

No. 13-720

IN THE
Supreme Court of the United States

STEPHEN KIMBLE, ET AL.,
Petitioners,

v.

MARVEL ENTERPRISES, INC.
Respondent.

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

**BRIEF OF THE AMERICAN INTELLECTUAL
PROPERTY LAW ASSOCIATION AS *AMICUS
CURIAE* IN SUPPORT OF NEITHER PARTY**

SHARON A. ISRAEL
PRESIDENT
AMERICAN
INTELLECTUAL
PROPERTY LAW
ASSOCIATION
241 18th Street South
Suite 700
Arlington, VA 22202
(703) 415-0780

PAUL M. SMITH
Counsel of Record
JOSHUA M. SEGAL
JENNER & BLOCK LLP
1099 New York Ave. NW
Suite 900
Washington, D.C. 20001-4412
(202) 639-6000
psmith@jenner.com

PAUL D. MARGOLIS
DANIEL T. FENSKE
JENNER & BLOCK LLP
353 N. Clark Street
Chicago, IL 60654-3456
(312) 222-9350

Counsel for Amicus Curiae

TABLE OF CONTENTS

TABLE OF CONTENTS i

TABLE OF AUTHORITIES ii

INTEREST OF AMICUS CURIAE..... 1

SUMMARY OF ARGUMENT..... 2

ARGUMENT..... 4

I. *Brulotte* Is A Narrow Rule That Furthers
Congressionally-Mandated Patent Policy
And Is Deeply Rooted In Over A Century
Of Case Law. 4

 A. *Brulotte* Embodies Important
Principles of Patent Policy That
Are Independent Of Antitrust
Concerns. 4

 B. *Brulotte* Is Part Of A Long Line Of
Cases Curtailing Attempts To
Expand Patent Rights By
Contract. 13

II. *Brulotte* Is A Clear, Narrow Rule That
Allows Parties Considerable Flexibility In
Structuring Royalty Payments. 19

CONCLUSION 26

TABLE OF AUTHORITIES

CASES

<i>Aronson v. Quick Point Pencil Co.</i> , 440 U.S. 257 (1979)	22, 26
<i>Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.</i> , 339 U.S. 827 (1950), <i>overruled in part by Lear, Inc. v. Adkins</i> , 395 U.S. 653 (1969).....	15, 16
<i>Bob Jones University v. United States</i> , 461 U.S. 574 (1983).....	17
<i>Boggild v. Kenner Products</i> , 776 F.2d 1315 (6th Cir. 1985).....	6, 21, 25
<i>Bonito Boats, Inc. v. Thunder Craft Boats, Inc.</i> , 489 U.S. 141 (1989).....	7, 8, 12
<i>Brulotte v. Thys Co.</i> , 379 U.S. 29 (1964)	<i>passim</i>
<i>Carbice Corp. of America v. American Patents Development Corp.</i> , 283 U.S. 27 (1931)	15
<i>Deepsouth Packing Co. v. Laitram Corp.</i> , 406 U.S. 518 (1972), <i>overruled by statute as recognized in Microsoft Corp. v. AT&T Corp.</i> , 550 U.S. 437 (2007).....	19
<i>Denver Rockets v. All-Pro Management, Inc.</i> , 325 F. Supp. 1049 (C.D. Cal. 1971)	10, 11
<i>Flood v. Kuhn</i> , 407 U.S. 258 (1972)	17
<i>Halliburton Co. v. Erica P. John Fund, Inc.</i> , 134 S. Ct. 2398 (2014).....	18

<i>Hull v. Brunswick Corp.</i> , 704 F.2d 1195 (10th Cir. 1983)	22, 23
<i>J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred International, Inc.</i> , 534 U.S. 124 (2001)	9
<i>Lear, Inc. v. Adkins</i> , 395 U.S. 653 (1969)	21, 26
<i>Leegin Creative Leather Products, Inc. v. PSKS, Inc.</i> , 551 U.S. 877 (2007)	9, 18
<i>Leitch Manufacturing Co. v. Barber Co.</i> , 302 U.S. 458 (1938)	15
<i>Meehan v. PPG Industries, Inc.</i> , 802 F.2d 881 (7th Cir. 1986)	21, 25
<i>Mercoid Corp. v. Mid-Continent Investment Co.</i> , 320 U.S. 661 (1944)	15
<i>Motion Picture Patents Co. v. Universal Film Manufacturing Co.</i> , 243 U.S. 502 (1917)	14
<i>Pitney Bowes, Inc. v. Mestre</i> , 701 F.2d 1365 (11th Cir. 1983)	25
<i>Pope Manufacturing Co. v. Gormully</i> , 144 U.S. 224 (1892)	14
<i>Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.</i> , 324 U.S. 806 (1945)	15
<i>Scheiber v. Dolby Laboratories, Inc.</i> , 293 F.3d 1014 (7th Cir. 2002)	24, 26
<i>Scott Paper Co. v. Marcalus Manufacturing Co.</i> , 326 U.S. 249 (1945)	8, 12
<i>State Oil Co. v. Khan</i> , 522 U.S. 3 (1997)	18

