

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
U.S. Court of Appeals for the Ninth Circuit**

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

DAVID L. APPLGATE*
WILLIAMS MONTGOMERY &
JOHN LTD.
6100 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 443-3200
dla@willmont.com

GARRET A. LEACH
PRESIDENT
THE INTELLECTUAL
PROPERTY LAW
ASSOCIATION OF CHICAGO
P.O. Box 472
Chicago, IL 60609
(312) 984-7764

Of Counsel:
CHARLES W. SHIFLEY
BANNER & WITCOFF, LTD.
10 South Wacker Drive
Suite 3000
Chicago, IL 60606
(312) 463-5000

DONALD W. RUPERT
MARSHALL, GERSTEIN &
BORUN LLP
6300 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 474-6300

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*Counsel of Record

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INTEREST OF *AMICUS CURIAE*

The Intellectual Property Law Association of Chicago (“IPLAC”) submits this brief as *amicus curiae* in support of neither party on the ultimate merits of the case. However, IPLAC supports Petitioners’ request that the *per se* rule of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) should be overruled.^{1,2} Founded in 1884, the Intellectual Property Law Association of Chicago is a voluntary bar association of over 1,000 members who practice in the areas of

¹ Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in any part, no such counsel or a party made a monetary contribution intended to fund the preparation or submission of the brief, and no person other than the *amicus curiae*, its members, or its counsel, made such a monetary contribution. The parties in the case have consented to this filing by IPLAC.

² In addition to the required statement of footnote 1, IPLAC adds that after reasonable investigation, IPLAC believes that (a) no member of its Board or Amicus Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than IPLAC, 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.

patents, trademarks, copyrights, trade secrets and the legal issues they present. IPLAC is the country's oldest bar association devoted exclusively to intellectual property matters. In litigation, IPLAC's members are split about equally between plaintiffs and defendants. Its members include attorneys in private and corporate practices before federal bars throughout the United States, as well as the U.S. Patent and Trademark Office and the U.S. Copyright Office. As part of its central objectives, IPLAC is dedicated to aiding in the development of intellectual property law, especially in the federal courts.³

SUMMARY OF ARGUMENT

Half a century ago, in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), this Court held that post-expiration royalties in patent licenses were “unlawful *per se*.” The *per se* rule of *Brulotte* predates the Court's application of sound economic principles to deciding cases and is out of step with this Court's economics-based patent and antitrust jurisprudence.

IPLAC therefore urges the court to clarify that *Brulotte* does not bar post-expiration royalties in patent licenses that are supported by sound economic analysis and do not run afoul of the antitrust laws of the United States.

³ Although over 30 federal judges are honorary members of IPLAC, none of them was consulted or participated in any way regarding this brief.

ARGUMENT**I. BRULOTTE RUNS COUNTER TO THIS COURT'S OTHERWISE SOUND APPLICATION OF ECONOMIC PRINCIPLES TO PATENT AND ANTITRUST LAW**

Patent law and antitrust law are in inherent tension yet serve the same aim. Patents confer a time-limited right to exclude others from practicing patented inventions. U.S. Const., Art. 1, Sec. 8. Their purpose is explicitly “[t]o promote the progress of ... useful arts.” *Id.* Antitrust law, on the other hand, seeks to prevent the exercise of monopoly power. *E.g.*, 15 U.S.C. § 2. Yet there, too, the purpose of the law is to promote competition and to reward innovation. *E.g.*, *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 458 (1993) (“The [antitrust] law directs itself not against conduct which is competitive, even severely so, but against conduct which unfairly tends to destroy competition itself.”)

In the antitrust arena, this Court has therefore rightly recognized that laws designed to promote commerce and industry should be applied to achieve that aim.

In *Continental T.V. v. GTE Sylvania*, 433 U.S. 36, 53 (1977), for example, this Court overruled *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365, 380 (1967). The Court had decided *Schwinn* just ten years earlier. *Schwinn* had declared restrictions on a dealer’s territories illegal *per se* on the authority of “the ancient rule against restraints on alienation.” 433 U.S. at 53 n.21. But by 1977 the Court was

ready to consider “substantial scholarly and judicial authority” supporting economic analysis and so reversed itself. 433 U.S. at 57-58.

