

No. 13-720

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IN THE  
**Supreme Court of the United States**

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STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,  
*Petitioners,*

*v.*

MARVEL ENTERPRISES, INC.,  
*Respondent.*

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ON WRIT OF CERTIORARI TO THE UNITED STATES  
COURT OF APPEALS FOR THE NINTH CIRCUIT

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**BRIEF OF *AMICUS CURIAE* NEW YORK  
INTELLECTUAL PROPERTY LAW  
ASSOCIATION (“NYIPLA”) IN SUPPORT  
OF PETITIONERS**

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## INTEREST OF AMICUS CURIAE

This brief is respectfully submitted on behalf of the New York Intellectual Property Law Association (the “NYIPLA” or “Association”) as *amicus curiae* in support of overruling *Brulotte v. Thys Co.*, 379 U.S. 29 (1964),<sup>1</sup> and with the consent of the named parties.<sup>2</sup> The NYIPLA is a bar association of more than 1,300 attorneys who practice in the area of patent, copyright, trademark, trade secret and other intellectual property (“IP”) law.

The Association is one of the largest regional IP bar associations in the United States, and its members include in-house counsel serving businesses and other organizations that deal with IP rights in all technologies and disciplines, as well as

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<sup>1</sup> Pursuant to Sup. Ct. R. 37.6, the NYIPLA and its counsel represent that they have authored the entirety of this brief, and that no person other than the *amicus curiae* or its counsel has made a monetary contribution to the preparation or submission of this brief. The arguments made in this brief were approved on February 2, 2015 by an absolute majority of the officers and members of the Board of Directors of the NYIPLA, including any officers or directors who did not vote for any reason including recusal, but do not necessarily reflect the views of a majority of the members of the Association, or of the law or corporate firms with which those members are associated. After reasonable investigation, the NYIPLA believes that no officer or director or member of the Amicus Briefs Committee who voted in favor of filing this brief, nor any attorney associated with any such officer, director or committee member in any law or corporate firm, represents a party to this litigation. Some officers, directors, committee members or associated attorneys may represent entities, including other *amici curiae*, which have an interest in other matters that may be affected by the outcome of this litigation.

<sup>2</sup> Pursuant to Sup. Ct. R. 37.2(a), the written consents to this filing from all parties are submitted herewith.

attorneys in private practice who represent both IP owners and their adversaries (many of whom are also IP owners). The Association's members represent inventors, entrepreneurs, venture capitalists, businesses, universities, and industry and trade associations, and they regularly participate on behalf of all sides in patent licensing and on behalf of both plaintiffs and defendants in patent litigation. In those patent litigations, defenses of unenforceability for patent misuse and affirmative antitrust counterclaims predicated upon improper use of patent "leverage" – such as those addressed in the instant case – are frequently asserted.

## INTRODUCTION

The Association supports overturning the *per se* misuse presumption of *Brulotte*, a position that antitrust enforcement agencies and most legal scholars and economists agree has outlived whatever utility and economic justification it originally might have possessed. *Brulotte* held, more than fifty years ago, that any license of a United States patent that requires payment of royalties *accruing* after expiration of the patent (or, in the case of multiple patents, after expiration of the last to expire patent) for devices sold subject to that license is presumed to represent an impermissible temporal expansion of the patentee's right to exclude and, accordingly, renders both the royalty obligation and the licensed patents *per se* unenforceable under the doctrine of patent misuse, without regard to whether that



license agreement was or was not coercively imposed.<sup>3</sup>

*Brulotte*, however, is out of date and at odds with other decisions of this Court. As discussed, *infra*, several federal courts and commentators have noted the difficulties of harmonizing *Brulotte* with this Court's decisions in *Automatic Radio*<sup>4</sup> (decided some fourteen years before *Brulotte*) and *Zenith*<sup>5</sup> (decided about five years after *Brulotte*). Like *Brulotte*, both *Automatic Radio* and *Zenith* involved package licenses, *i.e.*, licenses for more than just United States patent rights. Unlike *Brulotte*, however, both cases squarely rejected any application of either a theory of tying one patent to another or a *per se* rule of unenforceability, and each mandated a rule of reason inquiry into whether the packages had been coercively imposed.

