

No. 13-720

In the Supreme Court of the United States

STEPHEN KIMBLE, ET AL., PETITIONERS

v.

MARVEL ENTERPRISES, INC.

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

**BRIEF FOR THE UNITED STATES
AS AMICUS CURIAE SUPPORTING RESPONDENT**

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QUESTION PRESENTED

Whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which held that a license agreement requiring royalty payments for use of a patented invention after expiration of the patent term is unlawful *per se*.

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INTEREST OF THE UNITED STATES

The question presented is whether this Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which held that a license agreement requiring royalty payments for use of a patented invention after expiration of the patent term is unlawful *per se*. The United States Patent and Trademark Office (PTO) is responsible for “the granting and issuing of patents,” 35 U.S.C. 2(a)(1), as well as for advising the President on issues of patent policy and advising federal departments and agencies on matters of intellectual-property policy, 35 U.S.C. 2(b)(8) and (9). Several federal agencies are extensively engaged in the licensing of patented inventions to private entities, and the United States is also a licensee of various patents. The government therefore has a substantial interest in the Court’s resolution of the ques-

tion presented. At the Court's invitation, the United States filed a brief at the petition stage of this case.

STATEMENT

1. a. The Constitution authorizes Congress to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” Art. I, § 8, Cl. 8. The Patent Clause “reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989); see, e.g., *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

Congress has accordingly established a patent system that grants a patentee certain exclusive rights in his invention for a limited term. “[W]hen the patent expires[,] the monopoly created by it expires, too, and the right to make the article * * * passes to the public.” *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964); see 35 U.S.C. 271(a) (providing that the unauthorized use of a patented invention constitutes patent infringement only “during the term of the patent therefor”). To facilitate the public's enjoyment of the invention after the patent expires, the federal patent laws (beginning with the Patent Act of 1790, ch. 7, 1 Stat. 109) have required each patent applicant to disclose his invention in a manner that enables others skilled in the art to make and use it. See, e.g., *Bonito Boats*, 489 U.S. at 147, 150-151.

For more than a century before 1995, a patent remained in force for 17 years, measured from the date the patent was issued. 35 U.S.C. 154 (1988). Since

1995, the Patent Act has provided that a utility patent is effective “for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States” or (if the application claimed priority from an earlier, related application) 20 years “from the date on which the earliest such application was filed.” 35 U.S.C. 154(a)(2). In some circumstances, the term may be extended to offset delays in the application process. 35 U.S.C. 154(b), 156.

b. In *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), this Court considered the effect of a royalty agreement that required payments for the use of a patented invention both before and after the patent term had expired. *Id.* at 29-30. The patent holder (Thys) had sold hop-picking machines and issued licenses for their use, but the licensees refused to pay royalties called for by the licenses. *Id.* at 30. When Thys sued to enforce the licenses, the licensees contended in part that the “extension of the license agreements beyond the expiration date of the patents” constituted patent misuse. *Ibid.*

This Court held that royalties for using the machines could not be collected to the extent that they “accrued after the last of the patents incorporated into the machines had expired.” *Brulotte*, 379 U.S. at 30. The Court explained that Congress had authorized patents to be granted for a limited term of 17 years, “[b]ut these rights become public property once the 17-year period expires.” *Id.* at 31. In the Court’s view, any attempt to continue the patent monopoly beyond the expiration date, including through the collection of royalties for using the patented invention after that date, would “run[] counter to the policy and purpose of the patent laws” by conflicting with “the free market

visualized for the post-expiration period.” *Id.* at 31, 32 (citation omitted). The Court also stated that using the exclusive rights afforded by a patent as leverage to project royalty payments beyond the patent term “is analogous to an effort to enlarge the monopoly of the patent by tying the sale or use of the patented article to the purchase or use of unpatented ones.” *Id.* at 33. The Court described agreements providing for post-expiration royalties as “unlawful *per se.*” *Id.* at 32.

