

# Patent Licensing Tangled in the *Brulotte* Web: A Comprehensive Analysis of the Supreme Court’s Opportunity To Reconsider a Fifty-Year- Old Precedent in Light of Widespread Criticism

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## I. INTRODUCTION

Under the basic principle of patent law, the United States Congress is constitutionally empowered to grant inventors an exclusive right to their inventions for a limited time in exchange for disclosure of the inventions to the government and the public at large.<sup>1</sup> Currently, such an exclusive right lasts twenty years from the date of the patent's filing.<sup>2</sup> Many times inventors choose to license their exclusive right to make, use, sell, or offer to sell the invention to another.<sup>3</sup> In some of these licenses, the parties agree to require patent royalty payments beyond the patent term.<sup>4</sup> Presumably, the parties do so because such an agreement proves economically beneficial and efficient to both the licensor and licensee.<sup>5</sup> In 1964, the Supreme Court of the United States held such agreements to be "unlawful per se," i.e., unenforceable, in the controversial case *Brulotte v. Thys Co.*<sup>6</sup>

On March 31, 2015, the Supreme Court heard arguments on a patent case involving a Spider-Man toy and decided whether to affirm, overrule, or modify the fifty-year-old per se rule established in *Brulotte*.<sup>7</sup> The case on appeal, *Kimble v. Marvel Enterprises, Inc.*, involved a claim for breach of contract on behalf of Stephen Kimble, the inventor of a Spider-Man web-shooting toy.<sup>8</sup> The toy allows children to role-play as the friendly neighborhood crime fighter.<sup>9</sup> *Kimble* presented the Court with an opportunity to clarify the boundaries of *Brulotte*, explain the proper procedures for patent licensing, and explicitly declare what constitutes patent leverage misuse.

This Comment will discuss the impact of *Brulotte* and its progeny on patent licensing, the criticisms surrounding this impact, the onset of and arguments surrounding the Kimble-Marvel dispute, and the possible effect the Supreme Court's decision will have on the future of patent licensing. First, this Comment will discuss the precedent case, *Brulotte*, and explain its effect on patent licensing agreements. Second, this Comment will discuss the uncertainties left in the wake of *Brulotte* and

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1. U.S. CONST. art. 1, § 8, cl. 8.

2. 35 U.S.C.A. § 154(a)(2) (2015).

3. *Frequently Asked Questions: Patents*, WORLD INTELL. PROP. ORG., [http://www.wipo.int/patents/en/faq\\_patents.html](http://www.wipo.int/patents/en/faq_patents.html) (last visited Nov. 7, 2015).

4. *Id.*

5. *See id.*

6. 379 U.S. 29, 32 (1964).

7. Oral Argument, *Kimble v. Marvel Enters., Inc.*, 135 S. Ct. 781 (2015) (No. 13-720), [http://www.supremecourt.gov/oral\\_arguments/argument\\_transcripts/13-720\\_3dq3.pdf](http://www.supremecourt.gov/oral_arguments/argument_transcripts/13-720_3dq3.pdf).

8. 727 F.3d 856, 857-59 (9th Cir. 2013).

9. *Id.* at 858.

the criticisms that lower courts, economists, and legal scholars have leveled against it. Third, this Comment will discuss *Kimble* in detail, examining key background information, its procedural history, and the parties' various amici curiae briefs submitted to the Supreme Court. Fourth, this Comment will discuss the parties' arguments. Finally, this Comment will offer an analysis of the potential impact the Court's decision will have on patent licensing practices.

## II. *BRULOTTE* AND ITS EFFECT ON PATENT LICENSING AGREEMENTS

### A. *The Brulotte Decision*

In *Brulotte*, Brulotte purchased from Thys Company (Thys) both a hop-picking machine for a flat sum and a license for the patents incorporated in the machine for its use.<sup>10</sup> Under the license contract, the petitioners were required to pay the greater of a \$500 annual royalty or a fixed royalty based on the amount of hops picked per year.<sup>11</sup> The last patent on the machine expired in 1957.<sup>12</sup> When the licensee, Brulotte, refused to pay the royalties for the licenses required after the last patent expired, Thys sued.<sup>13</sup> As its defense, Brulotte contended that the "extension of the license agreements beyond the expiration date of the patents" constituted patent misuse.<sup>14</sup>

The Supreme Court ruled in favor of Brulotte and held "that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se."<sup>15</sup> Thus, the contract was unenforceable.<sup>16</sup>

The Supreme Court's reasoning relied on Article 1, Section 8 of the United States Constitution, which empowers Congress to grant "for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>17</sup> The *Brulotte* Court emphasized that Congress executed that power under 35 U.S.C. § 154, which grants the patent owner a limited exclusive "right to exclude others from making, using, or selling the invention throughout the United States."<sup>18</sup> When a patent expires, the exclusive right ends, and the invention

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10. 379 U.S. at 30.

11. *Id.*

12. *Id.*

13. *Id.*

14. *Id.*

15. *Id.* at 32.

16. *Id.* at 34.

17. U.S. CONST. art. 1, § 8, cl. 8.

18. 379 U.S. at 30-31; 35 U.S.C. § 154(a)(1) (2015).

becomes public property.<sup>19</sup> The Court further explained that attempting to extend the patent monopoly after the patent expires “runs counter to the policy and purpose of the patent laws.”<sup>20</sup>

Consequently, because the license agreement did not distinguish “between the term of the patent and the post-expiration period,” the Court determined that the contract constituted patent misuse.<sup>21</sup> More importantly, the Court noted that it was “unable to conjecture what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.”<sup>22</sup> Accordingly, the Court concluded that the licensor could not use its patent leverage to receive royalties after the patent’s expiration because such an allowance would improperly subject the free market to monopoly influences.<sup>23</sup>

On the contrary, Justice Harlan’s dissent rejected the Court’s result.<sup>24</sup> Instead, he recognized the possibility that parties might prefer a lower royalty rate extended over a longer period, rather than a higher royalty rate for the patent term.<sup>25</sup> As an illustration, Justice Harlan presented a hypothetical analogous to the situation before the Court: “If the farmer has no fixed estimate of his use requirements he may have good business reasons entirely unconnected with ‘patent leverage’ for wanting payments tied to use, and may indeed be willing to pay more in the long run to obtain such an arrangement.”<sup>26</sup> Justice Harlan also remarked that there existed no meaningful distinction of the economic results from licensing for use payments during the patent term and licensing for “long-term installment payments of a flat-sum purchase price.”<sup>27</sup>

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19. *See Brulotte*, 379 U.S. at 32.

20. *Id.* at 31 (quoting *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)).

21. *Id.* at 32.