The *Zenith* decision sets forth an explanation for why it differs from *Brulotte*. But the differences

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<sup>3</sup> *Brulotte*, 379 U.S. at 33 (“A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by [tying] the sale or use of the patented article to the purchase or use of unpatented ones. 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, as we have seen, the patent has entered the public domain.”)

<sup>4</sup> *Automatic Radio Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950).

<sup>5</sup> *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

also are starkly drawn in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), where this Court determined that it would again eschew the *per se* approach of *Brulotte* for a license that covered a pending patent application “packaged” together with know-how and the royalty rate changed depending on whether a patent issued.

These decisions, the Association submits, are good law; they show that a patent license should not be deemed *per se* unenforceable if there are accruals of royalties for sales after patent expiration but, instead, there should be an appropriate analysis of the relevant underlying facts.

Courts, however, have believed themselves constrained by *Brulotte*, to the extent that they have disregarded or given insufficient credit to these other decisions. As noted in *Aronson*, for instance, there may be reasons to “place[] a significant value on exploiting the basic novelty of the device, even if no patent” ultimately exists (*Aronson*, 440 U.S. at 261-62), and so courts should be free to consider the reasonableness of post-expiration accrual as part of a commercially-viable agreement without having to presume that such agreements are *per se* inappropriate.

The Association respectfully submits that this Court should abrogate the *Brulotte* rule of *per se* unenforceability of an agreement to calculate royalties based on sales after expiration on the last patent rights granted in a patent license. Instead, courts should turn to modern economic theory in assessing whether or not the agreement is coercive and should not be enforced.

## SUMMARY OF THE ARGUMENT

*Brulotte* is a prime example of outdated decisions that survive because of inertia, long after the reasoning behind them has been overruled or eviscerated. The reasoning of *Brulotte* and the strict *per se* rule it applied –

- (a) contrast sharply and antagonistically with the principles announced and applied by this Court in *Automatic Radio, Zenith* – the only decisions of this Court which have directly addressed the issue of whether “package licensing” in and of itself can give rise to a holding of unenforceability for misuse – and *Aronson*;
- (b) were undermined when the market power presumption set forth in the 1962 *Loew’s* decision<sup>6</sup> was eroded by (i) Congress’ 1988 enactment of 35 U.S.C. § 271(d)(5), and (ii) this Court’s 2006 *Independent Ink* decision<sup>7</sup>;
- (c) make no economic sense, as Justice Harlan perceived in his *Brulotte* dissent and virtually every competent antitrust economist has noted at some point over the last 50 years (379 U.S. at 36-38);

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<sup>6</sup> *United States v. Loew’s, Inc.*, 371 U.S. 38 (1962).

<sup>7</sup> *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

- (d) do not comport with Justice Blackmun's concurrence in *Aronson*, where he looked into the underlying facts of the licensed patent application that had a different royalty rate if no patent issued and concurred that the "case can meaningfully be distinguished from *Brulotte*" (440 U.S. at 266); and
- (e) represent a by-gone legal era, as the product of a perceived need to shoehorn *Brulotte* into one of the exceptions to the licensee estoppel doctrine – a doctrine abrogated five years after *Brulotte* in *Lear v. Adkins*<sup>8</sup> – and therefore has outlived its relevance.

And yet *Brulotte* nevertheless remains as the overarching decision on the subject, one that at least three federal appeals court panels have criticized as leading to improper rules but noting that they are powerless to alter without further action by this Court. Perhaps those courts have over-read *Brulotte* to the exclusion of this Court's other precedent (as some have argued<sup>9</sup>) or perhaps they have correctly read it to be controlling (as others argue), but in either event it is time for *Brulotte* to be overruled.

Logic demands that any allegedly improper expansion of the exclusionary power of a packaged

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<sup>8</sup> 395 U.S. 653 (1969).

<sup>9</sup> *E.g., Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1022 (9th Cir. 2007), *see id.* at 1019 & note 4.

patent should not be evaluated under a *per se* standard. The test that this Court employed in both *Automatic Radio* and *Zenith* – whether the package had been acceptable to the licensee as a matter of convenience and sound business judgment or whether, to the contrary, it had been forced upon the licensee with an impermissible use of market power – should remain the controlling standard for establishing whether a patent has been misused.

