patents could be revived from the grave if petitioners prevail. Overruling *Brulotte* will invite parties to search through their old licenses and initiate wasteful litigation over royalty agreements that could be read to extend beyond the patent term. That is deeply unfair to the parties who have already arranged their business affairs in reliance on *Brulotte* and its firm, automatic cutoff for the obligation to pay royalties for the use of a patented invention.

The possibility of upsetting such reliance interests is another reason to leave any changes to Congress. If Congress were to modify *Brulotte*, it could act prospectively and ensure that both "patent owners and licensees" maintain their "well settled set of expectations about current law." 134 Cong. Rec. 3262 (statement of Rep. Kastenmeier) (explaining that H.R. 4086 would only act prospectively).

II. POST-EXPIRATION ROYALTIES VIOLATE THE POLICIES OF THE PATENT ACT

If the Court reconsiders the merits of *Brulotte*, then it should reaffirm that decision. *Brulotte*'s rule against royalties for the use of ideas committed to the public domain is well-grounded in patent policy. The same concerns animating *Brulotte* about the limits of the patent grant and the public's entitlement to the free and unrestricted use of ideas after a patent ends are reflected in other settled precedent. Licensing parties may not evade or upset those congressional policy choices by private agreement. That point remains as vital today as when *Brulotte* was decided.

Petitioners' argument that the "three premises" of *Brulotte* have been eroded by later developments rests on a misconception of *Brulotte*'s foundations. If anything, modern developments underscore the need to protect the public domain from the aggregate toll of patent royalties that would accumulate forever.

A. *Brulotte* Was Correctly Decided As A Matter Of Patent Policy

1. *Brulotte* rightly concluded that royalties for the use of an invention after it enters the public domain are inconsistent with and threaten the "free market visualized for the post-expiration period" by the patent laws. 379 U.S. at 32. The "carefully crafted bargain" at the heart of the patent system is that, in exchange for "the public disclosure of new and useful advances in technology," an inventor receives "an exclusive monopoly for a limited period of time." *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998). Public dedication of the patented idea when the patent ends is an essential part of that bargain. After the limited period of "'exclusive enjoyment'" guaranteed by the statute, "'the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use.'" *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989).

It was protection of that carefully crafted bargain that animated *Brulotte*, not any presumption of market power. The Court began by noting that Congress had, at the time, limited the grant of patent rights to "'the term of seventeen years.'" 379 U.S. at 30 (quoting 35 U.S.C. § 154). During that term, the patentee may license to others "[t]he right to make, the right to sell, and the right to use" the invention and may do so for "royalties as high as he can negotiate." *Id.* at 31, 33. The Court further explained, however, that "these rights become public property once the [term] expires," and any attempt to continue to require royalties "'runs counter to the policy and purpose of the patent laws.'" *Id.* at 31 (quoting *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)). As Justice Harlan agreed in dissent, royalties "exacted beyond the patent term" restrict the "exploitation of the *idea* after it falls into the public domain," and "no such restriction should be valid." *Id.* at 35.

Petitioners suggest (at 26) that *Brulotte*'s concerns were misplaced because royalties, unlike the right to exclude, do not operate "*against the public at large*." However, the public is deprived of "the full enjoyment of that which had become theirs by the disappearance of the monopoly," *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169, 185 (1896), even if only a single licensee is required to continue to pay royalties for use of the idea after it becomes public property. *See* Feldman Br. 6 ("A contract provision that limits the capacity and incentive for even one potential innovator to make scientific leaps after the expiration of the patent disrupts the balances created by Congress in the Patent Act."). It is often through licensees that the public enjoys the benefits of committing the invention to the public domain. A licensee may be the best party, and perhaps the only party, suited to make use of the invention or to build upon it with additional innovation. Although, as a theoretical matter, any non-licensee might practice the invention without paying royalties after the patent expires, that is of little moment if only the licensee is in a position to do so as a practical matter—as here, for example, when the patent claims merely a component of a device also covered by other intellectual property (and indeed was designed to benefit from the licensee's own intellectual property). *See infra* pp.50-51.

2. Although petitioners attempt to paint *Brulotte* as an outlier, the same concern for protecting the patent bargain animates several of this Court's prior and subsequent decisions, which confirm the wisdom of *Brulotte*'s rule and could be unsettled if *Brulotte* were overruled. For example, *Brulotte* relied on *Scott Paper* for its discussion of "'the policy and purpose of the patent laws.'" 379 U.S. at 29. In that case, the inventor assigned his patent, began a company to compete with the assignee, and was then sued for infringement. *Scott Paper*, 326 U.S. at 251. As a defense to infringement, he sought to show that he was using only a device disclosed in an earlier, expired patent. *Id.* But because doing so could call into question the validity of the assigned patent, the defense was arguably barred by the assignment. *Id.* at 251-252.

Scott Paper held that neither an assignor nor anyone else could be precluded "by express contract" or otherwise from "using the invention of an expired patent." 326 U.S. at 255-256. The Court explained that permitting enforcement of such an agreement would deprive "the consuming public of the advantage to be derived from" the *assignor's* "free use of the disclosures." *Id.* at 256. To permit that would violate federal patent policy:

> The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the

> benefits of the unrestricted exploitation, by others, of its disclosures.