More recently, in *State Oil Co. v. Khan*, 522 U.S. 3 (1997), the Court overruled *Albrecht v. Herald Co.*, 390 U.S. 145 (1968) as economically unsound. *Khan* noted “the substantial criticism the [*Albrecht*] decision has received.” 522 U.S. at 18. It therefore found “insufficient economic justification for *per se* invalidation of vertical maximum price fixing.” *Id.* See also, e.g., *Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) (“Recent economic analysis questions the rationale behind holding any licensing practice *per se* anticompetitive,” citing, *inter alia*, *GTE Sylvania*.)

The Court decided *Schwinn* three years after *Brulotte*, and *Albrecht* was decided just a year after that. *Brulotte* has received comparable criticism and yet remains the law of this Court. Yet like *Schwinn*, *Brulotte* “was an abrupt and largely unexplained departure from” existing law. *GTE Sylvania*, 433 U.S. at 47. In essence, *Brulotte* inexplicably adopted Justice Douglas’s dissent from *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827 (1950). *Brulotte* also relied on an analogy to tying cases that *Hazeltine* itself had expressly rejected. Compare *Brulotte*, 339 U.S. at 33, to *Hazeltine*, 339 U.S. at 832-33. In short, *Brulotte* was controversial from the start.

In reversing the court below, *Brulotte* ignored without comment many contrary cases and authorities. See *Thys Co. v. Brulotte*, 382 P.2d 271, 290-91 (Wash. 1963) (expressly noting such

authorities and cases on which they relied); *see also*, e.g., *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F.2d 496, 506 (3d Cir. 1962) (“an agreement to pay royalties after a patent has expired may be valid and binding”). Over time, the controversy has reached a crescendo, both judicial and academic.

Judicial criticism began with Justice Harlan's dissent. *Brulotte*, 379 U.S. at 34 (1964) (“I think that more discriminating analysis than the Court has seen fit to give this case produces a different result.”) The criticism continues with the 9th Circuit decision below. *Stephen Kimble v. Marvel Enterprises Inc.*, 727 F.3d 856, 857 (9th Cir. 2013) (“This appeal calls on us to again construe the Supreme Court’s frequently-criticized decision in *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964). ... [In] *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1021 (9th Cir. 2007) ... [w]e acknowledged that the *Brulotte* rule is counterintuitive and its rationale is arguably unconvincing. *Id.* at 1019–20 & n.4.”).

At least two Courts of Appeals explicitly invited the Court to reconsider *Brulotte*. *See Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-20 (9th Cir. 2007); *Scheiber v. Dolby Laboratories, Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002), *cert. denied*, 537 U.S. 1109 (2003). Others criticized *Brulotte* on similar reasoning. *See, e.g., USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510-11 (7th Cir. 1982); *cf. Jahn v. 1-800-FLOWERS.com, Inc.*, 284 F.3d 807, 811-12 (7th Cir. 2002) (deferred royalty for a lawful sale does not violate subsequent laws or regulations proscribing such sales).

Academic criticism is ubiquitous and nearly unanimous. *E.g.*, Raymond T. Nimmer and Jeff Dodd, *Modern Licensing Law* § 13:31 (2012) (Post-expiration royalties do not “expand the claims or the scope of the patent.”); Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 *Marquette Intellectual Property L. Rev.* 1, 142-43 (2011) (*Brulotte* “causes affirmative social harm”); John W. Schlicher, 2 *Patent Law, Legal and Economic Principles* §13:218 at 13-388 (2d ed. 2009) (“The use of the longer royalty term does not permit the patent owner to turn a patent with a 20 year term into a patent with a 30 year term The market power existing during the term [sic] patent can be exploited only once.”); Michael Koenig, *Patent Royalties Extending Beyond Expiration: An Illogical Ban From Brulotte To Scheiber*, 2 *Duke Law & Technology Review* 1-11 (2003); 10 Phillip E. Areeda et al., *Antitrust Law* §§ 1782c2-c3, p. 505 (1996) (“*Brulotte* refused to see that typically such post-expiration royalties merely amortize the price of using patented technology.”); 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); Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 *Va. L.Rev.* 677, 709-12 (1986).

II. THE COURT SHOULD REPLACE *BRULOTTE’S PER SE* RULE WITH A RULE OF REASON GROUNDED IN SOUND ECONOMIC ANALYSIS.

The critics of *Brulotte* provide this Court with a blueprint for improvement. As recognized in

Areeda, *supra*, post-expiration royalties merely amortize the price of using patented technology. Where, as here and in *Brulotte*, a voluntary license requires payment after the licensed patent expires but in no way extends the patent itself, the Court should permit it. This should be true whether the patent is sold, licensed, or assigned.