<i>Transparent-Wrap Machine Corp. v. Stokes & Smith Co.</i> , 329 U.S. 637 (1947).....	12
<i>United States v. Topco Associates, Inc.</i> , 405 U.S. 596 (1972).....	10, 11
<i>University of Texas Southwest Medical Center v. Nassar</i> , 133 S. Ct. 2517 (2013).....	17
<i>USM Corp. v. SPS Technologies, Inc.</i> , 694 F.2d 505 (7th Cir. 1982).....	24
<i>Zila, Inc. v. Tinnell</i> , 502 F.3d 1014 (9th Cir. 2007).....	22, 23
<i>Zenith Radio Corp. v. Hazeltine Research, Inc.</i> , 395 U.S. 100 (1969).....	6, 15, 16, 20
CONSTITUTIONAL PROVISIONS AND STATUTES	
U.S. Const. art. I, § 8, cl. 8.....	7
35 U.S.C. § 154(a)(1)	7
35 U.S.C. § 154(a)(2)	7
Act of Nov. 19, 1988, Pub. L. No. 100-703, tit. II, § 201, 102 Stat. 4674, 4676	16
LEGISLATIVE MATERIALS	
134 Cong. Rec. 32,294-95 n.3 (1988).....	13
134 Cong. Rec. 28,008 (1988)	11
Intellectual Property Antitrust Protection Act of 1988, S. 438, 100th Cong. § 201(3) (1988)	17

<i>Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the H. Comm. on the Judiciary, 100th Cong. (1988)</i>	8, 10, 11, 13, 17
---	-------------------

OTHER AUTHORITIES

I Phillip E. Areeda & Herbert Hovenkamp, <i>Antitrust Law</i> ¶ 100 (3d ed. 2006)	9
Robert H. Bork, <i>The Antitrust Paradox</i> (1978)	9
Thomas F. Cotter, <i>Misuse</i> , 44 Hous. L. Rev. 901 (2007)	24
Robin C. Feldman, <i>The Insufficiency of Antitrust Analysis for Patent Misuse</i> , 55 Hastings L.J. 399 (2003).....	11, 12
1 Herbert Hovenkamp et al., <i>IP and Antitrust</i> § 23.2b (2d ed. 2015).....	24
2 John W. Schlicher, <i>Patent Law, Legal and Economic Principles</i> § 11:27 (2d ed. 2012)	24
Harold See & Frank M. Caprio, <i>The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension</i> , 1990 Utah L. Rev. 813 (1990)	24
United States Department of Justice & Federal Trade Commission, <i>Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition</i> (2007)	6, 20

INTEREST OF AMICUS CURIAE¹

The American Intellectual Property Law Association (“AIPLA”) is a voluntary bar association of approximately 15,000 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA’s members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. They represent both owners and users of intellectual property. AIPLA’s mission includes providing courts with objective analysis to promote an intellectual-property system that stimulates and rewards invention while balancing the

¹ In accordance with Supreme Court Rule 37.6, amicus curiae states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the amicus curiae and its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

public's interest in healthy competition, reasonable costs, and basic fairness.²

AIPLA has no interest in any party to this litigation or stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the law affecting intellectual property.

SUMMARY OF ARGUMENT

In *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), this Court held that “a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se” where such payments are not deferred payments for uses during the patent term. *Brulotte*’s holding is narrow and rests on the Court’s interpretation of the Patent Act and prior cases applying that statute. Indeed, *Brulotte* is only one of many cases from this Court holding that, as a matter of patent law, a patent holder may not attempt to retain patent rights after the patent term ends. In the fifty years since *Brulotte* was decided, Congress has repeatedly amended the Patent Act—and has rejected proposals to statutorily overrule *Brulotte*.

In asking this Court to overrule *Brulotte* and replace it with a vague “rule of reason” standard, petitioners portray the decision as an antitrust case. They do so to invoke both (1) this Court’s decisions

² In accordance with Supreme Court Rule 37.3(a), the parties have consented to the filing of this amicus brief in support of neither party.

characterizing the Sherman Act as a “common law statute” under which *stare decisis* concerns are less important than in a typical case of statutory interpretation; and (2) academic and judicial criticism of the rule from an antitrust perspective.

But *Brulotte* is not an antitrust decision. Rather, it reflects this Court’s repeated interpretation of the Patent Act and the policy goals it embodies. Recognizing *Brulotte* as grounded in patent policy leads to two conclusions. *First*, *stare decisis* concerns are at their zenith here, given that *Brulotte* is a decision in an area of law in which this Court has recognized that Congress has primary authority. *Second*, independent patent policy considerations justify *Brulotte* regardless of how post-expiration royalties might be analyzed under antitrust law.