Id. at 255. The Court added that "the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing *any part* of the former patent monopoly." *Id.* at 256 (emphasis added). *Scott Paper* thus confirms that, after a patent expires, all the exclusive rights it conferred are "dedicated to the public," and use of them is "no longer subject to private barter, sale, or waiver." *Id.* at 257.

Brulotte and *Scott Paper* concern expired patents, but the same policy is reflected in this Court's treatment of invalid patents. When a patent is declared invalid in litigation involving a third party, "licensees may avoid further royalty payments, regardless of the provisions of their contract." *Lear*, 395 U.S. at 667. An invalidated patent has ceased to exist, and the ideas claimed in it belong to the public at large, including licensees. Even though the obligation to pay royalties is contractual, federal law bars enforcement of that obligation after the end of the underlying federal property right. *See id.* at 672-673.

Indeed, *Lear* held that the policy of protecting the unrestricted use of ideas committed to the public domain is so important to the purposes of the patent laws that the licensee itself may not be estopped from repudiating its license, challenging the validity of the licensed patent, *and* declining to pay royalties while doing so, despite an express contractual promise to the contrary. 395 U.S. at 670-671, 673-674; *see also Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, 402 (1947) (a "specific contract not to challenge …

validity" cannot "override congressional policy").[13] That non-licensees might also challenge the validity of the patent is immaterial, for as *Lear* explained licensees "may often be the only individuals with enough economic incentive" to police the patent bargain and thus protect the public from paying to use that which should be free to all. 395 U.S. at 670.

These decisions make clear that, as a matter of federal patent policy, the putative efficiencies or fairness of private arrangements that would restrict use of an idea after a patent ends or ceases to exist cannot be the sole focus. Federal patent policy also requires taking account of the *public interest* in benefitting from the unrestricted exploitation of the invention *by the licensee*. *See* Altman, *Is There an Afterlife?*, 64 J. Pat. Off. Soc'y 297, 305 (1982) ("[T]he overriding consideration is not the licensee's right to *make* the licensed product, but the general public's right to *buy* it from him."). That is true regardless of any private agreement to the

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[13] In abolishing licensee estoppel, *Lear* noted that the doctrine had been particularly undermined by *Scott Paper*, which it understood as "finding that the policy of the patent laws would be frustrated if a manufacturer was required to pay for the use of information which, under the patent statutes, was the property of all," 395 U.S. at 665-666—a rationale that supports *Brulotte* equally well. *Lear* also relied on cases preempting state protections for ideas after a patent expires. *Id.* at 656 (citing *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)). As the United States explained in its cert-stage brief (at 17), those preemption decisions confirm that federal patent policy is "not indifferent to what happens when a patent's prescribed term ends" and may preclude various state-law restrictions on the "use of [a] formerly patented invention." *See also Bonito Boats*, 489 U.S. at 152 ("[A]fter the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law.").

contrary. *E.g.*, *Lear*, 395 U.S. at 673 ("decisive question" is a categorical policy judgment, as to which "[t]he parties' contract" cannot be controlling); *Katzinger*, 329 U.S. at 401 (license is "still illegal, whoever suggested it").

This consistent body of precedent flowing from the policy of the patent laws cannot be dismissed as preventing only attempts to extend the duration of the patent monopoly against the public at large. Pet. Br. 26 & nn.12-13. To the contrary, both *Lear* and *Scott Paper* invalidated restrictions that operated only on licensees, and yet this Court found those obligations incompatible with the federal patent policy of allowing free use of ideas in the public domain. *Lear*, 395 U.S. at 667; *Scott Paper*, 326 U.S. at 255-257.[14] In both cases the overriding public interest embodied in federal patent policy required relief for the individuals affected.

What these cases and others teach is that Congress has made a considered judgment, reflected in many different ways in the Patent Act, that the progress of knowledge and commerce depends on not only rewarding innovation with a period of exclusivity but also carefully limiting that period, so that further innovation is not unduly hampered.

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[14] Both *Lear* and *Scott Paper* were decided before this Court embraced the doctrine of non-mutual collateral estoppel in *Blonder-Tongue*, and thus neither case resulted in, or depended on, the patent being "extinguished" for "the public at large." Pet. Br. 26 (emphasis omitted). In addition, *Scott Paper* did not invalidate the patent at issue, but rather avoided that outcome by affirming the court of appeals' reliance on the "prior art" in claim construction to "limit[] the claims of the assigned patent, and thus avoid infringement." 326 U.S. at 251.

3. Petitioners contend (at 31) that patent policy favors overruling *Brulotte* so that the parties to a license may "balance and allocate the risks of developing and commercializing new patentable technologies." For example, petitioners hypothesize (at 35) that the licensing parties may jointly prefer royalties to accrue after expiration if they anticipate that successful commercialization will occur only in the distant future and wish to "redistribute the risk of product failure" in the interim. But federal patent law properly forbids private efforts to rebalance the risks and rewards inherent in the patent bargain.

