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 *AMICI CURIAE* CENTER FOR INTELLECTUAL PROPERTY RESEARCH OF THE INDIANA UNIVERSITY MAURER SCHOOL OF LAW AND OTHER SCHOLARS IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST OF *AMICI* [1]

Amicus curiae is the Center for Intellectual Property Research of the Indiana University Maurer School of Law (the "Center"), joined by a number of other scholars whose names appear in the Appendix. Neither the Center nor Indiana University has any interest in the outcome of this matter. However, the Center, as a part of its mission, has a strong interest in seeing the patent law develop in a consistent and positive way.

SUMMARY OF ARGUMENT

This Court's decision in *Brulotte v. Thys Co.,* 379 U.S. 29 (1964), holding that post-expiration royalties in patent licenses are "unlawful per se," should be abrogated. The *Brulotte* rule condemns many pro-competitive royalty arrangements, thus frustrating the public interest in commercializing inventions. The *Brulotte* rule also is out of step with this Court's current economics-based jurisprudence of patent misuse and patent/antitrust. The rule reflects an assumption that a license provision extending royalties beyond the expiration of the licensed patent must necessarily extend the power of the patent. This assumption is economically unsound.

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1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici*, or their counsel, made a monetary contribution intended to fund its preparation or submission. The parties have been given at least ten days' notice of *amici's* intention to file this brief and both have consented by email. Such consents are being submitted herewith.

In place of the *Brulotte* rule, this Court should hold that post-expiration royalty arrangements are lawful, except in the rare case in which there is clear evidence that the obligation was the result of anti-competitive coercion or fraud. As to those rare cases, this Court's existing jurisprudence provides adequate general guidance, and this Court should leave to the lower courts the task of defining the parameters of the exception as appropriate cases arise.

ARGUMENT

I. *BRULOTTE* DISCOURAGES COMMERCIALIZATION AND DISCLOSURE OF INVENTIONS.

According to a recent Department of Commerce study, "factors linked to innovation are responsible for almost three-quarters of the Nation's post-WW II growth rate." Arti Rai *et al.*, *Patent Reform*: *Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs,* Department of Commerce (Apr. 13, 2010).[2] The patent system fosters this innovation by providing a limited period of exclusivity for inventors to make, use and sell their inventions in exchange for disclosure of information needed to make the inventions after the period of exclusivity has expired. *United States Constitution*, Art. 1, Sec. 8; Christine Varney, *Promoting Innovation Through Patent and Antitrust Law and Policy*, Department of Justice (May 26, 2010).[3]

2. http://www.commerce.gov/sites/default/files/documents/migrated/Patent_Reform-paper.pdf

3. http://www.justice.gov/atr/public/speeches/260101.htm

In the 50 years since this Court's decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (*"Brulotte")*, products covered by patents and other forms of intellectual property have "become increasingly important as a determinant of U.S. industrial progress." Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283 (1997).[4] As a result, "[t]echnology licensing and related partnerships are essential in today's economy to remain globally competitive and to market the products that knowledge assets help to create." *Id.* at 283-84.

The rule established in *Brulotte* hinders the innovation needed to make our economy vibrant in an important way not recognized in 1964: the rule discourages flexible licensing agreements needed for commercialization of inventions. This Court has long recognized the unquestioned ability of a patent owner to license others to exploit the invention in exchange for a "fixed sum for the privilege to use the patents." *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.*, 339 U.S. 827, 833 (1950). While there are numerous ways in which a licensor and licenseemight structure the payment of that sum, the *Brulotte* rule privileges a very few while forbidding all others, without economic justification.

For example, suppose a licensee has agreed to pay a fixed sum of $1 million for use of a patent over its remaining term. If the licensee pays the $1 million during the patent term, the *Brulotte* rule is satisfied. By contrast, if the licensee is unable to muster the $1 million fixed sum all at once, the parties might prefer to have

4. http://faculty.haas.berkeley.edu/shapiro/ninenono.pdf

the licensee sign a promissory note agreeing to pay $1 million, plus interest, over a period that extends beyond the expiration of the patent and is based on sales of the licensed product. However, "*Brulotte*'s per se rule limits the ability of patentees to amortize over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee." Herbert Hovenkamp, *et al.*, I IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law § 23.2b (2d Ed.).