Brulotte has many virtues, moreover. Its clear, *per se* rule facilitates patent licensing by reducing uncertainty over which royalty practices are permitted and which are not. *Brulotte* is critical to limiting a patent holder’s ability to extend its exclusive rights beyond the congressionally-mandated patent term, thus freeing up licensees to utilize the no-longer-patented invention without incurring additional costs. And because *Brulotte* applies only to one specific licensing practice—post-expiration royalties *based on post-expiration use*—*Brulotte* allows contracting parties to adopt nearly all of the licensing practices that those attacking *Brulotte* champion as the reason to overrule it. This Court should reaffirm *Brulotte*’s narrow holding.

ARGUMENT

I. *Brulotte* Is A Narrow Rule That Furthers Congressionally-Mandated Patent Policy And Is Deeply Rooted In Over A Century Of Case Law.

The *Brulotte* rule rests on patent policy. It is but one application of this Court's long-settled interpretation of the Patent Act: a licensing arrangement is unenforceable to the extent that it extends rights under the patent beyond the limits that Congress has prescribed. And although critics of *Brulotte* challenge it on antitrust grounds, *Brulotte* is not an antitrust decision at all.

A. *Brulotte* Embodies Important Principles of Patent Policy That Are Independent Of Antitrust Concerns.

1. *Brulotte* addressed a licensing agreement that required the licensee to pay either a royalty based on sales during each year or a flat annual fee for use of the patented machine even after the patent expired. 379 U.S. at 29. Construing the annual license payments as “royalties for use of the machine during that year,” *id.* at 31, this Court held unenforceable the licensing provision of the agreement as to post-expiration use, concluding that “a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se.” *Id.* at 32.

The Court’s decision was based on federal patent policy. Under the Patent Act, a patented invention

“become[s] public property once the 17-year period expires.” *Id.* at 31. *Brulotte* relied on prior cases holding that “whatever the legal device employed’ a projection of the patent monopoly after the patent expires is not enforceable.” *Id.* (quoting *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)). Applying the rule that any attempt to continue to enjoy the benefits of congressionally-conferred patent rights after patent expiration was unenforceable, *Brulotte* held that because the licenses at issue “dr[ew] no line between the term of the patent and the post-expiration period,” they were “on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period”—and therefore were unenforceable after the patent’s term. *Id.* at 32.

In so holding, however, this Court was careful to limit its decision to post-expiration royalties tied directly to uses of the invention after the patent had expired. The Court emphasized that the “royalty payments due for the post-expiration period are by their terms for use during that period, *and are not deferred payments for use during the pre-expiration period.*” *Id.* at 31 (emphasis added). “[T]he royalties exacted were the same for the post-expiration period as they were for the period of the patent,” *id.*, the Court observed—a fact defeating any argument that post-expiration royalties were compensation for something other than use of the patent during that period.

Later decisions of this Court have made clear that the *Brulotte* rule is limited to royalties for post-

expiration use. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, for example, this Court characterized *Brulotte* to mean that a “patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time” 395 U.S. 100, 136 (1969). Courts of appeals also have recognized that *Brulotte*, properly construed, does not preclude post-expiration royalties that are mere deferred payments for pre-expiration use. *See, e.g., Boggild v. Kenner Prods.*, 776 F.2d 1315, 1318 (6th Cir. 1985). Further, both the Justice Department’s Antitrust Division and the Federal Trade Commission have recognized that *Brulotte*’s “holding reaches only agreements in which royalties actually *accrue* on post-expiration use.” U.S. Dept. of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 117 (2007) (“DOJ/FTC Report”). *Brulotte* thus does not condemn all royalties paid after expiration of a patent.

2. Many of the arguments for overruling *Brulotte* portray it as an antiquated decision overrun by this Court’s more recent antitrust rulings. *See, e.g., Pet. 2*, 22-30. These arguments rest on the premise that *Brulotte* implements primarily antitrust, not patent, policy. But *Brulotte* is not an antitrust decision at all. Rather, as the Solicitor General has explained, *Brulotte* “reflects the Court’s interpretation of the Patent Act and the policies of the federal patent laws, which the Court has long construed to promote the public’s

unfettered access to patented inventions after the expiration of the patent.” U.S. Cert. Br. 7-8.

The broad principle that patent rights are time-limited has its roots in the Constitution. The Constitution grants Congress the power to establish a patent system that “secur[es] *for limited Times* to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const. art. I, § 8, cl. 8 (emphasis added). The Constitution thus “reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Congress has implemented that balance in the Patent Act. The Act gives a patent holder the right to “exclude others from making, using, offering for sale, or selling the invention” 35 U.S.C. § 154(a)(1). But that right is strictly time-limited: it lasts only for “20 years from the date on which the application for the patent was filed” *Id.* § 154(a)(2).³

Brulotte, in turn, is a straightforward application of the time limit that Congress has placed on patent rights. *Brulotte* held the agreements at issue unenforceable simply because they were an “attempt to

³ When this Court decided *Brulotte*, the congressionally mandated term of exclusivity was 17 years from the date the patent issued. *See Brulotte*, 379 U.S. at 31.

exact the same terms and conditions for the period after the patents have expired as they d[id] for the monopoly period.” 379 U.S. at 32. In thus limiting a patent holder’s ability to earn royalties after the patent has expired, *Brulotte* “serve[s] a special function within the patent system” that is “distinct from antitrust law.” *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the H. Comm. on the Judiciary*, 100th Cong. 172 (1988) (“1988 House Hearings”) (statement of Prof. Robert P. Merges).