Allowing licensing parties to agree to the accrual of royalties after the patent expires "threatens the overall balances" struck in the patent bargain by "[l]eaving open the time for determining and capturing the value of [the] invention." Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 445 (2003). "The market's inability to recognize or calculate the value of an invention is one of the hazards built into the 20-year patent term," and a patentee may not "secure extra time up front by … building such time into each license." Feldman Br. 23; *see also* Altman, 64 J. Pat. Off. Soc'y at 312 (agreements for post-expiration royalties are attempts to substitute "success which the licensed product enjoyed after expiration" for success "during the term of the patent"); Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc'y 793, 803 (1988) ("Congress has determined that 17 years of exclusivity provides enough incentive to call forth inventive activity in the United States. Parties are simply not free to circumvent this through licensing agreements.").[15]

Petitioners dismiss these concerns (at 27-28) as formalistic. To the contrary, they reflect the substantive congressional policy of ensuring that the public ultimately receives its end of the patent bargain—the full and unfettered use of an invention once it enters the public domain. Adhering to that policy, the Court in *Brulotte* properly determined that the statutory patent term limits not only the length of the patentee's monopoly but also the window of time within which the patentee may charge royalties for new uses of an idea. Petitioners' lament that collecting royalties on up to 20 years of use is not enough in some instances should be directed not to this Court but to Congress, which can and has modified the patent term to respond to similar complaints. *Supra* pp.27-28.

B. Petitioners Misunderstand And Misconstrue The Premises Of *Brulotte*

Petitioners devote much of their brief (at 18-45) to attacking what they describe as the "three premises underlying" *Brulotte*. None of the "three premises" is actually the basis of *Brulotte*, and none of petitioners' criticisms provides a compelling justification to overrule it.

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[15] Contrary to petitioners' suggestion (at 27 & n.14), these commentators do not favor judicially overruling *Brulotte*. *See, e.g.*, Feldman Br. 24-26; *supra* p.24 (Merges's 1988 testimony).

1. *Brulotte* does not rest on the fallacy that post-expiration royalties extend the right to exclude

Petitioners characterize *Brulotte* (at 20) as mistakenly reasoning that "patent *royalties* on post-expiration use" somehow extend the patent monopoly so as to "prevent anyone from practicing the invention" in the post-expiration period. The Court made no such mistake; it obviously recognized that, after the expiration of the patent term, all persons other than the licensee are free to use the invention without paying for it. As explained, however, a licensee is often in the best position, perhaps the only position, to police the limits of a patent grant and prevent misuse by the patentee. A patentee may have misused its patent even if it has not successfully extended its monopoly against the public at large.

Moreover, a core feature and attraction of patent rights is the ability to license those rights in exchange for royalties. *See Brulotte*, 379 U.S. at 33 (a "patent empowers the owner to exact royalties"). The Patent Act guarantees at least "a reasonable royalty" to compensate for the harm of infringement. 35 U.S.C. § 284. In fact, because a court will enjoin others from using the invention without a license only where the patentee can satisfy the traditional four-factor test for injunctive relief, *eBay Inc.* v. *MercExchange, LLC*, 547 U.S. 388, 391 (2006), the right to collect royalties is often the only right that a patent confers in practice. It is thus sensible to conclude, as *Brulotte* did, that continuing to collect a royalty for use of the patent after the patent no longer exists *is* an extension of patent rights into the post-expiration period.

2. *Brulotte*'s prohibition on post-expiration royalties is economically sound

Petitioners also challenge (at 36-37) what they describe as "the second, implicit premise" of *Brulotte*, that post-expiration royalties are "invariably anticompetitive." But that is merely a restatement of petitioners' own mistaken premise that *Brulotte* arises from antitrust law. *Brulotte* nowhere considered whether post-expiration royalties were "invariably" anticompetitive or procompetitive; those are antitrust concepts, which implement different congressional objectives. Fundamentally, it is *patent* policy, not antitrust law, that animated *Brulotte*.

To say that post-expiration royalties should be permitted if they are sometimes procompetitive misses that important distinction and would give no effect to the patent law principles effectuated by *Brulotte*. "Antitrust law is designed to address only particular types of harm, and it cannot reach everything that patent policy addresses." Feldman, 55 Hastings L.J. at 400; *see* Lim, *Patent Misuse and Antitrust Law* 27 (2013) (patent policy is designed to foster unexpected innovations, while antitrust policy addresses only "static competition" and "foreseeable consequences"). Unlike antitrust law, "'patent policy encompasses a set of judgments about the proper tradeoff between competition and the incentive to innovate over the *long* run.'" *FTC* v. *Actavis, Inc.*, 133 S. Ct. 2223, 2246 (2013) (Roberts, C.J., dissenting). Invoking the balance of pro- or anticompetitive effects on the immediate market, as petitioners do, "misses the basic point" of the patent laws. *Id.* at 2245-2246.

Even setting aside petitioners' categorical error, the economic efficiency rationales that petitioners offer for overruling *Brulotte* fail on their own terms.

First, petitioners' discussion of the perceived benefits of overruling *Brulotte* ignores the costs and inefficiencies of abandoning *Brulotte*'s clear rule. Under *Brulotte*, the limits imposed on parties negotiating patent licenses are straightforward and easy to follow. *Brulotte* and *Aronson* helpfully clarify the rights and obligations of patent holders and licensees when negotiating over both patent and non-patent rights by requiring that parties wishing to extend non-patent royalties beyond the patent term clearly indicate their intent and distinguish those royalties from charges for using the patent during its term. Lim, *Patent Misuse and Antitrust*, 20 Mich. Telecomm. & Tech. L. Rev. 299, 357 (2014). *Brulotte* thus promotes clarity and certainty in licensing negotiations and provides a readily administrable rule that allows for efficient adjudication when disputes arise.