Moreover, the *Brulotte* rule forbids numerous alternative approaches that might be economically optimal for the licensor and licensee. For example, suppose a patentee offers a license for a royalty of 10% of sales per year for the remaining 10 years of the patent. In response, the offeree, out of a concern for cash flow, proposes 5% for 20 years, which the patentee accepts. Under *Brulotte's* per se rule, the Court would deem the patentee to have leveraged its patent in a manner that expanded the patent's scope whereas, in fact and as an economic proposition, it was the licensee who leveraged his willingness to enter into a license to obtain more favorable royalty terms. To penalize the patentee for accepting the best terms it could get for a license to its patent both imposes an undue hardship on the individual patentee and discourages optimizing economic returns for inventive activity. Indeed, doing so is contrary to a fundamental principle that *Brulotte* recognizes: a "patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that [patent-afforded] monopoly."[5]

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5. *Brulotte*, 379 U.S. at 32. Regrettably, *Brulotte* launched its analysis by erroneously equating patents with monopolies. A

Consider a further example premised on the observation that "[b]oth licensor and licensee may be better served by an arrangement in which the royalty rate is low but the term of royalty extended. The low royalty rate might help the licensee in the early investment phase and thereby encourage it to take the risks to launch new, and thus inherently risk-prone, technology." Roger M. Milgrim & Eric E. Bensen, 3 Milgrim on Licensing §18.05 (2013). Suppose a potential licensee of a patent having limited remaining life decides to build its business quickly through expensive promotion, hoping customers will remain loyal to it after the patent expires. To be able to afford the promotion expense, the potential licensee proposes to pay the licensor reduced royalties on sales before the patent's expiration in exchange for continued royalties thereafter, seeing the post-expiration sales

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patent affords statutory exclusivity for the invention claimed, not a "monopoly." *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186-7 (1933) ("The term monopoly connotes the giving of an exclusive privilege . . . which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before the discovery, but gives something of value to the community by adding to the sum of human knowledge. . . . upon [patent expiration], the knowledge of the invention inures to the people . . .". *See also* Roger M. Milgrim & Eric E. Bensen, 1 Milgrim on Licensing § 2.28 (2014) ("The mischief in the use of [the term 'monopoly'] to describe the *statutory exclusivity* a patent confers, is that the term 'monopoly' carries antirust connotations that are usually not properly applicable to these exclusive rights.") (emphasis in original). Unfortunately, notwithstanding *Dubilier*'s teaching, many courts continued to treat patents as monopolies, generating dubious rules that this Court has more recently begun to correct. *See, e.g., Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 31 (2006) (discarding the presumption that patents confer market power).

as resulting from activities during the patent term. *Cf. Aronson v. Quick Point Pencil Co.,* 440 U.S. 257 (1979) (royalties payable after product is in the public domain are equivalent to "other costs involved in being the first to introduce a new product to the market.") This and innumerable similar examples of flexible royalty arrangements are precluded by *Brulotte* even if they could lead to increased commercialization of inventions because the *Brulotte* Court was "unable to conjecture" any legitimate reason for extending royalties beyond a patent's expiration. *Brulotte,* 379 U.S. at 32.

By precluding flexible licensing arrangements, even if suggested by and advantageous to the licensee, *Brulotte* "causes affirmative social harm" because it "unduly restricts access and exploitation of the patented invention, producing unjustified inefficiencies." Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 Marquette Intell. Prop. L. Rev. 1, 43 (2011). *Accord* Rochelle Cooper Dreyfuss & Lawrence S. Pope, *Dethroning Lear? Incentives To Innovate After MedImmune*, 24 Berkeley Tech. L.J. 971, 973 (2009) (contending that *Brulotte* is "out of step with current economic understanding and business practices" and noting that "[r]ules that give licensing parties greater flexibility to structure their arrangements can make licensing more efficient, improve public access to new technologies, and enhance incentives to innovate.")