22. *Id.*

23. *Id.*

24. *Id.* at 34-39 (Harlan, J., dissenting).

25. *Id.*

26. *Id.* at 37-38.

27. *Id.* at 37.

*B. Subsequent Effects of Brulotte on Various Forms of Patent Licenses*

1. Pending Patent Applications

a. *Aronson*

In *Aronson v. Quick Point Pencil Co.*, the parties negotiated a license agreement while the patent application was pending and required the payment of royalties indefinitely.<sup>28</sup> The Supreme Court enforced the agreement, even though the United States Patent and Trademark Office (USPTO) rejected the patent.<sup>29</sup> While the patent application for a key holder design was pending, the petitioner, Aronson, entered into an agreement with Quick Point Pencil Co. (Quick Point), transferring the right to produce and sell the product.<sup>30</sup>

The agreement consisted of a two-tier royalty payment structure: (1) Quick Point agreed to pay Aronson, assuming a valid patent issued, “a royalty of 5% of the selling price in return for ‘the exclusive right to make and sell [the] keyholders,’” and (2) if the patent did not issue within five years, Quick Point would pay petitioner “two and one half percent (2½%) of sales . . . so long as [it] continue[d] to sell [the keyholder].”<sup>31</sup> As in *Brulotte*, the agreement did not specify the duration of the royalty payments.<sup>32</sup> After the patent failed to issue and many competitors copied the invention, Quick Point sought a declaratory judgment arguing that the contract was unenforceable under patent law.<sup>33</sup>

The Supreme Court held that the agreement was consistent with the principles of federal patent law as well as the underlying rule in *Brulotte* that “the monopoly granted *under a patent* cannot lawfully be used to ‘negotiate [a license or agreement] with the leverage of that monopoly.’”<sup>34</sup> The Court explained that

a pending patent application gives the applicant some additional bargaining power for purposes of negotiating a royalty agreement. The pending application allows the inventor to hold out the hope of an exclusive right to exploit the idea, as well as the threat that the other party will be prevented from using the idea for [seventeen] years. However, the amount of leverage arising from a patent application depends on how likely the parties consider it to be that a valid patent will issue. . . . It is clear [from the record] that

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28. 440 U.S. 257 (1979).

29. *Id.* at 266.

30. *Id.* at 258-59.

31. *Id.* at 259.

32. *Id.*

33. *Id.* at 260.

34. *Id.* at 265 (quoting *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964)).

whatever role the pending application played in the negotiation of the 5% royalty, it played no part in the contract to pay the 2½% royalty indefinitely.<sup>35</sup>

Furthermore, the Court distinguished *Brulotte* from *Aronson* noting that the parties specifically negotiated for a reduced royalty rate in the event that no patent issued within five years.<sup>36</sup> Accordingly, the licensing parties in *Aronson* had negotiated the discounted royalty rate without the leverage of a patent monopoly.<sup>37</sup> As a result, the Court enforced the agreement allowing for a discounted royalty where no patent issued.<sup>38</sup>

b. License Agreements Entered into Before the Issuance of the Patent

When a pending patent ultimately issues, *Brulotte* commands courts to hold licensing agreements involving patent applications unenforceable if the royalty payments extend beyond the patent's expiration.<sup>39</sup> For example, in *Boggild v. Kenner Products*, the United States Court of Appeals for the Sixth Circuit applied *Brulotte* and held unenforceable a licensing agreement that required immediate filing for patent applications and provided for postexpiration royalties regardless of whether or not the patents issued.<sup>40</sup> In that case, Boggild invented a toy extruder to be used with Play-Doh and executed a patent license agreement before applying for a patent.<sup>41</sup> The agreement required the immediate filing of a patent.<sup>42</sup> Boggild and Dale, the inventors, filed two patent applications for mechanical and design patents, which were subsequently issued.<sup>43</sup> Additionally, the license provided for royalty payments to be paid "for a minimum of twenty-five years from the date of the license . . . regardless of whether the anticipated patents issued or not."<sup>44</sup>

Although Boggild held no patents at the time the parties negotiated the license agreement, the Sixth Circuit nevertheless held that *Brulotte's* per se rule applied and barred the enforceability of the postpatent term

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35. *Id.*

36. *Id.*

37. *Id.* at 264-65.

38. *Id.* at 267.

39. *Brulotte*, 379 U.S. 29.

40. 776 F.2d 1315, 1316-17 (6th Cir. 1985).

41. *Id.* at 1316.

42. *Id.*

43. *Id.* at 1317.

44. *Id.*

royalty payments.<sup>45</sup> To justify the extension of *Brulotte* the court explained “that misuse of the leverage afforded by a *pending* patent is subject to the *Brulotte* rule of *per se* invalidity.”<sup>46</sup> Furthermore, the court asserted that “once the pending patent issues, enforcement of royalty provisions for other rights which conflict with and are indistinguishable from royalties for patent rights, is precluded.”<sup>47</sup>

In *Meehan v. PPG Industries, Inc.*, the United States Court of Appeals for the Seventh Circuit concurred with the Sixth Circuit’s analysis in *Boggild* that misuse of patent leverage can result from not only pending or issued patents, but also from the express anticipation of patent protection.<sup>48</sup> When the parties in *Meehan* entered into the license, which assigned rights to a “method and apparatus” invention, Meehan had not applied for any patents.<sup>49</sup> However, as in *Boggild*, the agreement called for the licensee to promptly apply for patent applications.<sup>50</sup> Later, patents were issued in the United Kingdom, Canada, and the United States.<sup>51</sup> As a result, the Seventh Circuit held that “the *Brulotte* rule should be extended to agreements entered into in anticipation of applying for patents.”<sup>52</sup>

In reaching this conclusion, the court agreed with the Sixth Circuit’s contention that “the same violations of patent law arising from abuse of the leverage attached to a pending or issued patent can arise from abuse of the leverage afforded by an expressly anticipated application for a patent.”<sup>53</sup> Also, the court declared that *Brulotte* explicitly rejected *Meehan*’s argument that the royalty payment provision simply reflected an “installment method” of payment based on the value of his trade secret.<sup>54</sup> As the court explained:

*Brulotte* stated that when the license provisions fail to distinguish between post- and pre-expiration royalty amounts, the royalties do not constitute deferred payment for use during the pre-expiration period or long-term payments on a sale of unpatented products. Identical payments in the post-expiration period are ‘a telltale sign that the licensor was using the licenses

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45. *Id.* at 1319-20 (agreeing with the United States Court of Appeals for the Eleventh Circuit in *Pitney Bowes Inc. v. Mestre*, 701 F.2d 1365, 1372 (11th Cir. 1983)).