By contrast, the alternative that petitioners offer would increase uncertainty. Parties negotiating a license that includes post-expiration royalties could never know whether their agreement will withstand scrutiny until the issue is actually litigated. The resulting uncertainty would encourage litigation, whether opportunistic or defensive, either to exploit that uncertainty or to eliminate it. *See Texas* v. *New Jersey*, 379 U.S. 674, 678-679 (1965) (refusing to apply a nebulous rule for this reason); Miceli, *The Economic Approach to Law* 246-248 (2004).

The increased complexity of litigation without the bright-line rule of *Brulotte* would also increase litigation costs. The burden of that litigation would be particularly acute under the rule of reason standard that petitioners propose. *See infra* pp.52-54 (discussing the problems with applying the rule of reason). This complexity and cost would deter licensees from challenging coercive post-expiration royalty terms in all but the most extreme and high-value cases. As a result, more extended or indefinite royalties will be demanded and more will be paid, to the ultimate detriment of the public.

Second, petitioners suggest (at 20-21) that post-expiration royalties are economically an "'*illusion*'" and only "reflect the anticipated value of the authorization to use the patented invention before the patent expires." There is no reason to think that is always or even generally true. The fact that a licensee is presumably aware that it will be able to use the invention for free *after* expiration does not prevent the patentee from exercising leverage *before* expiration. *See, e.g.*, Comment, *Validity of Patent License Provisions Requiring Payment of Post-Expiration Royalties*, 65 Colum. L. Rev. 1256, 1269 (1965) (licensee may be "influenced by the immediate economic circumstances of a competitive market" into accepting onerous post-expiration royalties). As *Brulotte* illustrates, such agreements are often the product of coercion. *See* 379 U.S. at 32 (patentee made "a bald attempt to exact the same terms and conditions for the periods after the patents have expired as … for the monopoly period"). Indeed, patent-license negotiations may often fail to approximate the conditions presumed by the classical economic model of efficient bargaining. *See, e.g.*, Sag & Rohde, *Patent Reform and Differential Impact*, 8 Minn. J.L. Sci. & Tech. 1, 36-37 (2007) (patent holder may have asymmetrically better information about the scope and validity of the patent); Beggs, *The Licensing* *of Patents under Asymmetric Information*, 10 Int'l J. Indus. Org. 171, 171-172 (1992) (patent licensee may have asymmetrically better information about the patent's commercial viability); Kahneman, *Maps of Bounded Rationality*, *in Les Prix Nobel* 449, 456-465 (2003) (describing limits of rational-choice models).

Third, petitioners contend (at 22-23 & n.11, 29 & n.15) that permitting post-expiration royalties will result in lower royalty rates, and that having a lower rate over a longer time period may be desirable for various reasons. However, *Brulotte* already permits deferred payments for pre-expiration use. *Zenith Radio*, 395 U.S. at 136; *supra* p.15. By spreading the cost of the license over time, the parties may already reduce any "deadweight loss." *2007 DOJ/FTC Report* 12.

Brulotte's decision to hold the line against royalties accruing on post-expiration use, however, is well grounded. "Royalties affect [the licensee's] marginal cost, and hence output and prices" only during the period in which they accrue, after which "any remaining obligation is a fixed cost" with no marginal effect on the licensee's decisionmaking. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 Yale L.J. 267, 328 (1966). Thus, allowing a patentee to demand royalties on a licensee's post-expiration use would affect the licensee's prices or outputs in the post-expiration period in a way that amortized pre-expiration royalties do not.[16]

[16] Petitioners claim (at 28) that the marginal effects of continuing to accrue royalties after the patent term would be offset in part by the lower royalty rates that petitioners hypothesize would occur if *Brulotte* is overruled. Even if that were true, the net effect on output and prices would be at best unclear. That is not a

Fourth, petitioners argue (at 31-33, 35-36) that agreements to accrue post-expiration royalties provide a desirable risk-shifting mechanism to capture the future commercial value of an invention, which mere amortization of pre-expiration royalties allegedly cannot achieve. But that argument is inconsistent with petitioners' prior argument that post-expiration royalties are an "illusion" and necessarily represent only the value of the license during the patent term. Moreover, the limited patent term—followed by public ownership of the disclosed invention—already represents a careful congressional balancing of risk and reward. Private parties may not reallocate those risks for their own purposes by license agreements. *See supra* pp.40-41.

Congress's careful balancing is forcefully demonstrated by the single real-world example petitioners offer of an industry that would supposedly benefit from post-expiration royalties: pharmaceuticals and other "life-saving medical treatments." Pet. Br. 31-32; *see id.* 10, 35-36; Memorial Sloan Kettering Br. 4, 11-12, 18; MassBiologics Br. 23-24; BioTime Br. 5. The commercial risks of developing such technologies—long and uncertain development cycles, regulatory delays, the prospect of generic competition—are surely real. But Congress *already* addressed them in the Hatch-Waxman Act two decades after *Brulotte* was decided.

As described above (at 27), the Hatch-Waxman Act authorizes an extension of the patent term for pharmaceuticals and medical devices to compensate for regulatory delays. 35 U.S.C. § 156. The Act also creates periods of non-patent exclusivity of up to seven-and-a-half years regardless of the existence or expiration of any

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compelling reason to overrule settled precedent. *See Halliburton*, 134 S. Ct. at 2410.

underlying patents. 21 U.S.C. § 355(c)(3)(E)(ii). The pharmaceutical example thus illustrates the wisdom of leaving any modification of *Brulotte* to Congress, which is far better suited to make policy judgments about the relative balance of risk and reward necessary for optimal innovation, and in fact has acted to strike the balance that it considers appropriate.

