Nos. 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 OF WASHINGTON LEGAL FOUNDATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT**


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## QUESTION PRESENTED

The courts below decided this case on the assumption that the parties' 2001 settlement agreement could be construed as requiring royalty payments for use of Petitioners' patent after its expiration. This Court held in *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), that a patent royalty agreement is unenforceable to the extent that it contemplates accrual of royalties "beyond the expiration date of the patent." The sole question presented in the Petition is:

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

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## INTERESTS OF *AMICUS CURIAE*

Washington Legal Foundation (WLF) is a public interest law firm and policy center with supporters in all 50 States. WLF devotes a substantial portion of its resources to defending free enterprise, individual rights, a limited and accountable government, and the rule of law.[1]

To that end, WLF has regularly appeared before this Court and other federal courts in cases raising important issues regarding the scope and enforceability of patents. *See, e.g., Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013) (patent exhaustion doctrine); *Caraco Pharm. Labs., Inc. v. Novo Nordisk A/S*, 132 S. Ct. 1670 (2012) (counterclaims in patent infringement suits); *Therasense Inc. v. Becton, Dickinson and Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (*en banc*) (inequitable conduct doctrine).

WLF believes that adherence to *stare decisis* is particularly important in patent law because many patent holders and licensees have reasonable investment-backed expectations that the courts will continue to adhere to long-settled patent law doctrines. WLF is concerned that the relief requested by Petitioners—the abandonment of the doctrine established more than 50 years ago in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), and never subsequently called into question by either Congress or this Court—would

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[1] Pursuant to Supreme Court Rule 37.6, WLF states that no counsel for a party authored this brief in whole or in part; and that no person or entity, other than WLF and its counsel, made a monetary contribution intended to fund the preparation and submission of this brief. All parties have consented to the filing of this brief; letters of consent have been lodged with the clerk.

undermine the reasonable expectations of numerous parties to patent licensing agreements.

Moreover, WLF is worried that overturning *Brulotte* could have unforeseen negative consequences. For example, in a world where patent trolls are thriving and litigation funding is rampant, "zombie" litigation—in which long-ago licenses are dredged up for new rounds of litigation—is an all-too-likely response to a decision overturning *Brulotte*.

Petitioners spend virtually all of their brief arguing that *Brulotte* was wrongly decided because it misconstrued federal patent policy. WLF believes that such arguments put the cart before the horse. Rather, the principal inquiry should focus on whether Petitioners have demonstrated compelling grounds for jettisoning the doctrine of *stare decisis*, an inquiry in which the "correctness" of the initial statutory interpretation plays at most a minor role. WLF believes that the substantial reliance interests engendered by *Brulotte* dictate that any reversal of the applicable patent law should come from Congress, not the courts.

**STATEMENT OF THE CASE**

The facts of the case are set out in detail in the brief of Respondent. WLF wishes to highlight several facts of particular relevance to the issues on which this brief focuses.

Petitioner Stephen Kimble in 1990 met with the

President of Respondent's predecessor-in-interest[2] to discuss his idea of marketing a toy that allowed a child to "role play" as Spider-Man. Kimble filed suit against Marvel in 1997, claiming breach of an oral contract allegedly entered into during the 1990 meeting, as well as infringement of the " '856 Patent," Kimble's patent on his role-play toy. Pursuant to a 2001 settlement agreement, Kimble and Petitioner Robert Grabb sold the patent to Marvel and released all claims. In return, Marvel agreed to pay $516,000 plus 3% of "net product sales" of certain Spider-Man-related products. The Settlement Agreement did not specify how long the royalty payments were to continue. The '856 Patent expired in 2010.