Under federal patent law, the public can freely use a patented invention after the patent expires. *See Bonito Boats*, 489 U.S. at 152 (after expiration, patented invention “passes to the free use of the public as a matter of federal law”); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945) (same). But a licensing agreement that requires payment of patent royalties for post-expiration uses circumvents that congressionally-mandated rule, requiring the licensee to continue to pay for use or to invent around the patent. That is not the structure Congress enacted. In addition, *Brulotte* embodies the *quid pro quo* for which Congress provided in the Patent Act: the patent holder receives exclusive rights for a limited time in exchange for public disclosure, adding to the public’s knowledge base so that the public may freely practice the invention at the end of the patent’s term. *See J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int’l, Inc.*, 534 U.S. 124, 142 (2001) (“The disclosure required by the Patent Act is ‘the *quid pro quo* of the right to exclude.’”) (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470,

484 (1974)). Royalties based on post-expiration use of the patented invention undermine that *quid pro quo*.

3. The fact that *Brulotte* is based on patent policy rather than antitrust policy is not mere semantics. Although the policy goals of antitrust and patent law intersect, patent policy addresses concerns that antitrust law does not. Those differences justify the narrow rule of *Brulotte*.

“[T]he principal objective of antitrust policy is to maximize consumer welfare by encouraging firms to behave competitively.” I Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 100, at 4 (3d ed. 2006). Antitrust law is thus focused on the “misallocation of resources due to monopoly power,” Robert H. Bork, *The Antitrust Paradox* 7 (1978), primarily caused by anticompetitive conduct that allows market participants “to restrict competition and decrease output.” *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886 (2007) (quotation omitted).

Patent law has other concerns. “[A] central policy of the patent law is to limit the scope of a patent’s claims to the legal and equitable boundaries of the patentee’s invention; activities that do not ‘substantially lessen competition’ in the antitrust sense may still run afoul of this important policy.” 1988 House Hearings at 172 (statement of Prof. Robert P. Merges). *Brulotte* advances these independent patent interests in at least three distinct ways.

First, *Brulotte*’s rule of *per se* unenforceability is clear and easy to understand. It thus facilitates the

licensing of patents. “Without . . . per se rules, businessmen would be left with little to aid them in predicting in any particular case what courts will find to be legal and illegal[.]” *United States v. Topco Assocs., Inc.*, 405 U.S. 596, 609 n.10 (1972). *Per se* rules are especially important to the regulation of contracts, where parties need a clear understanding of what provisions they may include and whether they will be enforced. *Brulotte* thus provides much-needed clarity to licensing parties.

A rule of reason approach, by contrast, would sacrifice this clarity on an issue rooted in fundamental patent policy, and replace it with the complex economic analysis that arises in policing the overreaching of patents that are in force. Such an approach “is not nearly as useful to practitioners as a clear enunciation of what is and is not acceptable conduct.” 1988 House Hearings at 173 (statement of Prof. Robert P. Merges). The rule of reason is difficult to apply. “The primary disadvantages of the ‘rule of reason’ are that it requires difficult and lengthy factual inquiries and very subjective policy decisions which are in many ways essentially legislative and ill-suited to the judicial process.” *Denver Rockets v. All-Pro Mgmt., Inc.*, 325 F. Supp. 1049, 1063 (C.D. Cal. 1971); *see also Topco Assocs.*, 405 U.S. at 609-10 (noting in the antitrust context that the “inability to weigh, in any meaningful sense, destruction of competition in one sector of the economy against promotion of competition in another sector is one important reason we have formulated per se rules”). These difficulties would only be exacerbated here by the fact that, unlike in antitrust law, patent law

does not have decades of case law giving shape to the rule of reason. Adopting “one of the least certain legal rules ever propounded,” 1988 House Hearings at 174 (statement of Prof. Robert P. Merges), thus risks undermining the licensing negotiation process.⁴

Second, Brulotte furthers the Patent Act’s goal of promoting the progress of science by ensuring that subsequent inventors have both the right and the incentive to build on patented inventions with insights of their own. Patent policy implements a delicate balance between encouraging initial inventions and encouraging subsequent inventions that build on the original idea. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 *Hastings L.J.* 399, 445 (2003). In the Patent Act, Congress determined that such a balance is best served by the rule that “upon the expiration of the patent the public be left free to use the invention.” *Scott Paper*, 326 U.S. at 255. Thus, “after 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.” *Bonito Boats*, 489 U.S. at 152. Yet post-expiration royalties increase

⁴ Indeed, critics of the patent misuse doctrine sought to curtail it in 1988 due to the uncertainty it had caused: “[I]n its present form [the doctrine] forces the owner of new technology to choose between either not licensing at all or licensing under circumstances which place at risk the enforceability of this property and contractual rights to that technology.” 134 Cong. Rec. 28,008 (1988) (statement of Sen. Thurmond) (quoting letter from Robert P. Taylor, President, Am. Bar Ass’n). Introducing *greater* uncertainty by replacing *Brulotte’s per se* rule with a rule-of-reason approach would merely exacerbate this concern.

the cost of using the invention in the post-expiration period and thus create a disincentive for the licensee to attempt to build upon the invention even after the patent has expired.