The lower court in *Brulotte* had viewed the licenses there as merely providing for deferred payment of royalties for pre-expiration use of the patented invention. 379 U.S. at 31. This Court described the “intrinsic evidence” in that case as indicating “that the agreements were not designed with that limited view.” *Ibid.* Instead, the Court explained, “[t]he royalty payments due for the post-expiration period [we]re by their terms for use during that period, and [we]re not deferred payments for use during the pre-expiration period.” *Ibid.*

Justice Harlan dissented. *Brulotte*, 379 U.S. at 34-39. He found it “clear that if Thys licensed another manufacturer to produce hop-picking machines incorporating any of the Thys patents, royalties could not be exacted beyond the patent term. Such royalties would restrict the manufacturer’s exploitation of the *idea* after it falls into the public domain, and no such restriction should be valid.” *Id.* at 35. In Justice Harlan’s view, however, a different result was appropriate where (as in *Brulotte* itself) a royalty obligation was triggered only by the use of particular machines that the licensees had acquired from the patent holder. See *ibid.*

Fifteen years later, the Court considered an agreement that established one royalty rate (5%) if a patent

issued within five years and a lower rate (2½%) if a patent did not issue. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 259-260 (1979). No patent was ultimately issued. *Id.* at 260. The Court explained that “[c]ommercial agreements traditionally are the domain of state law,” and that “[i]n this as in other fields, the question of whether federal law pre-empts state law involves a consideration of whether that [state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” *Id.* at 262 (citations and internal quotation marks omitted). The Court held that the lower royalty rate could be enforced because it did not reflect an attempt to obtain improper leverage from any granted patent. *Id.* at 265. The Court distinguished *Brulotte* on the ground that “the reduced royalty which is challenged [in *Aronson*], far from being negotiated ‘with the leverage’ of a patent, rested on the contingency that no patent would issue within five years.” *Ibid.* (quoting *Brulotte*, 379 U.S. at 33).

2. In May 1990, petitioner Stephen Kimble applied for a patent for a glove that allows its wearer to mimic the comic-book hero Spider-Man by shooting pressurized foam string from the palm. U.S. Patent No. 5,072,856 (filed May 25, 1990); Pet. App. 3-4.¹ Later that year, Kimble discussed his then-pending patent application and other “ideas and know-how” with the president of respondent’s corporate predecessor. *Id.* at 4. After the meeting, the company began to manufacture a similar toy called the “Web Blaster.” *Ibid.*

In 1997, Kimble sued for patent infringement and for breach of contract on the basis of an alleged oral

¹ Robert Michael Grabb later acquired an interest in the patent (Pet. App. 3 n.1) and is also a petitioner in this Court.

agreement to compensate him for any use of his ideas by the company. Pet. App. 5. The district court granted summary judgment to respondent on the patent-infringement claim, but a jury later found that respondent had breached a contractual promise to Kimble. *Ibid.* Both parties appealed. *Ibid.*

In 2001, while the appeals were pending, the parties settled their dispute. Pet. App. 5. As part of the settlement, respondent agreed to purchase the patent in exchange for a lump-sum payment and a running royalty on respondent's future sales of the disputed product. *Id.* at 5-6. In relevant part, the settlement agreement provided that “[t]he purchase price for the Patent shall be payable to the Patent Holders as follows:”

a. \$516,214.62 upon execution and delivery of this Agreement; and

b. 3% of “net product sales” (as such term is used in the Judgment) excluding refill royalties made after December 31, 2000. For purposes of this paragraph 3.b, “net product sales” shall be deemed to include product sales that would infringe the Patent but for the purchase and sale thereof pursuant to this Agreement as well as sales of the Web Blaster product that was the subject of the Action and to which the Judgment refers.

J.A. 18-19.²

² The settlement agreement was structured as a transfer of the entire patent. J.A. 24-26. In *Brulotte*, by contrast, the patentee retained ownership of the patent while licensing its customers to use particular patented machines. See 379 U.S. at 31. Because the parties do not dispute that *Brulotte* applies in these circumstances, see Pet. Br. i; Pet. Supp. Cert. Br. 10; Resp. Br. 9 n.3, the Court may decide the case on that assumption.

The patent expired on May 25, 2010, but the settlement agreement and its royalties clause had “no expiration date.” Pet. App. 4, 6. The parties have represented that they were unaware of *Brulotte* when they negotiated the agreement. *Id.* at 7 n.3.