46. *Id.* at 1320.

47. *Id.* at 1319.

48. 802 F.2d 881, 884 (7th Cir. 1986).

49. *Id.* at 882-83.

50. *Id.* at 883.

51. *Id.*

52. *Id.* at 884.

53. *Id.* at 885-86 (quoting *Boggild v. Kenner Prods.*, 776 F.2d 1315, 1320 (6th Cir. 1985)).

54. *Id.* at 885.

to project its monopoly beyond the patent period. They forcefully negate the suggestion that we have here a bare arrangement for a sale or a lease at an undetermined price, based on use.<sup>55</sup>

Thus, the court concluded that the provision in the license requiring postpatent royalties constituted patent misuse and, consequently, was unenforceable.<sup>56</sup>

c. *Zila*: The Ninth Circuit's First Encounter with *Brulotte*

The United States Court of Appeals for the Ninth Circuit first confronted *Brulotte* in a case where an inventor, Tinnell, assigned a product's patent and other rights to Zila, Inc., a defunct corporation acquired by Tinnell.<sup>57</sup> Tinnell accepted the agreement in exchange for an everlasting royalty.<sup>58</sup> When the parties entered into the contract, the patent was still pending.<sup>59</sup> Notably, the parties in *Zila, Inc. v. Tinnell* did not negotiate a reduced royalty rate in the event that the patent failed to issue.<sup>60</sup> Nor did they factor the uncertainty of rejection into their determination of the royalty rate.<sup>61</sup> Eventually, patents issued both in the United States and Canada.<sup>62</sup> A dispute ultimately arose between the parties after Zila ceased payments soon after the patent expired and claimed *Brulotte* applied.<sup>63</sup>

On appeal, the Ninth Circuit analyzed the case under *Brulotte*.<sup>64</sup> The court specifically noted that “*Brulotte* renders unenforceable some aspects of an otherwise valid contract.”<sup>65</sup> The Ninth Circuit reasoned that “[*Brulotte*’s] application runs counter to the usual task in a contract case—to interpret the terms agreed to by the parties.”<sup>66</sup> Moreover, the court observed that many courts and commentators have found the Supreme Court’s reasoning behind the case “economically unconvincing”—that the free market would be improperly subjected to monopoly influences if it permitted postexpiration patent royalties.<sup>67</sup>

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55. *Id.* (quoting *Brulotte v. Thys Co.*, 379 U.S. 29, 31-32 (1964)).

56. *Id.* at 886.

57. *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1016 (9th Cir. 2007).

58. *Id.*

59. *Id.* at 1017.

60. *See id.*

61. *Id.*

62. *Id.*

63. *Id.* at 1012.

64. *Id.* at 1019-22.

65. *Id.* at 1019.

66. *Id.*

67. *Id.* (citing *Brulotte v. Thys Co.*, 379 U.S. 29, 32-33 (1964)).



Reluctantly, the Ninth Circuit admitted that it was bound to apply *Brulotte* regardless of its debatable rationale.<sup>68</sup>

## 2. Licenses for Patent Packages

In *Scheiber v. Dolby Laboratories, Inc.*, the inventor of the “surround sound” audio system, who held patents in both Canada and the United States, entered into a settlement agreement with Dolby Laboratories, Inc. (Dolby) after suing the company for patent infringement.<sup>69</sup> The agreement stipulated that Dolby pay Scheiber royalties in exchange for a license to his patents, both domestic and foreign (a patent package).<sup>70</sup> The parties negotiated a lower royalty rate on all of the patents that would extend until the expiration of the Canadian patent, even if other patents expired during that time.<sup>71</sup> After Dolby ceased payment on any patent that expired, Scheiber again sued.<sup>72</sup>

On appeal, Judge Posner of the Seventh Circuit found the *Scheiber* and *Brulotte* cases to be identical and took the opportunity to openly scrutinize the Supreme Court’s holding in *Brulotte*.<sup>73</sup> In a lengthy criticism, he stated:

The Supreme Court’s majority opinion reasoned that by extracting a promise to continue paying royalties after expiration of the patent, the patentee extends the patent beyond the term fixed in the patent statute and therefore in violation of the law. That is not true. After the patent expires, anyone can make the patented process or product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish.<sup>74</sup>

Judge Posner further reasoned that the payment of royalties postexpiration “does not extend the duration of the patent either technically or practically, because, as this case demonstrates, if the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower.”<sup>75</sup> Thus, he argued that postexpiration royalties should not be per se invalid because they are nothing more than “a risk-

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68. *Id.* at 1019; *see, e.g.*, *Scheiber v. Dolby Labs, Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002) (“[W]e have no authority to overrule [*Brulotte*] no matter how dubious its reasoning strikes us.”).

69. 293 F.3d 1014, 1016 (7th Cir. 2002).

70. *Id.*

71. *Id.*

72. *Id.*

73. *Id.* at 1017-18.

74. *Id.* at 1017.

75. *Id.*

shifting credit arrangement between patentee and licensee.”<sup>76</sup> Acknowledging that it did not possess the power to overrule a Supreme Court decision, the court nullified the license agreement.<sup>77</sup>

### 3. Hybrid Agreements

The United States Court of Appeals for the Eleventh Circuit interpreted *Brulotte* as applying to a hybrid license, an agreement incorporating both patent and trade secret rights, where the parties entered into the agreement while the patents were pending.<sup>78</sup> In *Pitney Bowes, Inc. v. Mestre*, the inventor of a paper handling machine entered into four different licensing agreements that assigned the right to produce and sell the machine in exchange for royalty payments on each product sold.<sup>79</sup> However, the patents did not issue until after the contracting parties executed the licenses.<sup>80</sup>

Comparing the case to *Brulotte*, the court held the agreement to be unenforceable because “the ‘exclusive rights’ granted under the agreement applied equally before and after expiration of the patent. . . . [T]he agreement required [the payment of] royalties at the same rate and on the same basis after the patents expired [as those that were paid] while the patent was in effect.”<sup>81</sup> Therefore, the Eleventh Circuit ruled that *Brulotte’s* per se mandate governed the abuse of patent leverage derived from a pending patent in connection with a hybrid license.<sup>82</sup>

### III. UNCERTAINTIES LEFT IN THE WAKE OF *BRULOTTE*: CRITICS AND SCHOLARS RESPOND AS AMICI CURIAE

Subsequent to *Kimble’s* petition for certiorari, many amici curiae reached out to the Supreme Court in support of reconsidering *Brulotte*.<sup>83</sup> Those in favor of replacing *Brulotte’s* rigid per se rule have argued that it precludes contracting parties from forming economically efficient and procompetitive licensing agreements.<sup>84</sup> For instance, academic and

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76. *Id.*

77. *Id.* at 1018.