Petitioners also cannot point to any evidence that innovation in the life sciences or any other industry has been measurably harmed by *Brulotte*. *Supra* p.30. That is not surprising. To the extent there is a genuine need and joint willingness to share the risks and rewards of commercializing basic research over a long time horizon—one exceeding the 20-year patent term, plus extensions—there are many other ways to do so. The parties may, for example, form joint ventures, exchange equity, or agree to grant back rights to future inventions. Parties are certainly flexible and creative enough to adopt many other ways as well.

3. Developments in antitrust law have not eroded *Brulotte*'s foundations

The last supposed premise of *Brulotte* that petitioners attack is the presumption that a patent confers market power—a presumption that they say (at 41) has been "undercut" by subsequent developments. The developments to which petitioners point actually confirm the vitality of *Brulotte*.

Petitioners point first to the Patent Misuse Reform Act of 1988, which established a market-power requirement in order to demonstrate that a tying arrangement involving patents constitutes misuse. 35 U.S.C. § 271(d)(5). They then invoke this Court's decision in *Illinois Tool Works Inc.* v. *Independent Ink*, *Inc.*, which held that, in view of those congressional changes, market power must also be shown in order to prove an antitrust violation based on patent tying. 547 U.S. 28, 41-43 (2006).

As explained above (at 21-25), the 1988 amendments are notable principally because Congress modified other aspects of patent misuse but did *not* alter *Brulotte*, despite hearing from its detractors and despite considering specific proposals to do so. Petitioners offer no reason why this Court should view the 1988 changes to patent misuse law as a mandate to overrule a decision that Congress itself declined to alter.

Nor is there an anomaly in retaining *Brulotte* even though the antitrust enforcement agencies do not always regard demands for post-expiration royalties as *per se* violations of the Sherman Act. Pet. Br. 16-17, 25, 44-45. *Brulotte* is an equitable defense to enforcement of a patent license, insofar as the license requires post-expiration royalties; it is not a ground for antitrust liability. *Supra* p.17. As the United States pointed out in its cert-stage brief (at 15), petitioners have failed to identify a single case in which a party was held liable for violating the antitrust laws as a result of forming the sort of license *Brulotte* forbids. It is not unusual that a private agreement violating public policy would be unenforceable as between the parties even though it does not give rise to "criminal antitrust enforcement" (Pet. Br. 45 n.20) or other punitive sanctions. *See, e.g.*, *Restatement (Second) of Contracts* § 178 (1981). So too this Court's reconsideration of whether other practices should be *per se* illegal under the Sherman Act has little bearing on the merits of overruling *Brulotte*, which is not an antitrust decision, but rather an application of federal patent policy. Pet. Br. 40.

C. Overruling *Brulotte* Would Exacerbate The Problem Of Royalty Stacking And Would Invite Nuisance Litigation

Petitioners accuse *Brulotte* of being out of step with the times. Pet. Br. 1. In fact, the decision is even more relevant and necessary today. The hop-picking machine at issue in *Brulotte* involved seven licensed patents. 379 U.S. at 30. It is rare for modern products of any technological significance to be covered by a comparably small number of patents, such that the expiration of one of them will permit market entry by competitors to a licensee. A smartphone, for example, was estimated in 2011 to use "technologies claimed by 250,000 different patents," and "the number today is probably larger." Lemley & Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117, 2148 (2013); *see also 2007 DOJ/FTC Report* 60 n.9 (a semiconductor may be covered by "'thousands of patents,'" and industry participants "'are tripping over each other's patents right and left'"). Dense thickets of patents cover many innovations in biotechnology, software, and other cutting edge fields.

The cumulative drag of the many patent royalties required to manufacture or sell a product in these fields is so well known that it has acquired its own name: "royalty stacking." The term "reflects the fact that, from the perspective of the firm making the product in question, all of the different claims for royalties must be added or 'stacked' together to determine the total royalty burden borne by the product if the firm is to sell that product free of patent litigation." Lemley & Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1993 (2007). It is widely recognized that royalty stacking can pose a threat to innovation. *E.g.*, *2007 DOJ/FTC Report* 61; Shapiro, *Navigating the Pa-*

tent Thicket, *in* 1 Jaffe et al., *Innovation Policy and the Economy* 119, 121 (2001). That threat will only grow if *Brulotte* is overruled and royalties are permitted to stack up forever. One salutary consequence of *Brulotte* is that a manufacturer facing a patent thicket knows that the royalties accruing to various patent holders will come to an end at some time, as layers of patent protection expire. That will not be true if petitioners prevail.

The patent-thicket obstacle to commercialization is worsened by the "seemingly endless stream of license demands and suits" from non-practicing entities (NPEs) that acquire patents merely to assert them in nuisance litigation. Lemley & Melamed, 113 Colum. L. Rev. at 2147; *see eBay*, 547 U.S. at 396 (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."). The patents asserted in such litigation are far more likely to be near the end of their terms than patents asserted by bona fide inventors. *See* Love, *An Empirical Study of Patent Litigation Timing*, 161 U. Pa. L. Rev. 1309, 1312 (2013) ("Though asserting just over 20% of all studied patents, NPEs account for … over 80% of infringement claims litigated in the final three years of the patent term.").[17] Overruling *Brulotte* will exacerbate the problems posed by non-practicing entities by removing a desirable check on the

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[17] NPEs often wait until a commercial market has already developed before launching nuisance litigation and tend to acquire patents in a secondary market that takes time to develop—for example, after a competitor fails and its patents are auctioned off. Love, 161 U. Penn. L. Rev. at 1317.

leverage they can exercise when asserting near-expiration patents.