3. A dispute under the settlement agreement eventually arose, and petitioners filed a new suit alleging breach of contract. Pet. App. 7-8. Respondent successfully removed the suit to federal district court and filed a counterclaim seeking a declaratory judgment that it was not obligated to pay royalties for sales made after the patent’s expiration. *Id.* at 8. In a report and recommendation, the magistrate judge agreed with respondent that, under *Brulotte*, petitioners are precluded from recovering royalties for post-expiration sales. *Id.* at 53-60. The district court adopted the magistrate judge’s report and recommendation, *id.* at 41, holding that, under *Brulotte*, the royalty provision was “unenforceable after the [patent’s] expiration,” *id.* at 37.

4. The court of appeals affirmed. Pet. App. 1-26. The court discussed this Court’s decisions in *Brulotte* and *Aronson*. *Id.* at 10-18. It concluded that, taken together, those decisions establish that “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.” *Id.* at 18. Applying that principle, the court found that the settlement agreement here did not adequately distinguish between patent and non-patent rights. *Id.* at 18-23. Instead, “there was only one rate for all rights, and it was the same for both patent and Web Blaster rights.” *Id.* at 21. The court noted that the parties could have

structured their agreement to separate the patent and non-patent royalty streams (even if they had not provided for different rates), but that they had not done so. *Id.* at 20, 21 & n.5.

SUMMARY OF ARGUMENT

A. The federal patent laws reflect a carefully designed bargain under which a patentee receives a period of exclusivity in return for providing disclosures sufficient to enable others skilled in the art to make and use his invention. Under that scheme, the patentee's exclusive rights terminate when the patent expires, at which point the public becomes free to use the required disclosures to make and enjoy the invention. The patent laws have long been understood to reflect an affirmative federal policy favoring unrestricted public access to formerly-patented inventions after a patent expires. Applying principles of implied-conflict preemption, this Court has repeatedly held that certain state-law or contractual restrictions on the manufacture or use of formerly-patented or unpatentable inventions could not be enforced because enforcement would subvert federal patent policy. The Court's decision in *Brulotte v. Thys*, 379 U.S. 29 (1964), therefore is not an outlier, but instead fits comfortably within a long line of precedents in which this Court has applied the same basic patent-policy insight.

B. Principles of *stare decisis* are important in every legal context, but particularly so with respect to the construction of federal statutes, where Congress is free to override this Court's decisions. Statutory *stare decisis* applies with full force where (as is typically true in implied-conflict-preemption cases) the interpretation sought to be overturned is based on inferences from the structure, history, and purposes of a larger statuto-

ry scheme rather than on a specific statutory command. Congress has amended the Patent Act several times since *Brulotte* was decided, and in 1988 it considered but ultimately declined to enact amendments that could have altered the *Brulotte* rule. And because *Brulotte* is one of many preemption decisions through which this Court has sought to vindicate the same basic patent-policy objective, overruling *Brulotte* would potentially cast doubt on the continuing vitality of a larger body of law.

C. Petitioners have not identified a special justification for overruling *Brulotte*. Their principal criticism of *Brulotte* is that it is out of step with modern antitrust principles. Petitioners are correct that, under this Court's current antitrust jurisprudence, the agreement at issue in *Brulotte* could not properly be treated as a *per se* antitrust violation. But while some language in *Brulotte* invoked economic concepts commonly used in antitrust cases, the Court did not hold or suggest that any antitrust violation had occurred. Nor have petitioners identified any subsequent decision in which a court has imposed antitrust liability based on the formation of an agreement like the one at issue here.

For substantially the same reason, petitioners are wrong in arguing that the position of the United States in this case reflects a departure from views previously expressed by the Department of Justice and the Federal Trade Commission. Those agencies simply explained that, *for antitrust enforcement purposes*, *Brulotte*-type agreements would be analyzed under the rule of reason rather than under any *per se* rule, and that some such agreements would likely be procompetitive. There is nothing anomalous about the prospect that the Patent Act, which reflects policy judgments

distinct to the patent system and which largely operates through bright-line rules rather than through case-specific comparisons of benefits and harms, will preclude enforcement of some agreements that would survive antitrust scrutiny under the rule of reason.