78. *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1372 (11th Cir. 1983).

79. *Id.* at 1366-67.

80. *Id.* at 1367.

81. *Id.* at 1373.

82. *Id.* at 1372-73.

83. *See, e.g.*, Brief for Memorial Sloan Kettering Cancer Center et al. as Amici Curiae in Support of Petitioners, *Kimble v. Marvel Enters., Inc.*, 135 S. Ct. 781 (9th Cir. 2013) (No. 13-720), 2015 WL 673668.

84. *See id.*; Brief of the Intellectual Property Law Association of Chicago as Amicus Curiae on Petition for Writ of Certiorari in Support of Petitioners at 2, *Kimble*, 135 S. Ct. 781

research institutions assert that *Brulotte* precludes “flexible licensing agreements needed for commercialization of inventions,” especially in the biological and pharmaceutical industries, without any economic justification.<sup>85</sup> Additionally, several legal and economic scholars have declared that *Brulotte* reflects a departure from the Supreme Court’s current jurisprudence on matters at the cusp of antitrust and intellectual property law.<sup>86</sup>

Conversely, other amici have invited the Court to clarify the *Brulotte* rule claiming that its criticism actually emanates from misapplication of the rule in lower courts rather than the rule itself.<sup>87</sup> Finally, the Solicitor General urged the Supreme Court to leave *Brulotte* undisturbed because it reflects the Court’s interpretation of federal patent laws, not antitrust laws.<sup>88</sup>

#### A. Solicitor General

On behalf of the United States, the Solicitor General presented an amicus curiae brief which resolutely declared that the Supreme Court should deny the petition for a writ of certiorari.<sup>89</sup> The Solicitor General posited that *Kimble*’s principal argument that *Brulotte* cannot be economically justified because it “reflects an obsolete understanding of antitrust principles related to monopoly power” is largely flawed because “*Brulotte* is not . . . rooted solely or even primarily in principles of ‘competition law.’”<sup>90</sup> Further he asserted that *Brulotte* simply “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

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(No. 13-720), 2014 WL 768706; Brief of Amici Curiae for the Center for Intellectual Property Research of the Indiana University Maurer School of Law and Other Legal and Economic Scholars in Support of Petitioners at 6, *Kimble*, 135 S. Ct. 781 (No. 13-720), 2014 WL 216157.

85. Brief of Amici Curiae for the Center for Intellectual Property Research of the Indiana University Maurer School of Law and Other Legal and Economic Scholars in Support of Petitioners, *supra* note 84, at 3; see Brief for Memorial Sloan Kettering Cancer Center et al., *supra* note 83, at 8, 11-12.

86. See, e.g., Brief of Amici Curiae for the Center for Intellectual Property Research of the Indiana University Maurer School of Law and Other Legal and Economic Scholars in Support of Petitioners, *supra* note 84, at 12, 14-15 (declaring that the Supreme Court’s decision in *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006), and the 1988 enactment of 35 U.S.C. § 271(d) have rejected *Brulotte*’s theoretical underpinnings—specifically presuming that a patent confers market power onto a patent holder).

87. Brief of Amicus Curiae the Licensing Executives Society (U.S.A. and Canada), Inc. in Support of Neither Party at 1, 5, *Kimble*, 135 S. Ct. 781 (No. 13-720), 2015 WL 468873 (claiming that subsequent case law has applied the *Brulotte* holding too broadly).

88. Brief for the United States as Amicus Curiae to Express the Views of the United States at 2, *Kimble*, 135 S. Ct. 781 (No. 13-720), 2014 WL 5489470.

89. *Id.*

90. *Id.* at 7.

unfettered access to patented inventions after the expiration of the patent term.”<sup>91</sup>

Overall, the Solicitor General argued that the Court should not reconsider *Brulotte* on several grounds: (1) the Court should apply the principle of stare decisis; (2) *Kimble* has not presented a “special justification” for overruling *Brulotte*, and (3) *Kimble* is not a suitable medium for reconsidering *Brulotte*.<sup>92</sup>

First, stare decisis compels the Court to adhere to the principles established in previous cases in order to “promote[] the evenhanded, predictable, and consistent development of legal principles, foster[] reliance on judicial decisions, and contribute[] to the actual and perceived integrity of the judicial process.”<sup>93</sup> Notably, the United States disagreed with *Kimble*’s assertion that the principles of stare decisis do not apply “because *Brulotte* is not rooted in any specific statutory text.”<sup>94</sup>

Second, the Solicitor General asserted that *Kimble*’s primary argument, emphasizing that *Brulotte* must be repudiated because it manifests an unsound application of economic principles surrounding antitrust law, does not also render itself as a “specific justification” for reconsidering the case under patent law principles.<sup>95</sup>

Finally, the United States insisted that *Kimble* would be a “poor vehicle for re-examining *Brulotte*” because the Ninth Circuit did distinguish between a sale and a license for intellectual property rights.<sup>96</sup>

As a result, the Supreme Court would need to determine “in the first instance whether the *Brulotte* rule applies in this meaningfully different context—a step that would be inconsistent with the Court’s repeated admonitions that it is ‘a court of review, not of first view.’”<sup>97</sup> Therefore, the Solicitor General concluded that the Supreme Court should not grant certiorari.<sup>98</sup>

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91. *Id.* at 7-8.

92. *Id.* at 8, 11, 20.

93. *Id.* at 8 (quoting *Michigan v. Bay Mills Indian Cmty.*, 134 S. Ct. 2024, 2036 (2014)).

94. *Id.* at 9.

95. *Id.* at 11-12.

96. *Id.* at 20-21.

97. *Id.* at 21 (citing *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2131 (2014) (quoting *Cutter v. Wilkinson*, 544 U.S. 709, 718 (2005))).

98. *Id.* at 22.