As the Seventh Circuit explained in *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 885 (7th Cir. 1986), “... *Brulotte* is not concerned with restrictions on the sale of patent rights but rather the impact of such arrangements on the policies and purposes of the federal patent laws.” The rationale of *Brulotte*, it further explained, is that “the policy and purpose of the patent laws is undermined by any attempt to extend or preserve the patent monopoly beyond the [statutory period],” *id.* at 883, citing *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255-56, 66 S.Ct. 101, 104, 90 L.Ed. 47 (1945). Thus, where the economic realities of an arms-length agreement result in no patent term extension, but merely extend the term during which payments are made, the patent and antitrust laws should permit the agreement.

Earlier, in *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510-11 (7th Cir.1982), the Seventh Circuit had questioned whether any number of outlawed practices really “extends” the patent. These practices include *Brulotte*’s proscription against paying royalties beyond the patent’s expiration date, 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed.2d 99 (1964), *Hazeltine*’s bar against measuring royalties based on sales of unpatented end products containing the patented item, *Zenith Radio Corp. v.*

Hazeltine Research, Inc., 395 U.S. 100, 133-40, 89 S.Ct. 1562, 1581-85, 23 L.Ed.2d 129 (1969), and *Stewart v. Mo-Trim, Inc.*'s requirement that licensees not make items that compete with the patented item, 192 U.S.P.Q. 410, 412 (S.D. Ohio 1975).

Properly understood, each and every one of those practices is a means of pricing the patented rights. Yet none extends or alters the limits of the patent as an exclusionary right against the public. *Cf. Teva Pharmaceuticals USA, Inc. v. Sandoz*, 574 U. S. ___, No. 13-854 (Jan. 20, 2015) (“the ultimate meaning of a patent, like the meaning of a statue, binds the public at large ...”) (Thomas, J., dissenting; Slip. Op. dissent at 7.)

As the Seventh Circuit observed, “[t]he patentee who insists on limiting the freedom of his purchaser or licensee — whether to price, to use complementary inputs of the purchaser's choice, or to make competing items — will have to compensate the purchaser for the restriction by charging a lower price for the use of the patent. If, for example, the patent owner requires the licensee to agree to continue paying royalties after the patent expires, he will not be able to get him to agree to pay as big a royalty before the patent expires.” *USM Corp.*, 694 F.2d at 511.

In each of these cases the patentee's total income might be higher, the court observed, “[b]ut there is nothing wrong with trying to make as much money as you can from a patent.” *Id.*

The Seventh Circuit's reasoning is entirely consistent with this Court's earlier holding in, for

example, *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S.Ct. 1096, 1097, 59 L.Ed.2d 296 (1979), but avoids the artificial distinctions of *Brulotte*. In *Aronson*, petitioner had filed a patent application for a new form of keyholder. The design was simple enough to be copied unless protected by patent. While a patent application was pending, Aronson negotiated a manufacturing contract with Quick Point Pencil Co. that required a higher royalty for the first five years and a lower royalty if the patent did not issue within five years. The Eighth Circuit held that under *Brulotte*, patent law pre-empted the contract. This Court sensibly reversed, finding that the parties were fully aware in negotiating the royalty rate that a patent might not issue. 440 U.S. at 261-62. Economic realities trumped an artificial rule, as they should.

CONCLUSION

The time has come for this Court to update and harmonize the rule of *Brulotte* in keeping with sound economic principles. Specifically, the Court should replace *Brulotte's per se* rule with a rule of reason analysis.

Respectfully submitted,

DAVID L. APPLGATE*
WILLIAMS MONTGOMERY &
JOHN LTD.
6100 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 443-3200

Of Counsel:
CHARLES W. SHIFLEY
BANNER & WITCOFF, LTD.
10 South Wacker Drive
Suite 3000
Chicago, IL 60606
(312) 463-5000

GARRET A. LEACH
PRESIDENT
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ASSOCIATION OF CHICAGO
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Chicago, IL 60609
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DONALD W. RUPERT
MARSHALL, GERSTEIN &
BORUN LLP
6300 Willis Tower
233 South Wacker Drive
Chicago, IL 60606
(312) 474-6300

Counsel for Amicus Curiae
The Intellectual Property Law Association of Chicago

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*Counsel of Record