Petitioners have identified no sound reason to believe that *Brulotte* has caused significant real-world economic harm. Patent holders and their licensees remain free to craft and enforce agreements that defer royalty payments until after the patent expires, so long as the payment obligation is calculated based on pre-expiration conduct. To the extent that members of particular industries face distinctive obstacles to product development or efficient patent licensing, Congress can accommodate those concerns. Finally, petitioners' proposed alternative approach, under which the enforceability of *Brulotte*-type agreements would be resolved through antitrust rule-of-reason analysis and would depend substantially on the presence or absence of market power, is ill-suited to resolving questions of preemption under the patent laws.

ARGUMENT

THE COURT SHOULD NOT OVERRULE *BRULOTTE*

Fifty years ago, this Court construed the Patent Act to prohibit a patent holder from contracting to extend its right to compensation for use of a patented invention beyond the limited patent term established by Congress. See *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). The Court does not lightly repudiate its constructions of federal statutes, particularly where (as here) Congress has amended related aspects of the statutory scheme while leaving the disputed holding undisturbed. Petitioners' criticisms of *Brulotte* do not provide the "special justification" that the Court requires to over-

rule its own statutory precedents. *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2407 (2014) (citation omitted).

Petitioners’ primary argument (Br. 1-2, 9-11, 13-18, 36-49) is that *Brulotte* reflects an obsolete understanding of antitrust principles and cannot be justified on economic grounds. But *Brulotte* is not, as petitioners suggest (Br. 1), rooted primarily in principles of “competition law.” Rather, it reflects the Court’s understanding that, once a patent expires, the federal patent laws reflect an affirmative policy of unrestricted public access to the formerly-patented invention. Neither that general understanding of federal patent policy, nor the specific precedents on which the *Brulotte* Court relied, have been called into question by any subsequent decision of this Court. Nor have petitioners identified any serious practical harm that warrants overturning *Brulotte*. The judgment of the court of appeals should be affirmed.

A. The Court Has Long Understood The Federal Patent Laws To Reflect An Affirmative Policy Of Free Public Access To Unpatented And Formerly-Patented Inventions

1. The patent laws serve a public purpose: to “promote the Progress of Science and useful Arts,” U.S. Const. Art. I, § 8, Cl. 8. The “ultimate goal” of patent law is “to bring new designs and technologies into the public domain through disclosure.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989). To achieve that purpose, the patent system implements “a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time.” *Pfaff v. Wells*

Elecs., Inc., 525 U.S. 55, 63 (1998). In return for the period of exclusivity that a patent affords, the applicant must actively facilitate subsequent exploitation of the patented invention by providing disclosures sufficient to enable other skilled artisans to make and use it. See *Bonito Boats*, 489 U.S. at 147, 150-151. The public's unfettered access to the technologies that have been disclosed is likewise critical. "From their inception," the federal patent laws thus have recognized "that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Id.* at 146.

Accordingly, this Court has "long held that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law." *Bonito Boats*, 489 U.S. at 152; see *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933) ("[U]pon the expiration of that period, the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use."). The Court has further held that "[a]n unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964).

2. Those principles have provided the foundation for a form of implied-conflict preemption, under which the Court (both before and after *Brulotte*) has repeatedly held that certain state-law or contractual restrictions on the manufacture or use of formerly-patented or unpatentable inventions could not be enforced. In *Singer Manufacturing Co. v. June Manufacturing Co.*, 163 U.S. 169 (1896), for example, the Court held that a state unfair-competition law was preempted by the patent

laws to the extent it would burden the public's right to enjoy a patented sewing machine after the relevant patent expired. *Id.* at 184-190. The Court found it "self evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property." *Id.* at 185.

In *Scott Paper Co. v. Marcalus Manufacturing Co.*, 326 U.S. 249 (1945), the Court held that the assignor of a patent was not estopped from defending a later infringement suit under the same patent on the ground that his product was a copy of an earlier, expired patent. *Id.* at 257-258. The Court explained that the anticipated public benefit when a patent expires is not merely the right "to manufacture the product or employ the process disclosed by the expired patent," but also the ability of the "consuming public at large" to "receive the benefits of the unrestricted exploitation, by others, of [the patent's] disclosures." *Id.* at 255. The Court accordingly held that a manufacturer cannot "restrict himself, by express contract * * * from using the invention of an expired patent," because even that limited restriction "would deprive * * * the consuming public of the advantage to be derived from [the manufacturer's] free use of the disclosures." *Id.* at 255-256. The Court observed that "[t]he public has invested in such free use by the grant of a monopoly to the patentee for a limited time." *Id.* at 256. The Court further explained that it "ha[d] no occasion to consider * * * whether the estoppel by patent assignment violates either the terms or policy of the laws against restraints of trade and competition." *Id.* at 258.