The *Brulotte* decision has adverse effects on innovation that the Court did not anticipate. For that reason alone, the Court should overrule its *Brulotte* decision, allowing courts to consider the pro-competitive benefits of flexible licensing agreements that *Brulotte* prohibits. *Leegin Creative Leather Products v. PSKS*, 551 U.S. 877, 894

(2007) (per se rule overruled because it "would proscribe a significant amount of procompetitive conduct.")

II. *BRULOTTE* IS INCONSISTENT WITH BOTH PATENT MISUSE DOCTRINE AND THE COURT'S CURRENT ANTITRUST JURISPRUDENCE ON PER SE RULES.

A. The Use of a Post-Expiration Royalty Obligation Alone Cannot Constitute Patent Misuse

Contrary to the reasoning of *Brulotte*, the mere use of a post-expiration royalty obligation alone cannot constitute patent misuse. Misuse of a patent is the broadening of the "physical or temporal scope" of a patent. *Blonder-Tongue Lab. v. University of Illinois Found.*, 402 U.S. 313, 333-344 (1971). A post-expiration royalty obligation does not extend the "temporal scope" of a licensed patent. The patent still expires when it was scheduled to expire, and when it does, everyone (other than the licensee) is free to exploit the patented invention without paying the patentee. Absent other barriers to entry, the use of a post-expiration royalty obligation does not interfere with the public interest. Rather, it is one mechanism that the parties to a license can use to express their estimate of the value of the licensed patent during its enforceable term, similar to other mechanisms such as the choice of royalty rates or the choice of a date on which royalty payments should commence.[6]

6. Specifically, a post-expiration royalty obligation can serve as a mechanism for shifting pre-expiration royalty payments to a later time. Those royalties, even if paid after patent expiration, are still based on the parties' views of the pre-expiration value of the patent.

Moreover, a post-expiration royalty obligation does not even subject *the licensee* to extended remedies under the Patent Act. After the patent expires, if the licensee breaches an obligation to pay royalties, the licensor's only remedy is at state law for breach of contract, not under the Patent Act for infringement.[7] As one commentator has observed:

> A post-expiration royalty obligation is considered misuse of the patent because, the theory goes, it extends the temporal scope of the patent beyond that which was granted by the government. In essence, *Brulotte* reaches that result by equating a post-expiration obligation to pay a *royalty* with a post-expiration right to enforce the *patent*. However, were the licensee to cease royalty payments after the expiration of the patent, the patentee's claim would be for *breach* of the license agreement, not *infringement* of the patent. Thus, even in the absence of *Brulotte's* per se prohibition, a post-expiration royalty obligation would not extend the patentee's rights under the Patent Act.

Eric E. Bensen, 8 *Patent Law Perspectives* § 18.5[a] (2014).

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7. For example, consider the remedies that would have been available to the present licensor, Kimble, before and after patent expiration. Had Marvel materially breached the agreement during the patent's term, Kimble would have had both a statutory cause of action for infringement (for sales after the termination of the license agreement) and a contract cause for nonpayment (of royalties that accrued before the termination of the agreement). However, after the patent's expiration, Kimble's remedial recourse would have been limited to a claim for breach of contract.

Brulotte's per se rule reflects a faulty assumption that a royalty obligation extending beyond the life of a patent must necessarily extend the temporal scope of that patent contrary to the public interest. This is an erroneous conception of patent misuse. For this reason alone, this Court should discard the *Brulotte* rule.