III. THE COURT SHOULD NOT ADOPT A RULE OF REASON STANDARD

A. The Court Should Reject Petitioners' Invitation To Import The Antitrust Rule Of Reason Into This Context

If *Brulotte* is overruled or modified, the Court should reject petitioners' invitation to apply burdensome and unpredictable rule-of-reason analysis. The rule of reason is an "elaborate inquiry into the reasonableness of a challenged business practice," *Arizona* v. *Maricopa County Med. Soc'y*, 457 U.S. 332, 343 (1982), that burdens litigants with a "litany of costs" over and above the normal expenses of litigation, ABA Section of Antitrust Law, *The Rule of Reason* 6 (1999). Once the rule of reason applies, the parties and the courts are thrust into "cumbersome and very expensive proceedings." *Health Care Reform Issues: Hearings Before the H. Comm. on the Judiciary*, 104th Cong. 56 (1996) (statement of Robert Pitofsky, FTC Chairman). Application of the rule of reason requires extensive discovery into current and past market conditions and complex quantitative economic analyses. *See Bell Atl. Corp.* v. *Twombly*, 550 U.S. 544, 558-559 (2007); Easterbrook, *The Limits of Antitrust*, 63 Tex. L. Rev. 1, 12-13 (1984) ("Litigation costs are the product of vague rules combined with high stakes, and nowhere is that combination more deadly than in antitrust litigation under the Rule of Reason.").

Even in antitrust law, this Court has stepped away from the rule of reason and turned increasingly to the use of less expensive and uncertain inquiries. Thus, for some challenged business practices, the courts employ a "quick-look" method, which is appropriate when even a rudimentary analysis can determine that the practice is invalid. *California Dental Ass'n* v. *FTC*, 526 U.S. 756, 769-771 (1999) (describing "quick-look" antitrust analysis). This truncated approach permits a court to employ structured presumptions where appropriate, such as a "presumption of adverse competitive impact" when an antitrust defendant cannot establish legitimate justifications for its actions. *United States* v. *Brown Univ.*, 5 F.3d 658, 669 (3d Cir. 1993).

More broadly, the balancing of pro- and anticompetitive effects in a rule-of-reason inquiry would not effectively safeguard the patent system from misuse. The two bodies of law address distinct interests that sometimes point in different directions. The antitrust laws principally serve to protect consumer interests by fostering the kind of competition that promotes increased access to quality goods and services at low prices. Those goals are not identical to those of the patent laws, which "promote consumer interests in a different way, by providing protection against competition." *Actavis*, 133 S. Ct. at 2246 (Roberts, C.J., dissenting). The patent system represents a holistic set of values and compromises designed to advance innovation by rewarding inventors while also ensuring the progress of public knowledge. *See Mayo Collaborative Servs.* v. *Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1301-1302 (2012). The rule of reason "'was not designed for such judgments and is not adept at making them.'" 1 Hovenkamp et al., *IP and Antitrust* § 7.3a (2d ed. 2015); *see* Feldman Br. 19-24.

It is unclear from petitioners' proposal whether patent misuse would survive in any independent form at all. Pet. Br. 45-49, 58. The Sherman Act is already available to a licensee if the licensee can demonstrate that the licensor has market power and has imposed restraints of trade that violate the rule of reason. Petitioners' proposal thus threatens to abolish any independent patent-based restrictions on the exaction of post-expiration royalties and would leave the critical regulation of licensing entirely to antitrust doctrine.

B. If *Brulotte* Is Modified, The Patentee Should Be Required To Rebut The Presumption That It Has Improperly Extended Its Patent Rights

1. If the Court modifies *Brulotte*, it should at most be relaxed rather than overruled. Its underlying principles are sound and need not be jettisoned entirely to achieve the procompetitive effects petitioners claim for post-expiration royalties. *See* AIPLA Br. 24-26; Feldman Br. 26-27. In particular, any modification of *Brulotte* should require the patentee—the party who seeks to collect royalties for use of an idea after the patent expires—to demonstrate why doing so is not unreasonable or harmful to innovation.

It is reasonable at least to presume, as *Brulotte* did, that a licensee would agree to pay for post-expiration royalties only as a result of improper patent leverage. Even *Brulotte*'s harshest critics concede that licenses for post-expiration royalties may not reflect a freely negotiated bargain but rather an improper assertion of market power—hence the continuing need, even in petitioners' view, for rule-of-reason scrutiny. Pet. Br. 45-46; *see also*, *e.g.*, 1 Hovenkamp § 23.2a.

Aronson held that the presumption of improper patent leveraging may be rebutted when the royalties are shown to be for the use of unpatented ideas, such as know-how or trade secrets. 440 U.S. at 265. Any modification of *Brulotte* should take the same tack. Royalties for post-expiration use of an invention are contrary to the public policies of the Patent Act and should be presumptively unlawful. The patentee should bear the burden of demonstrating that it did not leverage its patent and that collecting royalties in the post-expiration period does not threaten innovation. The patentee might show, for example, that the arrangement was sought by the licensee for bona fide commercial reasons, or that it is non-exclusive and other licensees will not face the same post-expiration royalty toll, or that the patent is drawn to technology for which market entry is likely upon patent expiration.