*B. The Licensing Executive Society (U.S.A. and Canada), Inc.*

The Licensing Executive Society (U.S.A. and Canada), Inc., (LES) urged that the per se rule of *Brulotte* reflects good law.<sup>99</sup> However, LES advised that the Supreme Court should grant certiorari in order to clarify *Brulotte*'s scope of application because lower courts have misapplied the law in subsequent case law.<sup>100</sup> Specifically, LES argued that, when initially decided, *Brulotte*'s per se rule was applied "narrow[ly] and limited to its specific set of circumstances," meaning that if "one or more of those conditions [is not] present [in a subsequent case], the holding would not [apply]."<sup>101</sup>

LES distinguished *Brulotte*'s condition of "a royalty agreement that projects beyond the expiration date of the patent" from these alternative conditions: "[d]eferred' payments made during the post-expiration period but incurred during the patent term; [l]icenses including non-patented articles; [l]icenses without restrictions on the assignment and relocation of the covered articles; or [r]oyalty payment calculations that are different for the post-expiration period than the pre-expiration period."<sup>102</sup> Thus, LES argued that *Brulotte*'s holding may not apply to those alternative situations.<sup>103</sup>

Furthermore, LES identified that the Supreme Court in *Brulotte* distinguished the license at issue with a patent package license, which included patents with varying expiration dates.<sup>104</sup> In effect, the Court implied that "a patent license might survive the expiration of one or more patents as long as at least one remains unexpired."<sup>105</sup>

More importantly, LES argued that criticism of *Brulotte* is flawed because it is not founded on "the rule itself, but from the misapplication of the rule in subsequent case law, which has improperly expanded the scope of the rule."<sup>106</sup> To illustrate, LES specifically cited cases from the Sixth, Seventh, and Eleventh Circuits as applying the rule too broadly.<sup>107</sup>

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99. Brief of Amicus Curiae the Licensing Executives Society (U.S.A. and Canada), Inc., *supra* note 87, at 10-11.

100. *Id.*

101. *Id.* at 4.

102. *Id.*

103. *Id.*

104. *Id.* at 5.

105. *Id.* (citing *Automatic Radio Co. v. Hazeltine*, 399 U.S. 827 (1950)).

106. *Id.* at 1.

107. *Id.* at 5-8 (citing *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365 (11th Cir. 1983); *Boggild v. Kenner Prods.*, 776 F.2d 1315 (6th Cir. 1985); *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002)).

In *Pitney Bowes*, the Eleventh Circuit held a hybrid license for both patent and other intellectual property rights as unenforceable when it applied *Brulotte*.<sup>108</sup> LES contended that the court erred by expanding the application of the rule to licenses containing other intellectual property rights, whereas *Brulotte*'s license only incorporated patents.<sup>109</sup> Moreover, LES suggested that because the *Pitney Bowes* license is more comparable to a license encompassing both expired and unexpired intellectual property rights than the *Brulotte* license, "such a situation [is not considered to] fall within its per se rule."<sup>110</sup>

Additionally, LES claimed that the Sixth Circuit similarly erred in its application of *Brulotte* in *Boggild*, where it held unenforceable a hybrid license that provided a royalty payment triggered by the filing of an initial patent application, not an issued patent.<sup>111</sup> Particularly, LES pointed out that the court's holding is unsound because it "runs contrary to the *Brulotte* language excluding non-patented articles from its analysis."<sup>112</sup> Also, LES noted that *Boggild* distinguished itself from *Aronson*, which holds "that a license that accounts for the possibility that a patent might not issue does not fall within the *Brulotte* rule."<sup>113</sup>

Finally, LES contended that the Seventh Circuit also improperly expanded the scope of *Brulotte* when it invalidated a license incorporating both a United States patent and a Canadian patent.<sup>114</sup> The Seventh Circuit relied on *Brulotte* to declare unenforceable the contract in *Scheiber*, which extended royalty payments until the expiration of the final patent (the Canadian patent) in exchange for a lower royalty rate.<sup>115</sup> Thus, LES believed that *Kimble* presented the Court with an advantageous "opportunity to clarify the *per se* rule [and restore] it to its original—and much less controversial—boundaries."<sup>116</sup>

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108. *Pitney Bowes*, 701 F.2d at 1371.

109. Brief of Amicus Curiae the Licensing Executives Society (U.S.A. and Canada), Inc., *supra* note 87, at 5-6 ("The court explicitly rejected the argument that *Brulotte* was limited to licenses exclusively covering patent rights, stating that '[t]he licenses in that case were for "use" which encompasses more than just patent rights.'" (citing *Pitney Bowes*, 701 F.2d at 1371)).

110. *Id.* at 6.

111. *Id.* (citing *Boggild*, 776 F.2d at 1321).

112. *Id.* (citing *Boggild*, 776 F.2d at 1321).

113. *Id.* (citing *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1978); *Boggild*, 776 F.2d at 1319-21).

114. *Id.* at 7 (citing *Scheiber v. Dolby Labs.* 293 F.3d 1014 (7th Cir. 2002)).

115. *Id.* (citing *Scheiber*, 293 F.3d at 1016, 1018).

116. *Id.* at 1.

C. *Memorial Sloan Kettering Cancer Center et al.*

The Memorial Sloan Kettering Cancer Center et al. (Sloan Kettering et al.) amici curiae brief advocated for the overruling of *Brulotte* chiefly because the precedent frustrates the funding and commercialization of important scientific research.<sup>117</sup> Sloan Kettering et al. noted that the amici have an interest in the outcome of *Kimble* because similar research facilities rely on royalties obtained from licenses for patented inventions resulting from their research in order “to assure the utilization of such inventions for the common good and to grant licenses to encourage their development.”<sup>118</sup>

Overall, these institutions justified their position with several arguments. First, they asserted that permitting licensees to enter into contracts based on postpatent activity encourages the transformation of scientific research into desirable inventions. Second, they argued that patent law fails to justify a per se prohibition on postexpiration royalties. Third, institutions urged that postpatent royalties can advance principles of patent law and promote procompetitive benefits. Fourth, they maintained that antitrust laws can regulate any anticompetitive use of postexpiration royalties. Finally, the group insisted that the Ninth Circuit’s broad application of *Brulotte*, which nullifies hybrid licenses that do not explicitly separate the value of patent and nonpatent rights, imposes an additional constraint on the commercialization of significant scholarly research.

Regarding transforming research into inventions, the amici purported that licenses involving postexpiration royalties promote the commercialization of scientific research because such agreements support the transformation of research into “Potentially Life-Changing Therapies And Inventions That Benefit The Public.”<sup>119</sup> Typically, academic research institutions acquire patents on their discoveries and then grant licenses on these inventions to outside companies, which in turn commercialize the discoveries.<sup>120</sup> Unlike the institutions, these companies possess the financial resources, business expertise, and experience necessary “to undertake the commercial development of [the] discoveries.”<sup>121</sup> As a result, Sloan Kettering et al. contended that *Brulotte*

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117. Brief for Memorial Sloan Kettering Cancer Center et al., *supra* note 83.

118. *Id.* at 3-4, 8.

119. *Id.* at 8.

120. *Id.* at 9.