B. Under the Court's Current Jurisprudence, Per Se Rules Must be Justified by Economic Analysis.

It is not surprising that *Brulotte* ignored the adverse effects on innovation and the disclosure of inventions caused by its rule of per se illegality, nor is it surprising that *Brulotte* adopted a rule that fails to align with core conceptions of patent misuse. The decision was reached in an era in which this Court's jurisprudence in antitrust and related cases reflected "a search for ways to simplify the government's burden of proof." William E. Kovacic & Carl Shapiro, *Antitrust Policy: A Century of Economic and Legal Thinking*, 14 J. of Econ. Perspectives 43, 49 (2000). Many of those decisions, like *Brulotte,* imposed rules of per se illegality without any consideration of economic effects.

Under what this Court has called its "current jurisprudence," per se rules "must be based on demonstrable economic effect rather than . . . upon formalistic line drawing." *Leegin Creative Leather Products v. PSKS*, 551 U.S. 877, 887 (2007), quoting *Continental T.V. v. GTE Sylvania,* 433 U.S. 36, 58-59 (1977). Consequently, "few decisions of [the *Brulotte*] era command praise today." Kovacic and Shapiro, *supra,* at 51. In fact, most of the *per se* decisions of the *Brulotte* era have been overruled.

For example, in *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365, 380 (1967), decided three years after *Brulotte*, the Court declared restrictions on a dealer's territories illegal per se on the authority of "the ancient rule against restraints on alienation." In 1977 the Court overruled *Schwinn*, however, noting that "an antitrust policy divorced from market considerations would lack any objective benchmark." *Continental T.V. v. GTE Sylvania,* 433 U.S. 36, 53 n.21 (1977). In rejecting per se condemnations of vertical territorial restrictions, the Court took account of "substantial scholarly and judicial authority supporting their economic utility." 433 U.S. at 57-58.

In 1997, the Court overruled *Albrecht v. Herald Co.*, 390 U.S. 145 (1968), decided four years after *Brulotte*. *State Oil Co. v. Khan,* 522 U.S. 3 (1997). The Court found "insufficient economic justification for per se invalidation of vertical maximum price fixing" and considered "the substantial criticism the decision has received." 522 U.S. at 18.

In the fifty years since *Brulotte,* this Court's changing method of analysis has also led antitrust enforcement authorities to change their views on the illegality of a variety of activities once thought to be illegal per se. That change has been especially pronounced with respect to licensing of patents and other forms of intellectual property. *See 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.*)

In the early 1970's, following on the heels of *Brulotte, Schwinn and Albrecht*, the Antitrust Division of the Department of Justice announced nine licensing practices, apparently considered illegal *per se,* which became known as the "nine no no's." Richard Gilbert and Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, 1997 Brookings Papers 283, 285-86 and n.8 (1997).[8]

Reflecting the major evolution in the Court's approach to per se rules, in 1995, the Department of Justice and Federal Trade Commission issued *Antitrust Guidelines for the Licensing of Intellectual Property* ("Licensing Guidelines").[9] These Licensing Guidelines rejected the per se approach of the Nine No No's "because licensing often has significant efficiency benefits." Gilbert & Shapiro, *supra,* at 287.[10] This approach was then followed in the 2007 Report that abandoned per se treatment of post-expiration royalties required by *Brulotte* because "[c]ollecting royalties beyond a patent's statutory term can be efficient." U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 12 (2007).

As this Court has recognized, the broad provisions of the Sherman Act are given shape "by drawing on common law tradition." *National Soc. of Professional Engineers*

8. http://faculty.haas.berkeley.edu/shapiro/ninenono.pdf

9. http://www.justice.gov/atr/public/guidelines/0558.htm

10. Prof. Gilbert led the task force that drafted the Licensing Guidelines. Gilbert & Shapiro, *supra,* at 283.

v. U.S., 435 U.S. 679, 688 (1978).[11] Consequently, when resolving issues arising under the antitrust laws, this Court has an interest "in recognizing and adapting to changed circumstances and the lessons of accumulated experience." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997). Because of that accumulating experience, the Court's methods of analyzing antitrust issues are different than they were when *Brulotte* was decided. Per se rules can no longer be justified without "demonstrable economic effect rather than . . . upon formalistic line drawing." *Leegin, supra,* 551 U.S. at 88. *Brulotte* made no effort to determine the economic consequences of its ruling, Hovenkamp, et al., *supra*, at § 23a (observing that the *Brulotte* Court did not attempt to analyze anticompetitive effects), and it is doubtful that any anticompetitive effects existed, because once the patents expired, "other manufacturers would be free to duplicate the patented technology without obligation to the patentee." *Id.* That alone warrants a rejection of the rigid per se treatment of post expiration royalties that *Brulotte* requires.