Two years later, in *Edward Katzinger Co. v. Chicago Metallic Manufacturing Co.*, 329 U.S. 394 (1947),

the Court held that federal law precluded the enforcement of a private “contract not to challenge the validity” of a patent. *Id.* at 400-402. Relying in part on *Scott Paper*, *id.* at 400, 401, the Court explained that the licensee’s own agreement to the restriction could not “override congressional policy,” *id.* at 402.

The Court applied the principle again in a pair of 1964 cases. In *Sears*, *supra*, the Court held that state law cannot prohibit the copying of a previously-patented invention once the patent expires. 376 U.S. at 231-233. The Court explained that “when the patent expires the monopoly created by it expires, too, and the right to make the article—including the right to make it in precisely the shape it carried when patented—passes to the public.” *Id.* at 230. The Court found it “[o]bvious[.]” that “a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents,” because “[t]o do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time.” *Id.* at 231 (footnote omitted). In another case decided the same day, the Court applied *Sears* and held that state law cannot prohibit the copying of an unpatentable invention. *Compeco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). The Court explained that “[t]o forbid copying would interfere with the federal policy, found in [the Patent Clause] and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.” *Id.* at 237.

3. The Court decided *Brulotte* a few months later. The Court framed its decision as an interpretation of

the Patent Act and of “the policy and purpose of the patent laws.” 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256). The Court explained that the patent laws contemplate that an invention disclosed in a patent will “become public property once the 17-year period [then prescribed in 35 U.S.C. 154] expires.” 379 U.S. at 31. And the Court relied on *Scott Paper*’s holding that “any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws.” *Ibid.* (quoting *Scott Paper*, 326 U.S. at 256). In light of that “policy and purpose,” the Court concluded that contracts for the payment of royalties based on post-expiration use of a formerly-patented invention are unenforceable because they subject “the free market visualized for the post-expiration period” to “monopoly influences that have no proper place there.” *Id.* at 32-33.

4. Since *Brulotte*, the Court has continued to apply federal patent policy to preempt state laws and contract provisions whose practical effect is to expand the scope of federal patent rights. In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the Court held that, notwithstanding the terms of the parties’ license agreement, a licensee was not required to continue paying royalties while challenging the validity of the underlying patent. The Court observed that “[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery” and, “[i]f they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.” *Id.* at 670. The Court further explained that “enforcing th[e] contractual provi-

sion would undermine the strong federal policy favoring the full and free use of ideas in the public domain.” *Id.* at 674.

In *Bonito Boats*, the Court held that a state unfair-competition law that prohibited the copying of certain unpatented designs was preempted by federal patent law. 489 U.S. at 144-145, 167-168. The Court explained that, “after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law.” *Id.* at 152. “Where it is clear how the patent laws strike” the balance between “the desire to freely exploit the full potential of our inventive resources and the need to create an incentive to deploy those resources,” the States cannot second-guess that judgment. *Ibid.*

Brulotte thus is not an outlier, but instead fits comfortably within a long line of this Court’s precedents. Those decisions reflect the Court’s awareness that the objectives of the federal patent laws do not cease to be implicated when a patent expires. To the contrary, it is only *after* the patent expires that the purposes of the earlier patent grant can be fully realized, since only then can the public make unrestricted use of the disclosure that was an essential *quid pro quo* for the patentee’s period of exclusivity. There is consequently nothing anomalous about the conclusion that enforcement of contractual restrictions on post-expiration use of a formerly-patented invention may “stand[] as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

B. Principles Of *Stare Decisis* Apply With Particular Force To Statutory-Interpretation Decisions Such As *Brulotte*

1. “[T]his Court does not overturn its precedents lightly,” because *stare decisis* “promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process.” *Michigan v. Bay Mills Indian Community*, 134 S. Ct. 2024, 2036 (2014) (citation omitted). “The Court has said often and with great emphasis that the doctrine of *stare decisis* is of fundamental importance to the rule of law.” *Patterson v. McLean Credit Union*, 491 U.S. 164, 172 (1989) (citation and internal quotation marks omitted).