Marvel paid Petitioners more than $6 million pursuant to the Settlement Agreement. A dispute later arose regarding the amount of royalties due under the Settlement Agreement, and Petitioners filed suit for breach of the Agreement. Among other rulings, the district court determined—based on its understanding of *Brulotte*—that the Settlement Agreement was unenforceable to the extent that it contemplated royalty payments on any product sales occurring after the 2010 expiration of the '856 Patent. Pet. App. 33-37. Following resolution of all other contract issues, Petitioners appealed the *Brulotte* issue to the Ninth Circuit.

The appeals court affirmed. Pet. App. 1-26. While noting that *Brulotte*'s rationale has been subject

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[2] Respondent and its predecessors are referred to herein as "Marvel."

to considerable criticism, the court rejected any suggestion that it should not be bound by this Court's decision: "*Brulotte* and its progeny are controlling. We are bound to follow *Brulotte* and *cannot deny that it applies here*." *Id.* at 25-26 (emphasis added).

The certiorari petition raises one issue only: "Whether this Court should overrule *Brulotte*." Accordingly, whether *Brulotte* actually applies to the Settlement Agreement is *not* at issue before this Court. Petitioners argued below that, for several reasons, *Brulotte* did not bar royalty payments for product sales occurring after expiration of Petitioners' patent. For example, they argued that the Settlement Agreement contemplated that post-2010 royalties were intended as a payment under the alleged 1990 oral contract, not as a payment for the sale of patent rights.[3] The appeals court rejected those claims, citing *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), in which this Court explained *Brulotte*'s application to cases in which the rationale for royalties was arguably based on something other than use of a patented product. Pet. App. 16-17. Petitioners did not seek review of those portions of the Ninth Circuit's decision, and therefore they are not properly before the Court.

## SUMMARY OF ARGUMENT

In 1964, *Brulotte* established a bright-line rule

[3] Also, the Solicitor General's invitation brief noted (at 21) that *Brulotte* arose in the context of a patent *license* and opined that the Court had not previously determined whether *Brulotte* should apply to royalties payable (as here) as part of the purchase price for the *sale* of a patent.

regarding patent royalty agreements: patent law bars the enforcement of such agreements to the extent that they "allow[ ] royalties to be collected which accrued after the last of the patents incorporated into the [patented product] ha[s] expired." *Brulotte*, 379 U.S. at 30. The Court reasoned, "The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when . . . the patent has entered into the public domain" by virtue of expiration of the patent term prescribed by 35 U.S.C. § 154. *Id.* at 33. The *Brulotte* rule has stood for more than 50 years. During those years, countless patent royalty agreements have been negotiated with the understanding that their terms were to be construed in light of *Brulotte*.

Reliance on that understanding is eminently reasonable in the absence of any actions by either Congress or this Court calling *Brulotte* into question. Nor has the *Brulotte* rule deterred usage of innovative products by inhibiting the negotiation of royalty agreements. Although some commentators have criticized the decision's understanding of federal patent policy, *Brulotte* creates a narrow, bright-line rule that does not interfere with a patentee's ability to negotiate a fair royalty rate. Under those circumstances, *stare decisis* dictates that any reversal of the applicable patent law should come from Congress, not the courts.

Petitioners seek to downplay reliance concerns. They argue that the only parties who might have relied on *Brulotte* are duplicitous licensees who hoodwinked patent holders by agreeing to pay patent royalties for post-expiration use, while intending all along to invoke *Brulotte* to avoid their contractual obligations once the patent expires. Pet. Br. 57. That is absurd. Attorneys negotiating a patent royalty agreement are unlikely, in light of *Brulotte*, to include lengthy contractual provisions governing the licensee's obligations to pay royalties for post-expiration use of the patented product. Attorneys negotiating on behalf of patentees are at least as likely as attorneys for licensees to be aware of *Brulotte*. When a patent royalty agreement omits any detailed discussion of royalties for post-expiration use, the most plausible understanding of the parties' intent is that the parties deemed such discussion unnecessary in light of *Brulotte*. Yet, a decision overruling *Brulotte* and applying the decision to existing contracts would likely expose licensees to substantial, unanticipated royalty demands.