In the present case, the district and appellate courts were constrained by *Brulotte*. The facts of the instant case, however, are distinguishable from *Brulotte* in several important respects and, but for the *per se* prohibition of *Brulotte*, those courts would have been justified in applying a far different legal analysis based upon the substantive agreement being reviewed.

The continuing payments based upon sales of the Web Blaster toy arguably could be construed as primarily consideration for selling the toy regardless of when the Kimble patent expired, *i.e.*, as a technology license as settlement for theft of an idea consistent with the jury's finding that Marvel breached its oral contract related to the concept disclosure. The failure to include such an explicit statement or indicator in the contract left an opportunity for Marvel to challenge the Settlement Agreement based upon *Brulotte*. A22. Although the patent was included as part of the Web Blaster litigation settlement and therefore transferred as part of the Settlement Agreement, A6 & A30, in reality Marvel already had a court decision that it did not infringe the Kimble patent (vacated as part

of the agreement for settlement) but the jury held that Marvel was liable for using the underlying Web Blaster toy concept in breach of oral contractual obligations. A5. Pursuant to the Settlement Agreement, therefore, Marvel paid a license rate of 3%, lower than the 3½% royalty set by the jury for Marvel’s contractual breach. A21. As the court of appeals noted, on these facts “[t]he patent leverage in this case was vastly overshadowed by what were likely non-patent rights, and Kimble may have been able to obtain a higher royalty rate had the parties understood that the royalty payments would stop when the patent expired.” A25. But, the court of appeals concluded, “[w]e are bound to follow *Brulotte* and” therefore affirmed the district court’s *Brulotte* based decision. A25-26.

The court of appeals in this case explicitly noted that it applied *Brulotte* reluctantly. In fact *Brulotte*, has been criticized extensively by several courts of appeals and district courts, which have emphasized that it is time for the *per se* standard to be set aside and for courts to be freed to actually consider the relevant underlying facts. This Court should therefore reverse the decision of the court of appeals in this case and bring patent licensing into accord with modern economic theory and antitrust law by overruling the *per se* presumption of *Brulotte*.

## ARGUMENT

The merits brief of the Petitioner presents the background on the relevant cases, and so the Association will not repeat the detail of each holding

in this submission beyond what may be necessary to highlight its arguments.

I. ***Brulotte* Is At Odds With This Court's Other Precedent**

In *Automatic Radio* this Court considered a “licensing agreement ... characterized by the district court as essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties ... regardless of use of the patents” (339 U.S. at 8). Justice Minton, writing for the majority, stated “The court of appeals reasoned that since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege.” *Id.*

The Court reasoned that “[s]ound business judgment could indicate that such payment [*i.e.*, royalties according to an agreed percentage of the licensee's sales] represents the most convenient method of fixing the business value of the privileges granted by the licensing agreement.” *Id.* at 834. Accordingly, the *Automatic Radio* decision held that royalties accruing based upon post-expiration sales is not *per se* an inherent extension of the patent monopoly. *Id.*

Similarly, in *Zenith* the package license agreement, covering hundreds of patents required royalties on the licensee's total radio and television sales, whether or not the licensed patents were used in those products. 395 U.S. at 134. That decision

characterized *Brulotte* as being decided in “a particularized context” of not using a “patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by the Government.” *Id.* at 136-37. The *Zenith* decision then focused on the *Automatic Radio* decision’s evaluation of sound business judgment (*id.* at 137-38) to hold:

“The Court's opinion in *Automatic Radio* did not deal with the license negotiations which spawned the royalty formula at issue, and did not indicate that [Hazeltine] used its patent leverage to coerce a promise to pay royalties on radios not practicing the learning of the patent. No such inference follows from a mere license provision measuring royalties by the licensee's total sales even if, as things work out, only some or none of the merchandise employs the patented idea or process, or even if it was foreseeable that some undetermined portion would not contain the invention. It could easily be, as the Court indicated in *Automatic Radio*, that the licensee as well as the patentee would find it more convenient and efficient from several standpoints to base royalties on total sales than to face the burden of figuring royalties based on actual use. If 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.” *Id.* (footnote omitted).