In any event, it is the party seeking to extend its rights past expiration that should bear the burden of making that showing. *Cf. Medtronic, Inc.* v. *Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851-852 (2014) (patentee bears burden of proving infringement in declaratory judgment suit by its licensee in part because a "patentee 'should not be … allowed to exact royalties for the use of an idea … that is beyond the scope of the patent monopoly granted'"). Petitioners could not satisfy that standard here. Petitioners themselves proposed the structure of the settlement agreement, and petitioners have never suggested any procompetitive rationale or particular commercial need for post-expiration royalties. *See supra* p.6.

2. The *Brulotte* issue in this case arises in an exceptionally unusual posture. The parties' settlement agreement can easily be read to require no further royalties for petitioners, regardless of *Brulotte*. By its terms, the agreement obligates Marvel to pay royalties only for the specific Web Blaster that was at issue in the 1997 litigation—which is no longer sold—and for products that would infringe the '856 patent—of which there are none, since the patent expired. JA18-19. Indeed, in the ongoing litigation over the alleged 1990

oral agreement, petitioners themselves have shifted to arguing that post-expiration, non-patent royalties are due only because of the alleged oral agreement, not the settlement agreement. *Supra* p.10.

Marvel understood the settlement as requiring royalties for web-shooting role-play toys during the life of the patent. When petitioners contended, to the contrary, that the settlement contemplated distinct non-patent royalties that would continue indefinitely after the patent term, Marvel relied on the settled law of the circuit concerning *Brulotte* and "hybrid" licenses to defeat that argument. *Supra* p.7. If *Brulotte* is overruled or modified and the effect is to make a "hybrid" royalty agreement enforceable even though it does not distinguish between patent and non-patent royalties, then simple fairness demands that Marvel have an opportunity to present a complete array of defenses, including the opportunity to show that the parties' settlement does not by its terms require any post-expiration payments.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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APPENDIX

35 U.S.C. § 154 (1964). Contents and term of patent.

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

35 U.S.C. § 154 (1988). Contents and term of patent.

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States and, if the invention is a process, of the right to exclude others from using or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

35 U.S.C. § 154 (2015). Contents and term of patent; provisional rights.

(a) IN GENERAL.—

(1) CONTENTS.—Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a

process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

(2) TERM.—Subject to the payment of fees under this title, such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States or, if the application contains a specific reference to an earlier filed application or applications under section 120, 121, or 365(c), from the date on which the earliest such application was filed.

(3) PRIORITY.—Priority under section 119, 365(a), or 365(b) shall not be taken into account in determining the term of a patent.

(4) SPECIFICATION AND DRAWING.—A copy of the specification and drawing shall be annexed to the patent and be a part of such patent.

(b) ADJUSTMENT OF PATENT TERM.—

(1) PATENT TERM GUARANTEES.—

(A) GUARANTEE OF PROMPT PATENT AND TRADEMARK OFFICE RESPONSES.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the Patent and Trademark Office to—

(i) provide at least one of the notifications under section 132 or a notice of allowance under section 151 not later than 14 months after—

(I) the date on which an application was filed under section 111(a); or

(II) the date of commencement of the national stage under section 371 in an international application;

(ii) respond to a reply under section 132, or to an appeal taken under section 134, within 4 months after the date on which the reply was filed or the appeal was taken;

(iii) act on an application within 4 months after the date of a decision by the Patent Trial and Appeal Board under section 134 or 135 or a decision by a Federal court under section 141, 145, or 146 in a case in which allowable claims remain in the application; or

(iv) issue a patent within 4 months after the date on which the issue fee was paid under section 151 and all outstanding requirements were satisfied,

the term of the patent shall be extended 1 day for each day after the end of the period specified in clause (i), (ii), (iii), or (iv), as the case may be, until the action described in such clause is taken.

(B) GUARANTEE OF NO MORE THAN 3-YEAR APPLICATION PENDENCY.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the United States Patent and Trademark Office to issue a patent within 3 years after the actual filing date of the application under section 111(a) in the United States or, in the case of an international application, the date of commencement of the national stage under section 371 in the international application, not including—

(i) any time consumed by continued examination of the application requested by the applicant under section 132(b);

(ii) any time consumed by a proceeding under section 135(a), any time consumed by the imposition of an order under section 181, or any time consumed by appellate review by the Patent Trial and Appeal Board or by a Federal court; or

(iii) any delay in the processing of the application by the United States Patent and Trademark Office requested by the applicant except as permitted by paragraph (3)(C),

the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued.

(C) GUARANTEE OF ADJUSTMENTS FOR DELAYS DUE TO DERIVATION PROCEEDINGS, SECRECY ORDERS, AND APPEALS.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to—

(i) a proceeding under section 135(a);

(ii) the imposition of an order under section 181; or

(iii) appellate review by the Patent Trial and Appeal Board or by a Federal court in a case in which the patent was issued under a decision in the review reversing an adverse determination of patentability,

the term of the patent shall be extended 1 day for each day of the pendency of the proceeding, order, or review, as the case may be.