Courts have not experienced difficulty applying the straightforward *Brulotte* rule, nor does the decision interfere with the ability of patentees to negotiate fair terms for the use of their patents. As the economists cited by Petitioners acknowledge, a patentee denied the right to charge for post-expiration use of the patent can avoid any loss of income by demanding a higher premium for pre-expiration use. If potential licensees conclude that the patented idea is worth the higher asking price yet they lack adequate cash flow to make all royalty payments in advance of expiration of the patent, *Brulotte* authorizes enforcement of contracts that require post-expiration royalty payments—provided only that the payments are for pre-expiration use. Moreover, Congress has amended the patent laws to extend the term for certain types of patents whose complex nature makes them more difficult to bring to market in advance of expiration of the usually applicable patent term.

Petitioners note that the Court has adhered less strictly to *stare decisis* when the statute being re-examined involves the federal antitrust laws. But although the *Brulotte* decision cited several antitrust precedents by way of analogy, the decision was based on the Court's interpretation of *patent* laws adopted by Congress, not on *antitrust* laws. Indeed, the decision did not expose patentees to any potential antitrust liability; it merely barred patentees from enforcing contracts calling for royalty payments for use of their patent after expiration of the exclusivity period prescribed by Congress. *See, e.g., Brulotte*, 379 U.S. at 34 (stating that "an attempt to project [the patent monopoly] into another term by continuation of the licensing agreement is unenforceable."). Moreover, unlike this case, the antitrust cases cited by Petitioners did not involve significant reliance interests.

## ARGUMENT

### I. PETITIONERS HAVE PROVIDED NO COMPELLING REASON TO OVERTURN *BRULOTTE*

Petitioners devote virtually all of their brief to arguments designed to demonstrate that *Brulotte* was wrongly decided on the basis of a flawed analysis of patent law. Pet. Br. 9-49. They quote Judge Posner in support of their assertion that *Brulotte* incorrectly assumed that a patent license has significance after the patent terminates, and that the Court's incorrect assumption led it to conclude (erroneously) that royalty payments for post-expiration use constitute an extension of the 17-year patent monopoly granted by Congress:

> If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the value of the license during the patent period. These payments do not represent an extension in time of the patent monopoly.

Pet. Br. 21 (quoting *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002)).

Marvel's brief raises substantial arguments in rebuttal. But WLF's purpose in filing this brief is not to take issue with Petitioners' economic analysis. Our purpose is to emphasize that whether or not *Brulotte* was correctly decided should not be the Court's principal focus. *See, e.g., Kurns v. Railroad Friction Products Corp*., 132 S. Ct. 1261, 1270 (2012) (Kagan, J. concurring) (agreeing that a 1926 precedent—which construed a federal statute as preempting state-law products liability claims—required a finding that the statute preempted the plaintiffs' products liability claim, despite acknowledging that "I doubt this Court would decide [the 1926 case] in the same way today."). Rather, the decisive factor in the Court's analysis ought to be the doctrine of *stare decisis*. In light of Petitioners' failure to provide any compelling reason to overturn *Brulotte*'s interpretation of the patent laws, the Court should not do so. Congress has had numerous opportunities to overturn *Brulotte* over the past 50 years but to date has not chosen to do so. Any decision to overturn such a venerable interpretation of patent law should be made by Congress, not the courts.

### A. Contracting Parties Have Relied on *Brulotte* for 50 Years; *Stare Decisis* Considerations Are at Their Acme in Cases Where Reliance Interests Are at Stake

When, as is true in the instance of *Brulotte*, numerous companies and individuals have been relying on one of the Court's decisions when negotiating contracts, adherence to the doctrine of *stare decisis* is particularly important. *See, e.g., Payne v. Tennessee*, 501 U.S. 808, 828 (1991) ("Considerations in favor of *stare decisis* are at their acme in cases involving property and contract rights, where reliance interests are involved."); *John R. Sand & Gravel Co. v. United States*, 552 U.S. 130, 146 (2008) (Ginsburg, J., dissenting) ("the strongest reason to adhere to precedent" is to protect reliance interests; when "citizens, in the private realm, have acted in reliance on a previous decision, . . . overruling the decision would dislodge settled rights and expectations.").