The *Aronson* decision similarly cabined *Brulotte* – and did so based upon a factual review. As Justice Blackmun’s concurrence in *Aronson* noted, the factual differences among the cases show that each “case can meaningfully be distinguished.” *Aronson*, 440 U.S. at 266 (Blackmun, J., concurring). By looking at the transaction underlying a dispute and its sound business judgment, instead of applying a *per se* test for misuse based upon the dates royalties are accrued, *Aronson* and *Brulotte* should have indicated that a *per se* rule is not the correct test. Concluding that there may have been a role for the pending patent application in setting a 5% royalty rate based upon a potential patent, the Court in *Aronson* concluded that it did not play any role in setting a 2½% royalty indefinitely in the absence of a patent. 440 U.S. at 265. Therefore, the Court concluded, there was no basis that “justifies relieving Quick Point of its contract obligations.” *Id.* at 264.

## II. The Market Power Presumption Has Changed Since *Brulotte*, Undermining Its Reasoning

Under the 1962 *Loew's* decision applicable when *Brulotte* was decided in 1964, a patent created the presumption of market power.<sup>10</sup> By 1988, however, Congress had overturned this presumption

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<sup>10</sup> *See, e.g., Loew's*, 371 U.S. at 45 (“The requisite economic power is presumed when the tying product is patented or copyrighted.”).

and enacted a statute requiring proof of actual market power to establish a patent misuse defense based on patent tying. Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)).<sup>11</sup>

Similarly, in 2006 the Court decided the *Independent Ink* case, holding that plaintiffs in patent tying cases must prove and may not presume market power. 547 U.S. at 31, 42-43. In light of the 1988 amendment the Court concluded that tying arrangements involving patented products should be evaluated under the standards applied to non-patent tying cases “rather than under the *per se* rule” such that there is no specific unique rule for patents, concluding that “[w]hile some arrangements are still unlawful, ... that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof.” 547 U.S. at 42-43

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<sup>11</sup> “(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.”

(internal citation omitted). This decision reached the appropriate result, and was lauded as “clearly correct” by the 2007 Antitrust Modernization Commission, which noted that it was also consistent with statements by the Commission’s witnesses and commentators.<sup>12</sup> Despite *Independent Ink*, however, the *Brulotte* rule continues to be applied as the controlling precedent.

### III. **The *Per Se* Rule of *Brulotte* Should Be Retired In Favor of a Weighing of Relevant Facts**

As the Court has decided in other cases, such as *Automatic Radio*, *Zenith* and *Aronson*, the issue of whether or not patent misuse exists should be viewed through the prism of what constitutes *sound business judgment*. Post expiration royalty accruals, for instance, could represent a convenient method of assigning a business value to a license or other transaction (*e.g.*, *Automatic Radio*, 339 U.S. at 834.)

For instance, royalties based upon sales after patent expiration could – in certain contexts – represent a way of accounting for the first mover advantage, the role that being the first to launch a product has in obtaining and maintaining market share once competition occurs after patent expiration. For instance, in a licensing negotiation one side may argue that a patent has real world benefits that extend beyond the life of the patent

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<sup>12</sup> Antitrust Modernization Commission, Report and Recommendations, April 2007 at 105 available at [http://govinfo.library.unt.edu/amc/report\\_recommendation/toc.htm](http://govinfo.library.unt.edu/amc/report_recommendation/toc.htm) (visited on 1/25/2015).

while the other argues that there is no first mover advantage in that particular market;<sup>13</sup> one sound way to resolve the dispute is to postpone fully accruing royalties until the actual first mover advantage can be measured against potential competition, *i.e.*, by royalties on sales that occur after patent expiration. The *Brulotte* standard, however, proscribes this natural compromise. Indeed, it has been interpreted to forbid all post-expiration royalty provisions – even those contained in license and assignment agreements that are premised on sound business judgment.

Many commentators and courts have criticized the *Brulotte* standard, noting that “post-expiration royalties merely amortize the price of using patented technology”<sup>14</sup> and “do not represent

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<sup>13</sup> Economists have attempted to analyze factors that can affect whether a first mover advantage is applicable. *E.g.*, F. Suarez & G. Lanzolla, *The Half-Truth of First-Mover Advantage*, Harvard Bus. Rev., p. 121, 123-24 (Apr. 2005); T. Rayna & L. Striukova, *The Curse of the First-Mover: When Incremental Innovation Leads to Radical Change*, 1 Int. J. Collaborative Enterprise 4 (2009).