The Court has repeatedly explained, moreover, that principles of *stare decisis* apply with “special force in the area of statutory interpretation,” because such decisions implicate “the legislative power” and “Congress remains free to alter what [the Court has] done.” *Patterson*, 491 U.S. at 172-173; accord, e.g., *Halliburton*, 134 S. Ct. at 2411; *Bay Mills Indian Community*, 134 S. Ct. at 2036; *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2068 (2011); *John R. Sand & Gravel Co. v. United States*, 552 U.S. 130, 139 (2008). When the Court construes a federal statute, its interpretation effectively becomes a part of the statutory scheme. Subsequent proposals to alter or repeal that interpretation should generally be directed to Congress, not to the Court.

2. *Brulotte* reflects the Court’s interpretation of the patent laws—specifically, of the legal effect of the expiration of the patent term established by the Patent Act. After observing that the Constitution grants Congress the power to “secure ‘for limited times’ to inventors ‘the

exclusive right' to their discoveries," the *Brulotte* Court explained that "Congress exercised that power by 35 U.S.C. § 154," which at that time provided for a patent term of 17 years. 379 U.S. at 30. The Court emphasized that, although the patentee may convey to others his exclusive rights in the patented invention, those rights "become public property once the 17-year period expires." *Id.* at 31. The Court therefore concluded that "whatever the legal device employed' a projection of the patent monopoly after the patent expires is not enforceable." *Id.* at 32 (quoting *Scott Paper*, 326 U.S. at 256).

Petitioners contend (Br. 49-50, 52) that principles of *stare decisis* apply with reduced force because *Brulotte* is not rooted in any specific statutory text. That argument has no basis in this Court's precedents. In *Halliburton*, for instance, the Court applied *stare decisis* to a presumption that it described as "a substantive doctrine of federal securities-fraud law," even though that presumption was "a judicially created doctrine designed to implement a judicially created cause of action." 134 S. Ct. at 2411 (citation omitted). In the patent context, the Court has recognized that "statutory *stare decisis*" applies to judicially recognized exceptions to patent eligibility, even though those exceptions "are not required by the statutory text." *Bilski v. Kappos*, 561 U.S. 593, 601-602 (2010). The *Brulotte* Court's reliance on the structure and purposes of the patent laws as a whole, rather than on any discrete Patent Act provision, is also characteristic of implied-conflict-preemption analysis. Petitioners cite no decision of this Court suggesting that precedents determining the preemptive scope of federal statutes are entitled to reduced *stare decisis* effect.

There is likewise no merit to petitioners' contention (Br. 50-51) that *stare decisis* concerns are diminished here because the limited nature of patent terms has a constitutional foundation. Although the Court in *Brulotte* identified the constitutional source of Congress's authority to establish a patent system, see 379 U.S. at 30, the Court did not suggest that the specific rule it announced was constitutionally compelled. Where (as is clearly the case here) a decision of this Court concerns the legal effect of a federal statute and is subject to supersession by Congress, "[c]onsiderations of *stare decisis* have special force." *Patterson*, 491 U.S. at 172.³

3. *Stare decisis* principles carry particular force here because *Brulotte* has survived repeated amend-

³ The antitrust decisions invoked by petitioners (Br. 55-56), in which the Court has replaced various *per se* rules with rule-of-reason analysis, are distinguishable because "the Court has treated the Sherman Act as a common-law statute." *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 899 (2007); see *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997). Petitioners suggest (Br. 56) that the doctrine of patent misuse should be equally susceptible to judicial revision because it has common-law origins. Both before and after *Brulotte*, however, Congress has imposed limits on the doctrine by providing that "[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of" five enumerated acts. 35 U.S.C. 271(d); see 1 Herbert Hovenkamp et al., *IP and Antitrust* §§ 3.2a-3.2b, at 3-6 to 3-8 (2d ed. 2015) (describing 1952 and 1988 statutes). Section 271(d) applies only to patent holders who are "otherwise entitled to relief for infringement or contributory infringement" (a category into which petitioners do not fall), and none of the enumerated acts involves an attempt to place post-expiration restrictions on the use of a previously-patented invention. 35 U.S.C. 271(d).

ments to related provisions of the Patent Act over the last five decades.