Indeed, the Court throughout its history has recognized that *stare decisis* principles are particularly important when individuals have acted in reliance on a prior decision. For example, in an 1851 case, in which the Court overturned an earlier decision, the Court stated flatly that *it would not have done so* had there been evidence that citizens had entered into contracts in reliance on the earlier decision:

> The case of the *Thomas Jefferson* did not decide any question of property, or lay down any rule by which the right of property should be determined. If it had, we should have felt

> ourselves bound to follow it notwithstanding the opinion we have expressed. For every one would suppose that after the decision of this court, in a matter of that kind, he might safely enter into contracts, upon the faith that rights thus acquired would not be disturbed. In such a case, *stare decisis* is the safe and established rule of judicial policy, and should always be adhered to. For if the law, as pronounced by the court, ought not to stand, it is in the power of the legislature to amend it, without impairing rights acquired under it.

*The Propeller Genesee Chief v. Fitzhugh*, 12 How. (53 U.S.) 443, 458 (1851).

The parties to this case apparently were unaware of *Brulotte* at the time they negotiated their Settlement Agreement in 2001. But it is reasonable to assume that many, if not most, attorneys negotiating patent licensing agreements are aware of *Brulotte*. Moreover, given the long-standing and widely established nature of that precedent, it is reasonable to assume that both attorneys representing patentees and those representing licensees routinely rely on *Brulotte* during negotiations.

For example, attorneys representing patentees can be expected to rely on *Brulotte* to demand both higher initial royalties and that a greater share of total royalty payments be made before the patent expires. Doing so will reduce the possibility that the licensee might later claim that post-expiration royalties are not merely deferred payments for pre-expiration use, but rather are payments for post-expiration use and thus are barred by *Brulotte*. Attorneys representing licensees, on the other hand, are less likely (in light of *Brulotte*) to insist on inclusion of a detailed provision stating explicitly that royalty payments for use of the patent shall end once the patent expires. They are likely instead to focus their negotiating demands on other contract provisions.

Petitioners assert that "an authoritative consensus" favors a decision by this Court overruling *Brulotte*, and that the consensus includes three federal appeals court decisions that supposedly "have called on this Court to reconsider" *Brulotte*. Pet. Br. 13-18. That assertion is false. While each of the three cited decisions questioned *Brulotte*'s analysis, *none* of them called on the Court to reconsider or overrule *Brulotte*. Criticism of *Brulotte* is not equivalent to a call that its interpretation of patent law be overruled *by this Court*. Particularly in light of the strong reliance interests engendered by *Brulotte* over five decades, there is good reason to conclude that judicial critics of the decision would prefer that any reconsidering of the decision occur in Congress, not the courts.

Petitioners also assert that reliance on *Brulotte* by contracting parties is minimal. They assert that detrimental reliance could come into play "only where one of the parties purposely entered into an agreement in the hope of later avoiding its contractual obligations on the basis of *Brulotte*." Pet. Br. 57. They further assert, "[A] change in the law that would require parties to live up to their voluntarily-undertaken contractual obligations can hardly be said to upset their reasonable expectations." *Id*. at 57-58. Those assertions are patently inaccurate. A licensee cannot be said to be "avoiding its contractual obligations" to pay royalties for post-expiration use of the patent if, in light of *Brulotte*, the contract would never be construed as imposing such an obligation. Moreover, even if the licensee reasonably believes that his contract (when construed without reference to *Brulotte*) does not require royalty payments for post-expiration use of the patent, a decision overruling *Brulotte* would increase the likelihood that he would be forced to defend a lawsuit claiming that the contract does, indeed, require post-expiration royalty payments.