C. The Only Articulated Bases of *Brulotte* Have Been Eliminated by Subsequent Decisions of Congress and this Court.

The Court has overruled per se rules from the *Brulotte* era "when the theoretical underpinnings of those decisions are called into serious question." *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42

11. The principles underlying patent misuse are similarly derived from the common law. Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine,* 78 Cal. L. Rev. 1599, 1608 (1990).

n.3 (2006), quoting *State Oil Co. v. Khan*, 522 U.S. 3, 21 (1997). Recent decisions of Congress and this Court have eliminated any basis for the *Brulotte* decision under its articulated rationale.

The *Brulotte* Court found the required payment of royalties after the expiration of the patent to be "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. *See Ethyl Gasoline Corp. v. United States,* 309 U.S. 436; *Mercoid Corp. v. Mid-Continent Inv. Co.,* 320 U.S. 661, 664-665, and cases cited." *Brulotte,* 379 U.S. at 179. Leaving aside the inappropriateness of the analogy,[12] the cases cited did hold that tying arrangements involving patents were illegal per se based on the presumption that all patents, no matter what their claims covered, created a "monopoly." *Ethyl Gasoline,* at 456 ("The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or

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12. *Brulotte's* conclusion that requiring payment of royalties in the post-expiration period is analogous to tying agreements (379 U.S. at 179-80) is wrong as a matter of law and economics, a fact on which economists and commentators agree. *See, e.g.,* Harold See and Frank M. Caprio, *The Trouble with* Brulotte: *The Patent Royalty Term and Patent Monopoly Extension*, 1990 Utah L. Rev. 813, 847 ("In no way, however, can the patent monopoly be extended beyond its term by the use of a royalty."); John W. Schlicher, 2 Patent Law, Legal and Economic Principles §13:192 (2d ed. 2004) ("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 patent can be exploited only once."); 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."); Eric E. Bensen, 8 Patent Law Perspectives §8.15[a](2014).

selling his invention.); *Mercoid,* at 666 ("The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly.")

The presumption that a patent inevitably creates a monopoly "has its foundations in the judicially created patent misuse doctrine." *Illinois Tool Works, Inc. v. Independent Ink, Inc.,* 547 U.S. 28, 31 (2006) (analyzing a requirement that unpatented products be purchased as a condition for purchasing patented products). In 1988, Congress eliminated the presumption that a patent necessarily creates a monopoly in the context of claims for patent misuse based on allegations of tying involving a patent. *Id.* at 39; 35 U.S.C. §271(d)(5).

In *Illinois Tool*, this Court reviewed its cases holding that a patent necessarily makes tying illegal when patents are involved. Recognizing the "vast majority of academic literature on the subject" and the action of Congress in the misuse context, the Court overruled all prior decisions holding that patents inevitably create the market power necessary to make a tie involving patents illegal per se. *Id.* at 43 and n. 4. As a result, a claim of tying involving a patent "must be supported by proof of power in the relevant market rather than by a mere presumption thereof." *Id.*

The enactment of 35 U.S.C. §271(d)(5) and the decision in *Illinois Tool Works* have eliminated the express underpinnings of the *Brulotte* rule. Patents are no longer presumed to create monopoly power. The elimination of the presumption on which the *per se* rule of *Brulotte* was based is sufficient justification for rejection of that rule. *Illinois Tool Works Inc.* 547 U.S. at 42 n.3.