Third, and relatedly, post-expiration royalties allow the patent holder to maintain an artificial advantage as to products requiring use of the patent. The premise of the Patent Act is that, after the patent has expired, free competition should reign among those who wish to practice the patented invention, for “[p]rotection from competition in the sale of unpatented materials is not granted by either the patent law or the general law.” *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 644 (1947). By increasing a competitor’s marginal cost, a licensing agreement can extend the licensor’s advantage into the post-expiration period. That is especially true for patents whose use requires substantial resources and time to commercialize. In such industries, the licensee who has already incurred those costs may be the licensor’s *only* viable competitor at the end of the patent term—making it critical to patent policy that the licensee be able to compete freely immediately when the patent expires.

Such an arrangement may not have anticompetitive effects cognizable under the antitrust laws. But because a “patent is a government created right to exclude,” Congress has recognized that “the nature of the property right involved in a patent is fundamentally different from that involved in non-patent situations.” 134 Cong. Rec. 32,294-95 n.3 (1988) (statement of Rep. Kastenmeier). Congress’s judgment

that patents should be limited thus is not confined to patents that confer market power or otherwise raise antitrust concerns. In other words, when this Court's patent cases refer to improper extension of a "monopoly," the monopoly in question is over the specific invention at issue, not all products found in the relevant antitrust market. Congress could have provided a different rule for patents that lack market power, but it did not. *Cf.* 1988 House Hearings at 189 ("Congress has determined that 17 years of exclusivity provides enough incentive to call forth inventive activity[.] Parties are simply not free to circumvent this through licensing agreements.") (statement of Prof. Robert P. Merges).

B. *Brulotte* Is Part Of A Long Line Of Cases Curtailing Attempts To Expand Patent Rights By Contract.

Brulotte is only one in a consistent line of cases from this Court, stretching back into the 19th century, precluding a patent holder from enlarging patent rights by contract.

And Congress has amended the Patent Act on many occasions—including closely related provisions governing misuse—without addressing the settled rule of *Brulotte*. Indeed, Congress has rejected narrow attempts to statutorily overturn *Brulotte* specifically (by allowing post-expiration royalties as a general matter), as well as broad attempts to scale back this Court's patent misuse law generally (by requiring an antitrust violation in order to establish the defense).

Petitioners thus are not asking the Court to repudiate a single, outlier decision. Instead, petitioners ask the Court to overturn a decision based on principles that the Court has repeatedly reaffirmed, and in which Congress has acquiesced. *Stare decisis* concerns are at their height in such a case, and strongly support reaffirming the narrow *Brulotte* rule.

1. This Court's distaste for attempts at enlarging patent rights by contract stretches back at least to the decision in *Pope Manufacturing Co. v. Gormully*, 144 U.S. 224 (1892), in which the Court refused to enforce a licensing term that barred a challenge to the patent. In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, this Court also refused to enforce a license that was conditioned on the purchase of unpatented products from the patent owner. 243 U.S. 502 (1917).

The Court has had many subsequent opportunities to reiterate that patent rights are specific to the claims and strictly limited to a definite term of protection. See *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33-34 (1931) (finding the patent holder was attempting to use the patent to obtain a limited monopoly of unpatented material used in applying the invention); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 461-63 (1938) (extending *Carbice* to apply even absent a written agreement expressly seeking to enlarge patent rights); *Mercoind Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665-66 (1944) (refusing to enforce a license that required the licensee to purchase an unpatented component part from the patent owner); *Precision*

Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 816 (1945).

Further, *Brulotte* is not the only case from this Court which struck down a licensing agreement requiring royalty payments on sales of unpatented products. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, the Court refused to enforce a provision obligating a licensee to pay royalties on all sales of a product—even those that did not use the patent—because “conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent . . . amount[s] to patent misuse.” 395 U.S. at 135.⁵

These cases, in short—stretching back more than a century—show that *Brulotte* is by no means an outlier.

⁵ *Zenith Radio* distinguished *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), *overruled in part on other grounds by Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), which had upheld an arrangement in which the patent holder licensed some 570 separate patents in exchange for a royalty based on all sales by the licensee, even if the products sold did not actually rely upon the patents. 339 U.S. at 829-31. *Zenith Radio* reasoned that in *Automatic Radio*, the royalties for all sales were simply “a convenient method designed by the parties to avoid determining whether each radio receiver embodied” a particular patent, and held that “[i]f convenience of the parties rather than patent power dictates the total-sales royalty provision, there are no misuse of the patents and no forbidden conditions attached to the license.” 395 U.S. at 137-38. Yet the Court also took pains to reiterate the general rule that patent “leverage” cannot “be used to garner as royalties a percentage share of the licensee’s receipts from sales of other [unpatented] products.” *Id.* at 136.