Section 154 itself has been amended several times since *Brulotte* was decided—most significantly in 1994, when Congress changed the basic length of a patent term. See Uruguay Round Agreements Act, Pub. L. No. 103-465, § 532(a), 108 Stat. 4983-4985; see also pp. 2-3, *supra* (describing that change). More generally, Congress recently engaged in a widescale reexamination and revision of the patent laws, culminating in the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). Yet Congress has not displaced the *Brulotte* Court’s judgment that the patent laws reflect an affirmative policy of terminating a patentee’s right to collect royalties for use of an invention after the expiration of the patent term. Such “long congressional acquiescence * * * enhance[s] even the usual precedential force” accorded to the Court’s “interpretations of statutes.” *Watson v. United States*, 552 U.S. 74, 82-83 (2007) (citation and internal quotation marks omitted).

Congress has considered, but failed to enact, proposals that could have altered the *Brulotte* rule. In November 1988, Congress reformed the patent-misuse defense. See Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676 (adding 35 U.S.C. 271(d)(4) and (5)). Although petitioners portray (Br. 42-43) that amendment as implicitly casting doubt on *Brulotte*’s soundness, other bills pending at the same time would have created an express connection between patent misuse and antitrust law akin to the one petitioners now request, and Congress heard testimony from both critics and supporters of *Brulotte*. See Resp. Br. 22-25;

id. at 23 (quoting statement from Rep. Kastenmeier explaining intention to modify *Brulotte*).

One bill that passed the Senate in October 1988 would have provided that no patent owner would be guilty of misuse or “illegal extension of the patent right by reason of his or her licensing practices * * * unless such practices * * * violate the antitrust laws.” S. 438, 100th Cong., 2d Sess. § 201(3). A previous Senate bill would also have limited patent misuse to violations of the antitrust laws. S. 1200, 100th Cong., 1st Sess. tit. II (1987). As the then-Assistant Commissioner for Patents explained, that bill would have “ma[de] an antitrust violation a requirement generally for a holding of misuse and applie[d] to all licensing practices or actions or inactions relating to the patent.” *Patent Licensing Reform Act of 1988: Hearing on H.R. 4086 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary*, 100th Cong., 2d Sess. 37 (1988). A House committee considered yet another bill, H.R. 4086, that would have defined patent misuse in relevant part as “unreasonably entering into a royalty agreement that provides for payments beyond the expiration of the term of a patent, except when the parties have mutually agreed to such payments after the issuance of the patent.” *Id.* at 3-4.

Thus, even as it imposed various limits on patent-misuse principles in 1988, Congress ultimately declined to enact any of the proposals related to post-expiration royalties. That choice warrants this Court’s respect. Cf. *Barnhart v. Peabody Coal Co.*, 537 U.S. 149, 168 (2003) (“We do not read the enumeration of one case to exclude another unless it is fair to suppose that Con-

gress considered the unnamed possibility and meant to say no to it.”).

4. As explained above, *Brulotte* is one in a series of this Court’s decisions prohibiting the enforcement of state-law or contractual provisions that would inappropriately restrict the public’s access to unpatented or formerly-patented inventions. Petitioners do not make clear whether they regard *Brulotte* as simply an unsound application of the precedents (*e.g.*, *Scott Paper*) on which the Court relied, or whether they believe those precedents to be deficient as well. But the existence of a robust body of decisions that reflect a single overarching patent-policy insight gives added force to the concern that repudiating one statutory precedent “would inevitably reflect a willingness to reconsider others,” thus “threaten[ing] to substitute disruption, confusion, and uncertainty for necessary legal stability.” *John R. Sand & Gravel*, 552 U.S. at 139.

C. Petitioners Have Not Identified A Special Justification For Overruling *Brulotte*

“Before overturning a long-settled precedent,” the Court “require[s] ‘special justification,’ not just an argument that the precedent was wrongly decided.” *Halliburton*, 134 S. Ct. at 2407 (quoting *Dickerson v. United States*, 530 U.S. 428, 443 (2000)). Petitioners primarily argue (Br. 1-2, 9-11, 13-18, 36-49) that *Brulotte* reflects a judge-made antitrust rule that is based on outdated economic analysis.