<sup>14</sup> 10 Phillip E. Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law: An Application of Antitrust Principles and Their Application* § 1782c, at 492 (2004); *see* Thomas Cheng, *Putting Innovation Incentives Back in the Patent-Antitrust Interface*, 11 Nw. J. Tech. & Intell. Prop. 385, 415 (2013) (“This approach overlooks the fact that the size of the patentee reward is not determined by one patent exploitation practice, but by the overall mix of exploitation practices employed by a patentee.”); Kelly Hershey, *PATENT MISUSE: Scheiber v. Dolby Laboratories, Inc.*, 18 Berkeley Tech. L.J. 159, 174 (2003) (“... the Supreme Court needs to resolve the issue, and hopefully replace *Brulotte’s per se* rule with a rule of reason approach.”); Michael Koenig, Note, *Patent Royalties Extending*  
(footnote continued ...)

an extension in time of the patent monopoly.”<sup>15</sup> The U.S. antitrust enforcement agencies also have noted that it is “possible that collecting royalties over a longer period of time than the patent grant will reduce the deadweight loss associated with a patent monopoly and allow the patent holder to recover the full value of the patent, thereby preserving innovation incentives.”<sup>16</sup> Economists too have called *Brulotte’s* rule “flawed,” and that “allocative efficiency considerations should permit a licensor and licensee to agree to longer royalty terms.”<sup>17</sup>

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*Beyond Expiration: An Illogical Ban From Brulotte to Scheiber*, 2003 Duke L. & Tech. Rev. 5, 8 (“Given the economic and logical nonsense of *Brulotte*, and more importantly, the perversity of its effect on public policy, it is clearly an undesirable rule.”); Michael Koenig, Patent Royalties Extending Beyond Expiration: An Illogical Ban from Brulotte to Scheiber, 2003 Duke L. & Tech. Rev. 5 (2003); *see also* Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487 (2011); Herbert Hovenkamp, *Patents, Property, and Competitive Policy*, 34 J. CORP. L. 1243 (2009).

<sup>15</sup> Harold See & Frank M. Caprio, The Trouble with *Brulotte*: The Patent Royalty Term and Patent Monopoly Extension, 1990 Utah L. Rev. 813, 814, 851 (1990).

<sup>16</sup> *E.g.*, U.S. Dep’t of Justice & Federal Trade Comm’n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 122 (2007).

<sup>17</sup> Richard Gilbert & Carl Shapiro, Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No’s Meet the Nineties, 1997 Brookings Papers on Econ. Activity, Microeconomics 283, 322 (1997).

Judges also have criticized *Brulotte* in their scholarly writings,<sup>18</sup> and decisions. For instance, in dissenting from the *Brulotte* decision Justice Harlan wrote that the majority failed to understand the “substantive economic effect” of the provisions.<sup>19</sup> Additionally, the Seventh Circuit questioned whether obtaining post-expiration royalties “really ‘extends’ the patent,”<sup>20</sup> noting that *Brulotte* has been “severely, and as it seems to us, with all due respect, justly, criticized” and that extending royalties is just “a risk-shifting credit arrangement between patentee and licensee.”<sup>21</sup> The Ninth Circuit also challenged *Brulotte*, stating that “many courts and commentators have found” *Brulotte*’s reasoning “economically unconvincing” but conceding that “[n]o matter how unconvincing *Brulotte*’s foundation may

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<sup>18</sup> See Frank H. Easterbrook, *Contract and Copyright*, 42 HOUS. L. REV. 953 (2005); Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. MARSHALL REV. INTELL. PROP. L. 325, 331-32 (2005) (characterizing the *Brulotte* holding as “dubious” and “particularly anomalous,” dealing with a “detail” “that merely alters the timing of the royalty payment.”).

<sup>19</sup> 379 U.S. at 37.

<sup>20</sup> *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510-11 (7th Cir. 1982).