Rather, it is just one in a consistent line of decisions that refused to enforce a party's attempts to expand the benefits conferred by a patent.

2. *Brulotte* is not only grounded in numerous decisions of this Court; it is also a decision in which Congress has effectively acquiesced.

In 1988, Congress addressed both the patent misuse doctrine generally and the specific *Brulotte* rule, but chose not to alter *Brulotte*. In particular, Congress amended the Patent Act to provide that, for a tying arrangement to constitute patent misuse, the patent holder must have market power in the tying market. *See* Act of Nov. 19, 1988, Pub. L. No. 100-703, tit. II, § 201, 102 Stat. 4674, 4676 (enacting 35 U.S.C. § 271(d)(5)). Along the way, Congress considered proposals that would have overruled *Brulotte*. In particular, Congress considered a bill that would have prohibited only “unreasonabl[e]” extension of a royalty obligation beyond the patent period; that same proposal, moreover, would have categorically allowed such royalties “when the parties have mutually agreed to such payments after the issuance of the patent.” 1988 House Hearings at 3-4. Congress also considered a proposal that not only would have done away with *Brulotte*, but would have categorically limited patent misuse to “practices or actions or inactions . . . [that] violate the antitrust laws.” Intellectual Property Antitrust Protection Act of 1988, S. 438, 100th Cong., § 201(3) (1988). But Congress *rejected* both of these proposals and, instead, left *Brulotte* intact.

Congress thus has acquiesced in the *Brulotte* rule. Indeed, Congress considered the exact issue before this Court and rejected the approach that petitioners now urge. With Congress having decided *not* to overturn the settled *Brulotte* rule, there is no warrant for this Court to do so itself. See *Bob Jones Univ. v. United States*, 461 U.S. 574, 601 (1983) (congressional failure to act on bills addressing issue supports conclusion of legislative acquiescence); *Flood v. Kuhn*, 407 U.S. 258, 283 (1972) (finding “something other than mere congressional silence and passivity” where “[r]emedial legislation has been introduced” but “has [n]ever been enacted”). That conclusion is only underscored by the fact that Congress enacted a *different* amendment on the same topic instead. See *Univ. of Tex. Sw. Med. Ctr. v. Nassar*, 133 S. Ct. 2517, 2529 (2013) (fact that Congress amended a “different portion” of a statute “reinforce[s] the conclusion that Congress acted deliberately” in failing to amend the statute in other respects).

3. *Brulotte*’s firm footing in this Court’s cases and Congress’s conscious choice not to alter the *Brulotte* rule counsel strongly against overruling that decision. “The principle of *stare decisis* has special force in respect to statutory interpretation because Congress remains free to alter what we have done.” *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2411 (2014) (citing, among others, *John R. Sand & Gravel Co. v. United States*, 552 U.S. 130, 139 (2008)) (internal quotations omitted).

Indeed, the special force that *stare decisis* plays in traditional statutory interpretation cases makes it inappropriate to rely upon this Court's recent antitrust jurisprudence to overrule *Brulotte*. This Court has characterized the Sherman Act as a "common-law statute," affording the Court considerable latitude within the Act's capacious language. *Leegin*, 551 U.S. at 889. And the Court has gone so far as to acknowledge that "the general presumption that legislative changes should be left to Congress has less force with respect to the Sherman Act." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997).

Not so with the Patent Act. The Court cautioned long ago against "expand[ing] patent rights by overruling or modifying our prior cases construing the patent statutes, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language." *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972), *superseded by statute as recognized in Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444-45 (2007). Those seeking to overturn *Brulotte* point to nothing that meets this exacting standard. To the contrary, Congress has considered and rejected proposals to cast the rule aside. There is no basis for this Court to override that deliberate determination.

II. *Brulotte* Is A Clear, Narrow Rule That Allows Parties Considerable Flexibility In Structuring Royalty Payments.

Critics of *Brulotte* often characterize that decision as a broad prohibition on *all* post-expiration patent royalties. That argument is based upon an expansive—and flawed—reading of *Brulotte*'s *per se* rule. In fact, *Brulotte* leaves parties considerable flexibility to adopt the very practices that its critics wish to preserve.

Nonetheless, some lower courts have read *Brulotte* to prohibit practices that actually fall outside its narrow rule. This Court should thus clarify *Brulotte*'s narrow scope, even while reaffirming its core holding: provisions in agreements to pay post-expiration royalties that are based on post-expiration use of the patent and that result from the licensor's exercise of patent power are *per se* unenforceable.

1. As discussed above, *Brulotte* bars only one particular kind of licensing practice: a requirement to pay royalties based on the post-expiration use of a patented invention. It therefore allows parties many options to structure licensing agreements to best serve their interests.

First, parties may amortize royalty payments over any period of time they wish, provided that royalties paid after expiration are not based directly on post-expiration use of the patent. *Brulotte* and *Zenith Radio* expressly allow “deferred payments for use during the pre-expiration period.” *Brulotte*, 379 U.S. at

31; *Zenith Radio*, 395 U.S. at 136; DOJ/FTC Report 117.