Finally, regardless of whether they were actually aware of *Brulotte* when negotiating a royalty agreement, all licensees can be said to have relied on the decision in the sense that they relied on the normal course of dealing within that field of law. As Marvel has explained, treatises recognize that parties sometimes rely on background rules to leave certain contract terms unspecified. For example, in light of *Brulotte*, it has not been necessary to include a clause specifying an end date for royalty payments.

Attorneys for patentees are just as likely as attorneys for licensees to be aware of *Brulotte*, so they too would be aware that contracts would *not* be interpreted as requiring royalty payments for post-expiration patent use, even if the contracts failed to specify precisely when royalty-payment obligations would cease. Indeed, during their negotiations, attorneys for patentees are likely to have relied on *Brulotte* to demand increased up-front payments to compensate for the loss of back-end royalty payments barred by *Brulotte*. Yet, if the Court were now to overrule *Brulotte*, patentees who previously successfully negotiated for increased up-front payments would be in a strong position to seek increased back-end royalty payments as well.

In assessing reliance interests, the Court has never demanded specific evidence that the parties themselves actually relied on the challenged precedent, so long as it is reasonably likely that others relied. *See, e.g., John R. Sand & Gravel Co.*, 552 U.S. at 139. As the Court explained, overturning well-settled precedent simply because it is deemed "no longer 'right'" can "prove harmful," because it "would inevitably reflect a willingness to reconsider others. And that willingness could itself threaten to substitute disruption, confusion, and uncertainty for necessary legal stability." *Ibid.*

### B. *Stare Decisis* Has "Special Force" with Respect to Statutory Construction Decisions, Including Patent Law Decisions

Adherence to *stare decisis* is also particularly warranted because *Brulotte* was based on the Court's interpretation of a federal statute. The Court is somewhat more willing to re-examine its decisions interpreting the Constitution because those decisions are not subject to review by any other body. But because Congress is always free to "overrule" any of the Court's statutory decisions by amending the statute at issue, there is no similar rationale for restricting application of *stare decisis* in statutory cases. *See Halliburton v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2411 (2014) ("The principle of *stare decisis* has special force in respect to statutory interpretation because Congress remains free to alter what we have done.") (citations omitted); *see also, id.* at 2407 ("Before overturning a long-settled precedent, we require special justification, not just an argument that the precedent was wrongly decided.").

Petitioners suggest that *Brulotte* did not really purport to interpret federal patent statutes but rather was an "atextual," common-law decision that was a "product of a misplaced fear of monopoly." Pet. Br. 49-50. That suggestion is belied by the text of *Brulotte*, which referred explicitly to provisions of the United States Code. *See, e.g.,* 379 U.S. at 30. The Court's cut-off date for patent royalties was not pulled out of thin air; rather, *Brulotte* held that royalties could accrue for 17 years but no longer because Congress at that time prescribed a 17-year life span for patents. *Id.* at 30-31 (citing 35 U.S.C. § 154 (1964)). It relied on prior Court decisions that had concluded that any attempt to derive profits from one's patent after its expiration "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)). Some may take issue with the "policy and purposes of the patent laws" that the Court discerned based on its reading of those laws, but one cannot reasonably question that the Court intended its decision as an exercise in statutory interpretation.

### C. The Court's Antitrust Case Law Is Irrelevant to the *Stare Decisis* Issue

Petitioners note that the Court has adhered to *stare decisis* less strictly when its antitrust law precedents are questioned and suggest that the Court apply that same less-strict standard here. Pet. Br. 55-

57. *See State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997) ("[T]he general presumption that legislative changes should be left to Congress has less force with respect to the Sherman Act in light of the accepted view that Congress expected the courts to give shape to the statute's broad mandate by drawing on common-law tradition."). That suggestion is without merit. As noted above, *Brulotte* involved an interpretation of patent law, not antitrust law.[4] Congress has not indicated that it provided federal courts with a "broad mandate" when it adopted the patent laws or that it expects the courts to "give shape" to patent statutes "by drawing on common-law tradition."