121. *Id.* (“An academic research laboratory that files for a patent for a new compound, for example, typically expects to grant a license on its discovery to a company with the financial

hinders such businesses and research institutions from freely forming economically beneficial contracts that promote the institutions' scientific innovations.<sup>122</sup>

Regarding patent law, Sloan Kettering et al. maintained that its underlying principles fail to support a per se prohibition against postpatent royalties.<sup>123</sup> Citing the Constitution and relevant patent law, the amici emphasized that royalty payments made after the expiration of a patent do not in fact extend a patent owner's exclusive right because those rights are only granted for a limited term.<sup>124</sup> Rather, "payment terms in a licensing agreement reflect the parties' assessment of the fair value of the use of the patent or the right to practice the invention on an exclusive basis *during* the patent term."<sup>125</sup> Moreover, Sloan Kettering et al. argued that a postpatent royalty license agreement simply embodies a "risk-shifting credit arrangement."<sup>126</sup>

Regarding postpatent royalties, the amici asserted that the agreements promote significant procompetitive advantages and advance the goals of patent law.<sup>127</sup> Because product development and marketing costs, "as well as the uncertainty as to the value of the invention," are greatest during the preliminary stages of new product development, postpatent royalties permit a licensee to defer payments until it becomes more economically stable to pay.<sup>128</sup>

Furthermore, "flexible royalty provisions" that provide for a lower royalty rate over a longer payment period allow the parties to share the risk of product failure.<sup>129</sup> Sloan Kettering et al. distinguished postexpiration royalty licenses from licenses involving "fixed payments not based on sales."<sup>130</sup> The group noted that in the latter, "the licensee

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resources and business expertise to undertake the development, regulatory approval process, and marketing that is necessary to transform its scientific discoveries into drugs that treat disease.").

122. *Id.* at 14 ("As the type of licensing engaged in by academic research institutions demonstrates, payment of royalties based on post-expiration activities may reflect terms that make an agreement attractive and economically viable and are in the best interests of the contracting parties and consequently of the public.").

123. *Id.*

124. *Id.* at 15-16 (citing 35 U.S.C. §§ 154(a)(1), 154(a)(2), 154(c)(1) (2012)).

125. *Id.* at 16 (noting that even *Brulotte* supported the notion that a "patent owner is entitled to be paid whatever amount the licensee is willing to pay").

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

127. *Id.* at 17.

128. *Id.* ("[U]ncertainty arises because it is difficult to predict the size of the market, how rapidly the market will grow, and the amount potential buyers will be willing to pay." (quoting Michael J. Meurer, *An Economic Analysis of Royalty Terms in Patent Licenses*, 67 MINN. L. REV. 1178, 1230 (1983))).

129. *Id.*

130. *Id.*



bears the risk of product failure because its license payments are not tied to the successful commercialization of the invention.”<sup>131</sup> Additionally, the amici contended that permitting parties to uninhibitedly negotiate their own license terms promotes the underlying goals of patent law because it results in the development of advantageous processes and products.<sup>132</sup>

Regarding antitrust law, Sloan Kettering et al. suggested that existing statutes in this area can monitor any anticompetitive uses of postpatent royalties.<sup>133</sup> By applying the “conventional antitrust analysis under the rule of reason” to licenses intentionally negotiated to provide for postexpiration royalties, patent misuse would then be evaluated on the basis of well-established modern economic principles “rather than *Brulotte’s* outdated assumptions.”<sup>134</sup>

Finally, the amici insisted that the Ninth Circuit’s broad interpretation of *Brulotte* inflicts another constraint on the development and commercialization of significant scientific research.<sup>135</sup> Particularly, Sloan Kettering et al. disagreed with the court’s holding that “*Brulotte* requires [licensors] to assign separate, discounted values to the non-patent rights in complicated or ‘hybrid’ transactions” because the values of the nonpatent rights are subject to change during the life of the license.<sup>136</sup> As a result, no public benefit arises from requiring contracting parties to assign separate and arbitrary values to patent and nonpatent rights in a hybrid license.<sup>137</sup>

Thus, Sloan Kettering et al. accentuated that *Brulotte’s* per se ban on postpatent royalties in effect “prohibits an important financial arrangement[,] the unavailability of which may deter or delay the commercialization of vital scientific research.”<sup>138</sup> The amici argued that parties entering into a license may purposely agree to postpatent royalty payments, in contrary to *Brulotte*, because it is economically beneficial to do so and allows the contracting parties to share in the market risk.<sup>139</sup> More importantly, they observed that such a freely negotiated agreement may not automatically evince “an improper exercise of ‘monopoly

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131. *Id.*

132. *Id.* at 18.

133. *Id.* at 19.

134. *Id.* at 22-23.

135. *Id.* at 23.

136. *Id.* at 24 (“The licensor or licensee may create new intellectual property based on the licensed discovery, but under the lower court’s interpretation of *Brulotte* the parties may not amend their arrangement to account for the deal’s changing economics unless they ensure the strict separation of patent and non-patent rights and a discounted payment for the latter.”).

137. *Id.* at 25.

138. *Id.* at 4.

139. *Id.* at 7.

influences.”<sup>140</sup> Therefore, Sloan Kettering et al. requested the Court overrule “*Brulotte*’s blanket prohibition against payment of post-expiration patent royalties . . . in favor of a traditional rule of reason analysis under the antitrust laws.”<sup>141</sup>

*D. Intellectual Property Law Association of Chicago*

The Intellectual Property Law Association of Chicago (IPLAC) summarized its opinion that the Supreme Court should reconsider *Brulotte* in a short amicus curiae brief.<sup>142</sup> IPLAC argued that *Brulotte* contradicts the Supreme Court’s “otherwise sound application of economic principles to patent and antitrust law” and that judicial and academic criticism of its holding rendered it ripe for reconsideration.<sup>143</sup> In regards to the Court’s economic considerations, IPLAC specifically noted that the Supreme Court may overrule its previous cases, even ones decided years earlier, if “‘substantial scholarly and judicial authority’ [which support] economic analysis” justify the decision to do so.<sup>144</sup>

Furthermore, IPLAC declared that in the last few decades the *Brulotte* controversy has reached a zenith “both judicial and academic.”<sup>145</sup> In particular, IPLAC cited Justice Harlan’s dissent in the case as its first judicial criticism when he stated, “I think that more discriminating analysis than the Court has seen fit to give this case produces a different result.”<sup>146</sup> In addition, IPLAC observed that at least two courts of appeals, the Seventh and Ninth Circuits, have expressly called upon the Supreme Court to reexamine *Brulotte*.<sup>147</sup> Finally, IPLAC identified many academic treatises criticizing *Brulotte*, remarking that they are “nearly ubiquitous and unanimous.”<sup>148</sup>

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140. *Id.* (citation omitted).

141. *Id.* at 14.

142. Brief of the Intellectual Property Law Association of Chicago as Amicus Curiae on Petition for Writ of Certiorari in Support of Petitioners, *supra* note 83, at 1.