D. *Brulotte* Was an Unexplained Departure from Existing Law.

Stare decisis is, of course, always a consideration when this Court is asked to overrule one of it precedents. But *stare decisis* is less an impediment to overruling an erroneous decision that itself was "an abrupt and largely unexplained departure from" existing law. *GTE Sylvania,* 433 U.S. at 47 (overruling the decision in *U.S. v. Arnold, Schwinn & Co.,* 388 U.S. 365 (1967), decided three years after *Brulotte*, holding that restrictions on sales territories are illegal per se). The *Brulotte* decision was an unexplained departure from existing law.

Brulotte holds that requiring a licensee to pay royalties on products not covered by a patent constitutes "projection of the patent monopoly." *Brulotte,* 379 U.S. at 32. That conclusion was inexplicably contrary to this Court's decision in *Automatic Radio Mfg. Co., Inc. v. Hazeltine, Inc.,* 339 U.S. 827 (1950).

In *Hazeltine*, a patent licensee argued that an agreement requiring "payment on unpatented goods" during the term of the patent constituted patent misuse. *Hazeltine,* 339 U.S. at 832. The licensee argued that the agreement was "identical in principle" to "'Tie-in' cases" in which a licensor requires the licensee to purchase unpatented goods from the licensor. *Id.* Tie-ins are condemned because they foreclose at least a portion of the market to competitors of the patent owner and "competition on the merits in the market for the tied item is restrained . . ." *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 12 (1984); *International Salt Co.v. United States*, 332 U.S. 392, 396 (1947).

The *Hazeltine* Court expressly rejected the claimed analogy, holding that the required payment of money for selling unpatented goods “does **not** create another monopoly.” 339 U.S. at 833 (emphasis added). Relying on this conclusion, the Court held that requiring the payment of royalties on all sales, whether covered by the patent or not, is “not per se a misuse of patents . . . .” *Hazeltine,* 339 U.S. at 834. Justices Douglas and Black dissented from this decision.

The *Brulotte* decision was written by Justice Douglas, who essentially adopted his dissenting views in *Hazeltine.* Without rejecting the logic of *Hazeltine* that requiring royalties on unpatented products **cannot** “create another monopoly” (339 U.S. at 833), the *Brulotte* Court simply “decline[d] the invitation to extend it so as to project the patent monopoly beyond the 17-year period.” 379 U.S. at 33. The Court provided no basis for its conclusion that requiring royalties on unpatented products after a patent’s expiration has a different effect from requiring royalties on unpatented products before that expiration. Instead, the Court’s decision relied on the analogy to tying cases that the *Hazeltine* majority had expressly rejected. *Id.*

The decision in *Brulotte* that an agreement to pay royalties after a patent has expired is “unlawful per se” (379 U.S. at 32) was also an abrupt departure from the views of leading scholars at the time. Patent and licensing treatises, relying on existing cases, concluded that “an agreement to pay royalties after a patent has expired may be valid and binding.” *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.,* 302 F.2d 496, 506 (3d Cir. 1962). The Supreme Court of Washington, in the decision reversed in *Brulotte*, had expressly taken note of those authorities and the cases on which they relied. *Thys Co. v. Brulotte*, 382 P.2d 271, 290-91 (Wash. 1963). In reversing, this Court gave no attention to the treatises or the cases.

III. OBLIGATIONS TO PAY POST-EXPIRATION ROYALTIES SHOULD BE FOUND ENFORCEABLE ABSENT CLEAR EVIDENCE OF ANTI-COMPETITIVE COERCION OR FRAUD.

In place of the *Brulotte* rule, the Court should hold that post-expiration royalty obligations are lawful, except in the rare case in which there is clear evidence that the obligation was the result of anti-competitive coercion or fraud. In those exceptional cases, the courts may find it helpful to apply the rule of reason, Hovenkamp, *et al.* at § 23.2a (text at note 36), albeit with the caveat that courts should not permit the analysis to devolve into merely a new version of the *Brulotte* prohibition.