Although Petitioners cite several recent cases in which the Court overturned an antitrust precedent, Pet. Br. 55-56, reliance interests were not at stake in any of those cases. Each of the cited decisions overturned a precedent that had declared a specified business practice to constitute a *per se* violation of the Sherman Act, 15 U.S.C. § 1; each decision declared that henceforth the business practice would be examined under the rule of reason. *Continental T.V., Inc. v. GTE*

[4] Petitioners err in asserting that antitrust law is "closely related" to the statutory questions at issue here. Pet. Br. 55. Although *Brulotte* cited several antitrust precedents, those citations appear at the end of the opinion, and the Court made clear that the cited precedents were merely "analogous," not directly applicable to patent law. *Id.* at 33. Of particular note: *Brulotte* addressed a contract enforceability issue only; it held no more than that patent holders are barred from seeking royalty payments in some circumstances, even when the patent royalty agreement could plausibly be interpreted as authorizing such payments. In sharp contrast, those found to have violated federal antitrust laws are subject to both civil and criminal penalties.

*Sylvania Inc.*, 433 U.S. 36 (1977) (restrictions on locations of franchisee sales); *State Oil Co. v. Khan*, 522 U.S. 3 (1997) (maximum vertical price restraints); *Leegin Creative Leather Prods., Inc. v. PSK, Inc.*, 551 U.S. 877 (2007) (minimum vertical price restraints). The reliance interests of most relevance in antitrust cases are the reliance interests of potential defendants; they are the ones who must conform their conduct to the antitrust laws. An antitrust defendant cannot, of course, be deemed to have relied to its *detriment* on a decision of this Court holding that a specified business practice constitutes a *per se* violation of the Sherman Act. If the decision is later overturned, the defendant can only benefit, because its conduct will now be subject to a less-demanding standard of review.[5]

On the other hand, were the Court asked to move in the opposite direction—to rule that a practice previously subject to rule-of-reason analysis should henceforth be subject to *per se* antitrust condemnation—substantial reliance issues would be at stake. Companies that had engaged in the practice would be subject to severe penalties even though they had reasonably concluded (under the rule-of-reason analysis prescribed by existing Court precedent) that the practice was pro-competitive. Detrimental-reliance concerns would almost surely cause the Court to balk when asked to overturn a rule-of-reason precedent, and at the very least would cause it to refrain from

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[5] Thus, in explaining its willingness in *Leegin* to abandon *stare decisis*, the Court stated that the reliance interests at issue were minimal. *Id.* at 906.

applying the *per se* rule retroactively.[6]

Accordingly, the antitrust case law cited by Petitioners provides no support for their assertion that *stare decisis* applies with less force in this statutory case. Not only did those decisions arise in the entirely different context of antitrust law, but they also did not involve anything approaching the substantial reliance interests at stake here.

## II. *BRULOTTE* ESTABLISHED A BRIGHT-LINE RULE THAT HAS NO ADVERSE ECONOMIC IMPACT AND DOES NOT INTERFERE WITH CONTRACTING RIGHTS

### A. *Brulotte* Established a Clear, Easily Administered Background Rule Governing Enforcement of Contracts

The Court on occasion has reconsidered a decision construing a federal statute if that construction has proven difficult to administer or has led to confusion. But courts have not experienced difficulty in applying the straightforward *Brulotte* rule, and Petitioners do not seriously contend otherwise.

[6] When asked to overrule existing patent-law precedent, the Court on occasion has considered doing so on a prospective basis only. *See, e.g., Lear, Inc. v. Adkins*, 395 U.S. 653, 674 n.19 (1969). If the Court is otherwise inclined to overrule *Brulotte*, it may wish to consider doing so prospectively only, in order to minimize the adverse impact that such a decision would have on the reliance interests of parties to existing royalty agreements.