These basic limitations on the *Brulotte* rule eliminate many of the criticisms commonly leveled at it. Thus, contrary to what petitioners' *amici* have argued, *Brulotte* does not prohibit a licensee from "delay[ing] the payment of license fees until it is in a better position to pay, opening the door to a potentially larger universe of prospective licensees." Br. of Memorial Sloan-Kettering Cancer Ctr., *et al.*, as *Amici Curiae* in Supp. of Pet'rs 11. Nor does *Brulotte* prohibit parties from allocating risk between them by "[p]roviding for a lower royalty rate . . . in exchange for a longer royalty term," provided that post-expiration payments are not based on use of the patented invention during that period. *Id.* at 12. *Brulotte* merely renders unenforceable licensing provisions requiring royalties for the post-expiration use of a patent.

Second, *Brulotte* permits post-expiration royalties under so-called "hybrid licenses" of both patent and other intellectual property rights, as long as the post-expiration royalties are for the non-patent intellectual property. *See Boggild*, 776 F.2d at 1319 (explaining that post-expiration royalties are permitted if the parties "distinguish . . . between royalties attributable to the patent rights and those for any other rights"); *see also Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 884 (7th Cir. 1986) ("parties can contract for trade secret payments to extend beyond the life of a patent").

Later decisions from this Court reinforce this reading of *Brulotte*. In *Lear, Inc. v. Adkins*, for instance, this Court held that a licensee could not be required to pay royalties notwithstanding the patent’s invalidity. 395 U.S. 653, 674 (1969). Nonetheless, the Court suggested that royalties associated with the period *before* the patent issued could be permissible if they were compensation for non-patent rights. The Court noted that “during the lengthy period in which Adkins was attempting to obtain a patent, Lear gained an important benefit not generally obtained by the typical licensee,” namely, disclosure of the patented invention prior to its disclosure to the public. *Id.* at 671. *Lear* thus suggested that royalty payments compensating the patentee for something other than use of the patented invention itself—such as disclosure of the patented invention prior to the time required by patent law—do not contravene the Patent Act and, indeed, are not governed by federal patent law at all. *See also Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1023 (9th Cir. 2007) (noting that *Brulotte* does not apply to royalties issued for *foreign* patents).

Aronson v. Quick Point Pencil Co., too, supports a conclusion that the *Brulotte* rule does not encompass royalty payments made for something other than the use of the patent itself. 440 U.S. 257 (1979). In *Aronson*, the Court upheld the challenged agreement partly on the basis that no patent had existed at the time of the licensing agreement and no patent ultimately issued. *Id.* at 262, 264-65. *Aronson* explained that earlier patent misuse cases “do not bear on a contract that does not rely on a patent, particularly

where, as here, the contracting parties agreed expressly as to alternative obligations if no patent should issue.” *Id.* at 262.

Read together, *Brulotte*, *Lear*, and *Aronson* teach that federal patent policy does not bar royalty payments that compensate for non-patent intellectual property or other consideration. Given that non-patent intellectual property is frequently transferred or licensed along with patent rights, the ability to structure royalty payments as compensation for these other property rights gives parties considerable flexibility to craft beneficial licensing arrangements.

Third, *Brulotte* allows “package licenses” covering multiple patents where royalties run until “the *last* of the patents incorporated into the machines had expired.” 379 U.S. at 30 (emphasis added); *see also Zila*, 502 F.3d at 1023; *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1202 (10th Cir. 1983) (upholding agreement “requiring [licensee] to pay the full rate until the last patent expires” because “the provision does not on its face call for royalty payments to continue after the time that no unexpired patents are being used.”). Where a license covers multiple patents, therefore, the parties need not even separate out the royalties for each patent. Rather, they may lump them together and still calculate royalties based on sales until the end of the last patent. The permissibility of that approach provides considerable leeway to parties structuring complex licensing agreements involving multiple patents.

Fourth, the remedy for a *Brulotte* violation is narrow: *Brulotte* provides only an equitable defense to a patentee’s attempt to enforce the agreement. See *Brulotte*, 379 U.S. at 31; *Zila*, 502 F.3d at 1023 (“*Brulotte* renders unenforceable only that portion of a license agreement that demands royalty payments beyond the expiration of the patent for which the royalties are paid.”). Accordingly, this Court could hold that *Brulotte* is constrained by other equitable doctrines. For instance, a court could apply the unclean hands doctrine to prevent a sophisticated licensee from duping an unsophisticated patentee into accepting post-expiration royalties as compensation, but then seeking to avoid such royalties under *Brulotte*. In such an instance, equitable considerations might counsel in favor of holding the licensee to the bargain it struck.