143. *Id.* at 3-7 (“In short, *Brulotte* is an antiquated outlier in this Court’s jurisprudence that cries out for revisiting.”).

144. *Id.* at 3 (quoting *Cont’l T.V. v. GTE Sylvania, Inc.*, 433 U.S. 36, 53 (1977)).

145. *Id.* at 6.

146. *Id.* (quoting *Brulotte v. Thys Co.*, 379 U.S. 29, 34 (1964) (Harlan, J., dissenting)).

147. *Id.* at 6-7 (citing *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002); *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1019-21 (9th Cir. 2007)).

148. *Id.* (citing RAYMOND T. NIMMER & JEFF DODD, *MODERN LICENSING LAW* § 13:31 (2012) (stating that postexpiration royalties do not “expand the claims of the scope of the patent”); Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 *MARQUETTE INTELL. PROP. L. REV.* 1, 142-43 (2011) (finding that *Brulotte* “causes affirmative social harm”); JOHN W. SCHLICHER, *PATENT LAW: LEGAL AND ECONOMIC PRINCIPLES* 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

IV. *KIMBLE V. MARVEL ENTERPRISES, INC.*: THE CASE UPON SUPREME COURT REVIEW

In 1997, Stephen Kimble sued Marvel for breach of contract and patent infringement, alleging that the entertainment company did not compensate him when it used his ideas in designing the “Web Blaster.”<sup>149</sup> The Web Blaster is a Spider-Man-themed toy that allows the user to shoot foam string from a can mounted on the user’s wrist when the user presses upon a trigger in the user’s hand.<sup>150</sup> Stephen Kimble invented the Spider-Man role-playing toy sometime in 1990.<sup>151</sup>

On May 25, 1990, Kimble filed for and was later issued a patent for the toy idea under U.S. Patent No. 5,072,856, which expired on May 25, 2010.<sup>152</sup> Then, in December 1990, Stephen Kimble met with the President of Marvel’s predecessor, Toy Biz, Inc., to discuss the prospect of striking a deal with Marvel for use of the idea, of which the patent was still ending, and other “know-how” information.<sup>153</sup>

Although Marvel told Kimble it was disinterested in his ideas but would compensate Kimble if it did use any of his ideas, Marvel went on to develop a similar Spider-Man web-blasting toy, the Web Blaster.<sup>154</sup> The only difference between Marvel’s and Kimble’s toy was the glove component—with Marvel’s Web Blaster, the user could use the toy without the glove, a purely aesthetic feature.<sup>155</sup>

After granting Marvel’s motion for summary judgment on the patent infringement claim, the district court found that genuine issues of material fact existed on the contract claim.<sup>156</sup> A jury later found for Kimble on the contract claim.<sup>157</sup> Furthermore, both parties appealed for the verdicts not rendered in their favor.<sup>158</sup> Eventually, the parties settled in 2001 and executed a written agreement.<sup>159</sup>

As part of the settlement agreement, Marvel agreed to purchase the ‘856 Patent for \$516,214.62 and pay royalties amounting to 3% of “net

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term into a patent with a 30 year term . . . . The market power existing during the term [sic] patent can be exploited only once.”)).

149. *Kimble v. Marvel Enters., Inc.*, 727 F.3d 856, 857-58 (9th Cir. 2013).

150. *Id.*

151. *Id.* at 858.

152. *Id.*; U.S. Patent No. 5,072,856 (issued Dec. 17, 1991).

153. *Kimble*, 727 F.3d at 858.

154. *Id.* at 859.

155. *Id.*

156. *Id.* at 860.

157. *Id.*

158. *Id.*

159. *Id.*

product sales.”<sup>160</sup> The agreement specified “net product sales” to include: (1) products that would infringe the patent and (2) Web Blaster products.<sup>161</sup> Notably, the agreement did not specify an expiration date or a time limit on Marvel’s royalty payments.<sup>162</sup> Furthermore, the district court vacated the judgment at the parties’ request.<sup>163</sup>

Overall, Kimble received over \$6 million in royalties from Marvel before a disagreement arose between the parties about the payment of royalties.<sup>164</sup> In 2006, Marvel contracted with Hasbro Inc., an American multinational toy company, for the right to manufacture specific toys related to Marvel characters, including the Spider-Man Web Blaster.<sup>165</sup> Eventually, Kimble and Marvel became embroiled in a dispute concerning the royalty payment calculations for newer versions of the Web Blaster that were packaged with other products (such as a Spider-Man mask) or that included new features.<sup>166</sup>

As a result, Kimble filed a breach of contract claim along with related claims in an Arizona state court.<sup>167</sup> The district court granted Marvel’s motion for summary judgment, concluding that the settlement agreement between the parties was a “hybrid” licensing agreement, involving both patent and nonpatent rights, and that royalties must cease upon expiration of the patent.<sup>168</sup>

On appeal, Kimble argued that he remains entitled to royalties under the agreement so long as Marvel sells the Web Blaster toy because it was not protected by patent monopoly.<sup>169</sup> Thus, Kimble asserted that the agreement does not trigger *Brulotte*.<sup>170</sup> Additionally, Kimble claimed that the royalties paid on the toy contained nonpatented features, which Kimble had orally disclosed to Marvel in exchange for compensation.<sup>171</sup> Furthermore, Kimble contended that the lower court failed to distinguish the separate royalties for the patent and nonpatent rights because they

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160. *Id.* at 858.

161. *Id.* at 858-59.

162. *Id.* at 859.

163. *Id.*

164. *Id.*

165. *Id.*

166. *Id.*

167. *Id.*

168. *Id.* at 858, 860.