The Ninth Circuit summarized the *Brulotte* rule (as modified by *Aronson*) 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.

Neither the Ninth Circuit nor other federal courts have experienced difficulty in applying that long-standing rule when resolving royalty disputes. Nor have commentators asserted that parties have misunderstood the rule when negotiating royalty agreements. There can be little justification for the Court to overturn a statutory decision that Congress has declined to address for more than 50 years and that has created no administrative difficulties.

Nor can *Brulotte* be justly criticized for unduly interfering with the right of private parties to contract as they wish. *Brulotte* affords contracting parties considerable leeway in establishing royalty rates for use of a patent. At bottom, *Brulotte* does little more than establish a contract-construction rule that is not materially different from numerous other, long-standing contract-construction rules.

Many well-accepted contract-construction rules are imposed without regard to the actual intent of the contracting parties. For example, under the Uniform Commercial Code (adopted in all 50 States), every contract for the sale of goods by a merchant is presumed to include an implied warranty of merchantability unless explicitly modified—regardless whether the contracting parties actually contemplated the existence of a warranty. U.C.C. § 2-314. Even though a party to a contract generally expects the other party to perform as promised, contract law generally permits a breaching party to pay damages in lieu of performance. *See* John D. Calamari & Joseph M. Perillo, *The Law of Contracts* §§ 16.1 - .6 (4th ed. 1998). This Court authorizes patent licensees to file suit challenging the validity of the patent, even if their license agreements explicitly prohibits such lawsuits. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). The *Brulotte* rule—by barring enforcement of royalty agreements to the extent that they require payments for post-expiration use of a patent—is not materially different. It simply forces patent holders seeking to license their patents to contract for other forms of compensation.

Petitioners repeatedly assert that *Brulotte* was wrongly decided and was based on a flawed analysis of patent law. But at the end of the day, establishing and maintaining a settled interpretation of the law is far more important than revisiting precedents in an effort to reach the "right" interpretation. As the Court has observed, "[I]n most matters it is more important that the applicable rule of law be settled than that it be settled right." *John R. Sand & Gravel Co.*, 352 U.S. at

139 (quoting *Burnet v. Coronado Oil & Gas Co.*, 285 U.S. 393, 406 (1932) (Brandeis, J., dissenting)).

### B. *Brulotte* Affords Contracting Parties Broad Leeway in Establishing Compensation Terms Governing Patent Use

Many of the *amici* supporting Petitioner criticize *Brulotte* because, they allege, it unduly interferes with the ability of patent holders to enter into profitable licensing agreements. As Marvel has explained, those criticisms are based on a misunderstanding of the scope of the *Brulotte* rule.

In particular, *Brulotte* bars accrual of royalties for post-expiration use, but it does *not* bar post-expiration payments for pre-expiration use. The Court recognized in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969), that license agreements may enforceably provide that royalty payments are to be spread out over an extended period of time, even if that time extends past the patent expiration date. *Brulotte* itself similarly contemplates "deferred payments for use during the pre-expiration period." *Brulotte*, 379 U.S. at 31. Accordingly, a patentee can demand during contract negotiations that prospective licensees pay the full value of using the patented item during the life of the patent; and if a prospective licensee objects that cash flow prevents it from paying full value immediately, nothing in *Brulotte* bars patentees from obtaining full value on a deferred basis.

Moreover, those who criticize *Brulotte*'s analysis invariably assert that the Court erred in assuming that a patent has *any* value after it has expired; they assert that a contract specifying royalty payments for post-expiration use is necessarily just another form of deferred payment for pre-expiration use. *See, e.g., Scheiber*, 293 F.3d at 1017 (Posner, J.) ("If the licensing agreement calls for royalty payments beyond the patent term, the parties base those payments on the value of the license during the patent term."). If that analysis is accurate, patent holders lose nothing by being required to designate post-expiration royalty payments as deferred payments for pre-expiration use rather than as payments for post-expiration use.