2. Most of the criticism of *Brulotte* is misplaced because it rests on the faulty assumption that *Brulotte* prohibits many of the practices that it actually allows. For example, in *Scheiber v. Dolby Laboratories, Inc.*, the Seventh Circuit criticized *Brulotte*—but only on the premise that *Brulotte* held “that a patent owner may not enforce a contract for the payment of patent royalties beyond the expiration date of the patent,” without acknowledging that post-expiration payments are allowed if they relate to pre-expiration use. 293 F.3d 1014, 1017 (7th Cir. 2002); see also *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510 (7th Cir. 1982) (similarly describing *Brulotte* as “forbid[ding] the patentee to require his licensees to pay royalties

beyond the expiration of the patent”). Much academic criticism makes the same mistake.⁶

In addition, *Brulotte* often should not apply to licensing agreements consummated before any patent issued—especially those made before any patent application is even filed—given that such a context makes it far less likely that resulting royalty payments will be for post-expiration use of the patented invention. But the Sixth, Seventh, and Eleventh Circuits have each applied *Brulotte* to licensing agreements negotiated before any patent issued. See *Boggild*, 776 F.2d at 1319; *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1367, 1370-74 (11th Cir. 1983); *Meehan*, 802 F.2d at 884. Further, both *Meehan* and *Boggild*

⁶ Harold See & Frank M. Caprio, *The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 814 (mistakenly asserting that *Brulotte* “requires the licensor and licensee to amortize the present value of the license fee over the remaining years of the patent term, rather than over a longer period of years, even if a longer amortization period is optimal for the parties”); see also 1 Herbert Hovenkamp et al., *IP and Antitrust* § 23.2b, at 23-15 (2d ed. 2015) (mistakenly stating that “*Brulotte*’s per se rule limits the ability of patentees to amortize royalty payments over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee”); 2 John W. Schlicher, *Patent Law, Legal and Economic Principles* § 11:27 (2d ed. 2012) (mistakenly criticizing *Brulotte* for preventing parties from “spreading royalties over a longer period” than the patent term, which “helps the licensee defer costs”); Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901, 939 n.169 (2007) (mistakenly cautioning that “[i]n the wake of *Brulotte*, parties should structure their transactions so that all royalties attributable to the patent are paid before the end of the term”).

applied the rule to agreements negotiated before the licensor had even *applied* for the patent. *See Boggild*, 776 F.2d at 1319; *Meehan*, 802 F.2d at 884 (“We agree with the Sixth Circuit’s holding that the *Brulotte* rule should be extended to agreements entered into in anticipation of applying for patents.”).

To the extent those cases imply that *Brulotte* categorically applies to licensing agreements entered into prior to patent issuance, they are inconsistent with *Brulotte*’s rationale. *Brulotte*—like other decisions of this Court—bars the use of the *power of the patent* to negotiate a contract purporting to expand the scope of patent rights beyond its expiration. 379 U.S. at 32-33. *Aronson*, by contrast, upheld the licensing agreement at issue partly on the ground that, because the licensor lacked the ability to leverage an existing patent, it had less power to coerce a post-expiration royalty for the patent. 440 U.S. at 262, 265; *cf. Scheiber*, 293 F.3d at 1019 (noting that in *Aronson*, “[s]ince no patent was granted, the doctrine of patent misuse could not be brought into play”).

Applying *Brulotte* across-the-board to pre-patent agreements does not account for an important point inherent in most such agreements: the likelihood that the royalties are primarily compensation for non-patent rights, such as trade secrets or disclosure of the patented idea prior to the time required by the Patent Act. In *Aronson*, for example, the agreement required some royalties to be paid regardless of whether the patent issued; those royalties by definition could not have been for patent rights. 440 U.S. at 259, 262; *see*

also *Lear*, 395 U.S. at 671-72. Pre-patent licensing agreements are akin to such hybrid licenses, in that they are much less likely to implicate the federal policy against extending *patent* rights beyond the patent term than agreements entered into when the licensor has a patent in hand.

To be sure, a limited set of pre-patent agreements should be subject to *Brulotte* even where the agreement was consummated before the patent issued. For example, if the licensing agreement was conditioned on a patent issuing or the issuance of a patent was such a near-certainty as to leave no plausible argument that the royalties were compensation for something other than patent rights, then *Brulotte* should apply. But outside that context, *Brulotte* should not apply to pre-patent agreements.

CONCLUSION

Although AIPLA takes no position on the appropriate result in this particular dispute, the Court should reaffirm the core holding of *Brulotte* that a licensing provision requiring payment of royalties for post-expiration use of a patent is unenforceable as a matter of federal patent policy.

27

Respectfully submitted,

SHARON A. ISRAEL
PRESIDENT
AMERICAN
INTELLECTUAL
PROPERTY LAW
ASSOCIATION
241 18th Street South
Suite 700
Arlington, VA 22202
(703) 415-0780

PAUL M. SMITH
Counsel of Record
JOSHUA M. SEGAL
JENNER & BLOCK LLP
1099 New York Ave. NW
Suite 900
Washington, D.C. 20001-4412
(202) 639-6000
psmith@jenner.com

PAUL D. MARGOLIS
DANIEL T. FENSKE
JENNER & BLOCK LLP
353 N. Clark Street
Chicago, IL 60654-3456
(312) 222-9350

Counsel for Amicus Curiae