Fortunately, the Court need not look much beyond its own characterizations of *Brulotte* for guidance on addressing the exceptional cases. In *Zenith Radio Corp. v. Hazeltine Research, Inc.* 395 U.S. 100 (1969), decided four years after *Brulotte,* the Court considered whether requiring royalties on unpatented products during a patent term should be illegal per se. The Court characterized *Brulotte* as articulating the "principle that a patentee may not use the power of his patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by Congress." *Id.* at 136-37. In determining whether the patentee had used the "power of his patent" to enact an unjustified royalty, the Court concluded that the relevant consideration is whether the licensor "used its patent leverage to coerce a promise to pay royalties on [products] not practicing the learning of the patent." *Id.* at 138. On the other hand, "[i]f convenience of the parties rather than patent power dictates the [challenged] royalty provision, there are no misuse of the patents and no forbidden conditions attached to the license." *Id.* at 138.

Zenith Radio, understood through the lens of this Court's more recent cases, provides some guidelines to courts confronting cases in which a licensee challenges post-expiration royalty obligations on the basis of coercion. First, the challenger must show that the licensor had market power in the licensed patent. Coercion in the economic context requires "some special ability—usually called 'market power'—to force a purchaser to do something that he would not do in a competitive market." *Jefferson Parish Hospital District No. 2 v. Hyde,* 466 U.S. 2, 14-15 (1984). This Court has now made clear that not all patents create market power. *Illinois Tool Works Inc.*, 547 U.S. at 28; *see also* 35 U.S.C. §271(d)(5) (imposing a market power requirement). If there is no showing of market power, the inquiry should end.

Second, even if the challenger succeeds in showing market power, the challenger must show that the anti-competitive effects of the challenged royalty provision outweigh its pro-competitive benefits. This will be a difficult showing to make. In fact, the higher the market power of the patent, the higher the value of obtaining a license during its term and the more likely the licensee may desire to spread its royalty obligations over a longer period of time. For example, if the licensee requested the post-termination royalties, the courts should have no difficulty upholding the royalty obligation under the rule of reason, even if the licensor has market power. Even where the licensee claims to have resisted the post-expiration royalty provision, and uses this fact as a basis for arguing coercion, the court must still find evidence that the harms to competition outweigh the benefits. A bare argument of coercion-in-fact should not suffice.

In rare cases, it may be necessary to scrutinize the size and nature of the royalty payments more closely. In the case of payments after a patent's expiration, those payments may well represent a permissible amortization of the amount for obtaining access to the patent during its term. *See* Hovenkamp, *et al.* at § 23.2b. If the post-expiration payments are for pre-termination rights, the total amount of payments, including those after expiration, should not be grossly out of line with the total value of the patent during its term. On the other hand, total payments so unrelated to the value of the right to exclude they cannot be explained as an amortization of in-term royalties for a patent conveying significant market power may be some evidence that the post-expiration payments were coerced. *Cf. F.T.C. v. Actavis, Inc.*, 570 U.S. –, 133 S.Ct. 2223 (2013) (assessing the potential anti-competitive effects of reverse payments from patent owners to alleged infringers by taking into account numerous factors, including the size of the payment).

CONCLUSION

In sum, this Court should discard the *Brulotte* rule. The rule does not serve the public interest; it frustrates many pro-competitive licensing arrangements. The rule "limits the ability of patentees to amortize over longer periods than the remaining life of the patent, even when such an arrangement is in the interest of the licensee." Hovenkamp, *et al.* at § 23.2b. *Brulotte* simply failed to recognize that "[c]ollecting royalties beyond a patent's statutory term can be efficient." U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 12 (2007).

In place of the *Brulotte* rule, this Court should hold that post-expiration royalty arrangements are ordinarily lawful unless there is clear evidence of anti-competitive coercion or fraud. It should be left to the lower courts to delineate the rare scenarios in which this occurs.

Respectfully submitted,

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APPENDIX

APPENDIX

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