(2) LIMITATIONS.—

(A) IN GENERAL.—To the extent that periods of delay attributable to grounds specified in paragraph (1) overlap, the period of any adjustment granted under this subsection shall not exceed the actual number of days the issuance of the patent was delayed.

(B) DISCLAIMED TERM.—No patent the term of which has been disclaimed beyond a specified date may be adjusted under this section beyond the expiration date specified in the disclaimer.

(C) REDUCTION OF PERIOD OF ADJUSTMENT.—

(i) The period of adjustment of the term of a patent under paragraph (1) shall be reduced by a period equal to the period of time during which the applicant failed to engage in reasonable efforts to conclude prosecution of the application.

(ii) With respect to adjustments to patent term made under the authority of paragraph (1)(B), an applicant shall be deemed to have failed to engage in reasonable efforts to conclude processing or examination of an application for the cumulative total of any periods of time in excess of 3 months that are taken to respond to a notice from the Office making any rejection, objection, argument, or other request, measuring such 3-month period from the date the notice was given or mailed to the applicant.

(iii) The Director shall prescribe regulations establishing the circumstances that constitute a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application.

(3) PROCEDURES FOR PATENT TERM ADJUSTMENT DETERMINATION.—

(A) The Director shall prescribe regulations establishing procedures for the application for and determination of patent term adjustments under this subsection.

(B) Under the procedures established under subparagraph (A), the Director shall—

(i) make a determination of the period of any patent term adjustment under this subsection, and shall transmit a notice of that determination no later than the date of issuance of the patent; and

(ii) provide the applicant one opportunity to request reconsideration of any patent term adjustment determination made by the Director.

(C) The Director shall reinstate all or part of the cumulative period of time of an adjustment under paragraph (2)(C) if the applicant, prior to the issuance of the patent, makes a showing that, in spite of all due care, the applicant was unable to respond within the 3-month period, but in no case shall more than three additional months for each such response beyond the original 3-month period be reinstated.

(D) The Director shall proceed to grant the patent after completion of the Director's determination of a patent term adjustment under the procedures established under this subsection, notwithstanding any appeal taken by the applicant of such determination.

(4) APPEAL OF PATENT TERM ADJUSTMENT DETERMINATION.—

(A) An applicant dissatisfied with the Director's decision on the applicant's request for reconsideration under paragraph (3)(B)(ii) shall have exclusive remedy by a civil action against the Director filed in the United States District Court for the Eastern District of Virginia within 180 days after the date of the Director's decision on the applicant's request for reconsideration. Chapter 7 of title 5 shall apply to such action. Any final judgment resulting in a change to the period of adjustment of the patent term shall be served on the Director, and the Director shall thereafter alter the term of the patent to reflect such change.

(B) The determination of a patent term adjustment under this subsection shall not be subject to appeal or challenge by a third party prior to the grant of the patent.

(c) CONTINUATION.—

(1) DETERMINATION.—The term of a patent that is in force on or that results from an application filed before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act shall be the greater of the 20-year term as provided in subsection (a), or 17 years from grant, subject to any terminal disclaimers.

(2) REMEDIES.—The remedies of sections 283, 284, and 285 shall not apply to acts which—

(A) were commenced or for which substantial investment was made before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act; and

(B) became infringing by reason of paragraph (1).

(3) REMUNERATION.—The acts referred to in paragraph (2) may be continued only upon the payment of an equitable remuneration to the patentee that is determined in an action brought under chapter 28 and chapter 29 (other than those provisions excluded by paragraph (2)).

(d) PROVISIONAL RIGHTS.—

(1) IN GENERAL.—In addition to other rights provided by this section, a patent shall include the right to obtain a reasonable royalty from any person who, during the period beginning on the date of publication of the application for such patent under section 122(b), or in the case of an international application filed under the treaty defined in section 351(a) designating the United States under Article 21(2)(a) of such treaty, the date of publication of the application, and ending on the date the patent is issued—

(A)(i) makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application or imports such an invention into the United States; or

(ii) if the invention as claimed in the published patent application is a process, uses, offers for sale, or sells in the United States or imports into the United States products made by that process as claimed in the published patent application; and

(B) had actual notice of the published patent application and, in a case in which the right arising under this paragraph is based upon an international application designating the United States that is published in a language other than English, had a translation of the international application into the English language.

(2) RIGHT BASED ON SUBSTANTIALLY IDENTICAL INVENTIONS.—The right under paragraph (1) to obtain a reasonable royalty shall not be available under this subsection unless the invention as claimed in the patent is substantially identical to the invention as claimed in the published patent application.

(3) TIME LIMITATION ON OBTAINING A REASONABLE ROYALTY.—The right under paragraph (1) to obtain a reasonable royalty shall be available only in an action brought not later than 6 years after the patent is issued. The right under paragraph (1) to obtain a reasonable royalty shall not be affected by the duration of the period described in paragraph (1).

(4) REQUIREMENTS FOR INTERNATIONAL APPLICATIONS.—

(A) EFFECTIVE DATE.—The right under paragraph (1) to obtain a reasonable royalty based upon the publication under the treaty defined in section 351(a) of an international application designating the United States shall commence on the date of publication under the treaty of the international application, or, if the publication under the treaty of the international application is in a language other than English, on the date on which the Patent and Trademark Office receives a translation of the publication in the English language.

(B) COPIES.—The Director may require the applicant to provide a copy of the international application and a translation thereof.