### C. Concerns That Patent Terms Are Too Short to Encourage Investment in Promising Academic Research Should Be Addressed to Congress

The *amicus* brief filed by Memorial Sloan Kettering Cancer Center asserts that *Brulotte* inhibits licensing of promising academic research whose value cannot easily be realized during the life of the patent. But if the research is truly promising, one could expect venture capitalists to provide the funding necessary for commercialization. Of course, the possibility that research will never be successfully commercialized will reduce the amount that potential licensees are willing to pay to license the patent. But that fact simply suggests that the patent is not as valuable as its owner would like it to be. Recent history does not suggest an unwillingness of venture capitalists to finance efforts to commercialize basic research when the potential reward is sufficiently large, even when the risk of failure is significant. The only conceivable effect of *Brulotte* on such ventures is to require parties to calculate royalty payments based on a pre-expiration estimation of the risk/reward ratio, thereby imposing a greater share of the risks (as well as potential rewards) on licensees.

In reality, Memorial Sloan Kettering is making an altogether different argument: the many years required to commercialize basic research suggests that patent terms ought to be extended (at least for certain types of inventions) to ensure that the potential public benefits of those inventions can be fully realized. There is much to be said for that argument, but that is an argument that ought to be addressed to Congress, not this Court. Indeed, Congress was responding to such concerns when, in 1984, it adopted the Drug Price Competition and Patent Term Restoration Act, Pub. L. No. 98-417 (the "Hatch-Waxman Act"), which, among other things, extended the patent term for innovative, life-saving drugs whose marketing was delayed by the regulatory approval process. In doing so, Congress sought to ensure that pharmaceutical companies had sufficient economic incentives to make the massive research-and-development expenditures necessary to bring new drugs to market. A similar amendment to the patent laws governing patents on basic research could address Memorial Sloan Kettering's concerns in a manner that a decision to overrule *Brulotte* could not.

## III. OVERTURNING *BRULOTTE* WILL LEAD TO INCREASED LITIGATION OVER LONG-FORGOTTEN LICENSE AGREEMENTS

A principal effect of *Brulotte* has been to impose a finite life span on patent license agreements. Even when an agreement did not clearly specify an end date for the obligation to pay patent royalties, licensees could be reasonably confident that they would face few royalty claims once the patent term had expired.

A decision to overturn *Brulotte* would eliminate that peace of mind. In a world where patent trolls are thriving and litigation funding is rampant, "zombie" litigation—in which long-ago licenses are dredged up for new rounds of litigation—is an all-too-likely response to a decision overturning *Brulotte*.

Licensees could, of course, protect themselves going forward by insisting that license agreements include detailed provisions barring any claims for royalties based on post-expiration use of the patent. But licensees who signed agreements before 2015, and who thus did not insist on such provisions based on their reasonable reliance on *Brulotte*, would lack such protection. Even if a licensee is reasonably confident that a court would not construe his contract as authorizing post-expiration accrual of royalties, such confidence is of little consolation if an attorney representing the patentee sends a letter demanding royalties and threatening litigation unless royalties are paid.

If *Brulotte* is overturned, Marvel's experience could be replicated many times over. Marvel continues to face royalty claims under the 2001 Settlement Agreement even though: (1) it has paid more than $6 million in royalties; (2) the patent expired five years ago; (3) the "role play" toys marketed after 2010 are significantly different from the 2001 "Web Blaster" toys specified in the Settlement Agreement; and (4) Petitioners have largely backed away from their claims that post-2010 toys are covered by the '856 Patent. If *Brulotte* is overturned, one could reasonably expect patentees to begin asserting royalty claims of an even more tenuous nature. A principal purpose of *stare decisis* is to prevent problems of that very sort.

## CONCLUSION

*Amicus curiae* Washington Legal Foundation requests that the Court affirm the judgment of the court of appeals.

Respectfully submitted,

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