<sup>21</sup> *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (“paying royalties after the patent expires does not extend the duration of the patent either technically or practically, because ... if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower.”).

be ... we are bound to apply its holding if it applies to the case before us.”<sup>22</sup>

In the current case, the Government took the position that *certiorari* should not be granted, arguing that all post-expiration payments would contravene “the public’s unfettered access to patented inventions after the expiration of the patent term,” and therefore the *Brulotte* presumption should continue. Brief of the United States as Amicus Curiae in opposition to *certiorari* (US *Cert.* Brief) at p. 8. This argument reflects a fundamental misunderstanding. *Brulotte* does not affect whether the **public** has access to patented inventions after the patent term – the *per se* presumption of *Brulotte* only involves the relationship with a single, contracting party (who presumably will now face unrestrained competition whether or not *Brulotte* creates an applicable presumption); the public as a whole **always** has access to the technology after patent expiration. Therefore, absent some showing of coercion, parties should be free to contract as they please – in other words, there should be no *per se* presumption of misuse.

At core, the issue of whether *Brulotte* should be overruled ought to focus on the evolution of law, and its role in patent licensing vis-à-vis other areas of law, in which there is no *per se* presumption of market power. The *per se* standard of *Brulotte* should be retired.

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<sup>22</sup> *Zila*, 502 F.3d at 1020; *see id.* At 1019 & note 4; *see also* App. 25-26.

IV. ***Brulotte* Is Based on an Anachronistic View of the Law Pre-*Lear***

Although there is a natural instinct to uphold precedent, *Brulotte* was based upon an anachronistic view of patent law – one that underwent a sea change only five years later in *Lear v. Adkins*. In 1964, when *Brulotte* was decided, a licensee typically was estopped from challenging the validity of a licensed patent.<sup>23</sup> That doctrine of licensee estoppel was abrogated in *Lear*, although the federal appellate courts were slow to realize its implications.

In 2005, however, the Federal Circuit decided *U.S. Philips*,<sup>24</sup> and articulated how *Lear*'s elimination of licensee estoppel necessarily affected the law of package licensing. As Judge Bryson explained in *U.S. Philips* (*id.*, at 1190 n.3):

The effect of a nonexclusive license was different before the Supreme Court in *Lear* ... abolished the patent doctrine of licensee estoppel. Before *Lear*, a

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<sup>23</sup> Notably, the grant of *certiorari* in *Automatic Radio* encompassed both misuse and licensee estoppel issues. Justice Minton's opinion for the Court, over the dissent of Justice Douglas, discusses both issues, ruling that Automatic Radio had failed to bring itself within any of the pertinent judge-made exceptions to estoppel. 339 U.S. at 839.

<sup>24</sup> *U.S. Philips Co. v. Int'l Trade Comm'n*, 424 F.3d 1179 (Fed. Cir. 2005), *adhered to in Princo Corp. v. Int'l Trade Comm'n*, 563 F.3d 1301 (Fed. Cir. 2009), *vacated and aff'd on other grounds by* 616 F.3d 1318 (Fed. Cir. 2010) (en banc), *cert. denied*, -- U.S. --, 131 S.Ct. 2480 (2011).



nonexclusive license had a legal effect that made it more than a mere covenant by the licens[or] not to sue. Acceptance of the license barred the licensee from challenging the validity of the patent. Some of the early decisions regarding patent-to-patent tying arrangements appear to have been based, at least in part, on that feature of pre-*Lear* patent licenses. *See, e.g., Am. Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769, 777 (3d Cir. 1959); *Int'l Mfg. Co. v. Landon*, 336 F.2d 723, 731 (9<sup>th</sup> Cir. 1964); *see also Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 699 (D.S.C. 1977), *aff'd in pertinent part*, 594 F.2d 979 (4<sup>th</sup> Cir. 1979). In the post-*Lear* era, the “acceptance” of a license has no such restrictive effect on the licensee’s freedom.

In other words, when this Court abrogated the licensee estoppel doctrine by *Lear*, a legal alternative to the payment of undiminished royalties obviated the need for a rule such as that set forth in *Brulotte*.

That fundamental change in the law of patent licensing undercut the foundation of *Brulotte* – no longer was there a reason for a *per se* presumption of unenforceability, a court could look at the actual facts to determine whether rights were appropriately conveyed without an expiration-based estoppel. As such, *Brulotte* remains an anachronism, based on legal theories that have long since been overruled,

and so to its *per se* bar should be overruled for this additional reason so that the federal courts of appeals may be free to consider package licenses based upon their merits instead of blindly applying a *per se* bar.

### CONCLUSION

For the reasons set forth above, *Brulotte* should be overruled.

Respectfully submitted,

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