169. Plaintiffs/Appellants’ Opening Brief at 9-10, *Kimble*, 727 F.3d 856 (No. 11-15605), 2011 WL 2532561.

170. *Id.*

171. *Id.*

involved the same 3% royalty rate.<sup>172</sup> Lastly, Kimble asserted that the lower court's ruling was inconsistent with *Brulotte* and the Ninth Circuit's rationale in *Zila* because it essentially "limit[ed] Kimble's right to royalties to the term of a patent that during its term did not provide monopoly protection for the Web Blaster to which the royalties relate."<sup>173</sup>

In its response brief, Marvel stated that the license was subject to the *Brulotte* decision because it attempted to misuse the leverage derived from the patent by projecting royalty payments beyond the life of the patent.<sup>174</sup> Also, Marvel insisted that the case's facts were identical to those in *Zila*, where the disputed license provided for a single royalty rate on "net sales" without mentioning a time limit for payment.<sup>175</sup> Thus, Marvel urged the court to invalidate, as it did in *Zila*, the royalty provision because it contained no time limit.<sup>176</sup> Additionally, Marvel proclaimed that the lower court correctly determined that even if the license agreement constituted a hybrid agreement, *Brulotte* would still apply.<sup>177</sup>

Subsequently, the Ninth Circuit reluctantly followed the Supreme Court's ruling in *Brulotte* and affirmed for Marvel.<sup>178</sup> The Ninth Circuit summarized the rule (arising from both *Brulotte* and *Aronson*) as

a license for inseparable patent and non-patent rights involving royalty payments that extends beyond a patent term is unenforceable for the post-expiration period unless the agreement provides a discount for the non-patent rights from the patent-protected rate. This is because—in the absence of a discount or other clear indication that the license was in no way subject to patent leverage—we presume that the post-expiration royalty payments are for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*.<sup>179</sup>

Also, the court noted that Kimble had possessed some patent leverage in negotiating the settlement from his patent infringement appeal, even though it was inferior to his main leverage resulting from the jury verdict on the breach of contract claim.<sup>180</sup> Thus, the Ninth

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172. *Id.* at 15-16 ("It appears that the District Court did not distinguish between 'royalty' and 'royalty rate.' . . . Had the royalty provision in the Settlement Agreement been written in two separate paragraphs . . . the substance of the provision would be exactly the same.").

173. *Id.* at 20.

174. Brief for Defendant-Appellee at 11, *Kimble*, 727 F.3d 856 (No. 11-15605), 2011 WL 3288001.

175. *Id.* at 18.

176. *Id.*

177. *Id.* at 19-20.

178. *Kimble*, 727 F.3d at 867.

179. *Id.* at 863-64.

180. *Id.* at 865-66.

Circuit reasoned that *Brulotte* applied because “it is impossible to tell ‘what the bargaining position of the parties might have been and what resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and nowise subject to its leverage.’”<sup>181</sup>

Most importantly, the Ninth Circuit acknowledged that such “application of the *Brulotte* rule in this case arguably deprives Kimble of part of the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement.”<sup>182</sup> Citing the Seventh Circuit’s criticism of *Brulotte* as “particularly apt in this case,” the court noted that Kimble may have been able to secure a higher royalty rate if the parties had clearly understood that the license would end upon expiration of the patent.<sup>183</sup>

Following the Ninth Circuit’s decision, Kimble filed a petition for writ of certiorari with the Supreme Court.<sup>184</sup> In his petition, Kimble declared that the *Brulotte* decision is outdated and inconsistent with the Court’s more recent jurisprudence.<sup>185</sup> In particular, Kimble pointed out that *Brulotte* relies on the unaccepted presumption that patents automatically confer market power.<sup>186</sup> Therefore, Kimble invited the Court to discard the strict per se rule and instead adopt a more flexible rule of reason analysis.<sup>187</sup>

In response, Marvel contended that the principle of stare decisis compels the Court to uphold *Brulotte* in the absence of a “special justification,” which Kimble failed to submit.<sup>188</sup> In support of its position, Marvel maintained that *Brulotte* has not negatively affected inventors, research, or technological development.<sup>189</sup> Additionally, Marvel asserted that the Supreme Court correctly applied *Brulotte* to federal patent law and should not replace it with the antitrust rule of reason.<sup>190</sup>

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181. *Id.* at 866 (quoting *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964)).

182. *Id.* at 866.

183. *Id.* at 866-67.

184. Petition for a Writ of Certiorari at 30-35, *Kimble*, 135 S. Ct. 781 (No. 13-720), 2013 WL 6665193.

185. *Id.*

186. *Id.*

187. *See id.*

188. Brief for Respondent at 19, *Kimble*, 135 S. Ct. 781 (No. 13-720), 2013 WL 881759.

189. *Id.* at 30.

190. *Id.* at 34, 52.

## V. POSSIBLE IMPACT OF THE COURT'S DECISION

Based on analysis of the various amici curiae briefs, the Supreme Court's decision in *Kimble* could result in at least four possible outcomes. First, as the Solicitor General advised, the Court may uphold the principles of *stare decisis* and leave *Brulotte* unaltered.<sup>191</sup> Under this outcome, current patent licensing practices will be unaffected. However, the Court should seriously consider emphasizing the importance of being aware of relevant patent law governing licensing agreements incorporating patent rights so to avoid another situation like *Kimble*, where both parties were unaware of *Brulotte*.<sup>192</sup>

Second, the Court may, as LES urged, clarify the scope of *Brulotte*'s application.<sup>193</sup> Under this outcome, the Court could narrow the per se rule invalidating postexpiration royalties to a specific set of circumstances. In effect, the Court could restrict *Brulotte*'s application to a less debatable status.

Third, the Court may overrule *Brulotte* by holding that license agreements encompassing postpatent royalty payments are enforceable. Fourth, the Court could overrule *Brulotte*'s rigid per se rule in favor of the rule of reason, a more flexible antitrust analysis.<sup>194</sup> Overruling *Brulotte*, as mentioned in the latter two outcomes, would have significant effects on the various forms of patent licensing agreements. Above all, such a decision could result in more flexible licensing practices that allow for easier commercialization of inventions, economic benefits for both the licensee and licensor, and public access to desirable inventions that otherwise may not have been available.<sup>195</sup>

## VI. CONCLUSION

Under pressure from numerous prominent amici curiae, the Supreme Court must seriously reconsider its holding in *Brulotte* when it reviews *Kimble* this spring. This case presents the Court with a prime opportunity to clarify its precedent, further guide licensing practices, and define what constitutes patent leverage abuse. Ultimately, the Court's

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191. Brief for the United States as Amicus Curiae, *supra* note 88.

192. See *Kimble v. Marvel Enters., Inc.*, 727 F.3d 856, 859 n.4 (9th Cir. 2013) (noting that Marvel's counsel admitted being unaware of *Brulotte* when the parties negotiated the agreement, and as such, Marvel may ultimately have paid royalties to Kimble indefinitely but for Hasbro spotting the issue).

193. See Brief of Amicus Curiae the Licensing Executives Society (U.S.A. and Canada), Inc. in Support of Neither Party, *supra* note 87.

194. See Brief for Memorial Sloan Kettering Cancer Center et al. as Amici Curiae in Support of Petitioners, *supra* note 83, at 14.

195. See *id.*

decision may have a significant impact on patent licensing protocol. Until the Supreme Court delivers a decision, the stringent per se rule of *Brulotte* will continue to apply to licensing agreements. Thus, contracting parties should be prudent when drafting licensing agreements and clearly separate the compensation for patent and nonpatent rights in order to avoid patent misuse claims.