Petitioners are correct that, under this Court’s current antitrust jurisprudence, agreements of the sort at issue in *Brulotte* could not properly be treated as *per se* violations of the antitrust laws. The *Brulotte* Court did not hold or suggest, however, that any antitrust violation had occurred. Rather, it held that an agreement to

pay royalties based on post-expiration use of a previously-patented invention was unenforceable because enforcement would subvert the federal *patent* policy of unrestricted public access to inventions for which a patent has expired. None of this Court’s subsequent decisions casts doubt on the continued vitality of that general patent policy. Nor has this Court overruled any of the pre- and post-*Brulotte* decisions (see pp. 12-16, *supra*) applying that policy to a diverse array of circumstances. The intervening antitrust-law developments on which petitioners rely therefore provide no “special justification” for repudiating *Brulotte*.

1. Antitrust considerations do not justify overruling Brulotte’s rule of patent policy

a. Petitioners—along with many of the commentators and lower-court decisions that they cite—have treated *Brulotte* as an antitrust rule and have criticized it largely on antitrust grounds. Petitioners contend that “economic considerations” and “antitrust policy” do not justify *Brulotte*’s *per se* rule, and that the Court therefore should use “a flexible rule of reason analysis.” Br. 36, 41, 45 (capitalization modified). Under petitioners’ proposed approach (*e.g.*, Br. 47, 49), proof that the patentee possessed “market power” would be a necessary (though not a sufficient) condition for refusing to enforce an agreement to pay royalties based on post-expiration use.

Some aspects of *Brulotte*’s reasoning invoke economic concepts commonly used in antitrust cases. The *Brulotte* Court analogized license agreements extending beyond the patent term 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.” 379 U.S. at 33. The Court’s statement that

license agreements extending beyond the term of the patent are “unlawful *per se*” (*id.* at 32) likewise evokes a phrase that is often associated with antitrust law.

Since *Brulotte* was decided, antitrust law has in many respects shifted away from *per se* rules toward rule-of-reason analysis. See, e.g., *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 886-887 (2007); *State Oil Co. v. Khan*, 522 U.S. 3, 17, 22 (1997); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 57-59 (1977). Under that approach, *per se* condemnation of a particular type of restraint is appropriate “only if courts can predict with confidence that [the restraint] would be invalidated in all or almost all instances under the rule of reason.” *Leegin*, 551 U.S. at 886-887. Federal agencies enforcing the antitrust laws therefore generally analyze “restraints in intellectual property licensing arrangements” under “the rule of reason.” U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 3.4, at 16 (Apr. 6, 1995), www.justice.gov/atr/public/guidelines/0558.pdf.

Brulotte was never intended, however, to establish a rule of antitrust law. Petitioners still have not identified any decision that has imposed antitrust *liability* (e.g., treble damages or criminal penalties) on a party who entered into an agreement of the sort at issue in *Brulotte*. Cf. U.S. Cert. Amicus Br. 12, 15 (noting the absence of such cases). Rather, in this case as in *Brulotte* itself, the consequence of applying the rule is simply that an agreement to pay royalties for post-expiration use of a patented invention cannot be enforced in court. *Brulotte*’s rule is thus one of contract enforceability in light of “the policy and purpose of the

patent laws,” 379 U.S. at 31 (quoting *Scott Paper*, 326 U.S. at 256), not one of antitrust liability.⁴

b. Despite petitioners’ repeated assertions, no agency of the United States has previously “called on this Court to reconsider [*Brulotte*].” Pet. Br. 1; see *id.* at i, 13, 16, 25, 56. Petitioners invoke a 2007 joint report of the Department of Justice and the Federal Trade Commission, which explained that, when conducting an *antitrust* review of agreements like the one at issue in *Brulotte*, those agencies would generally apply a rule-of-reason analysis rather than a *per se* rule. U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 122 (Apr. 2007) (DOJ/FTC Report), www.justice.gov/atr/public/hearings/ip/222655.pdf. That report also stated that some agreements that *Brulotte* renders unen-

⁴ The rule announced in *Brulotte* is limited in another respect as well. As Congress recognized in enacting Section 271(d), a finding of patent misuse sometimes has the effect of denying relief to a patent owner who is “otherwise entitled to relief for infringement or contributory infringement of a patent.” 35 U.S.C. 271(d); see *Morton Salt v. G.S. Suppiger Co.*, 314 U.S. 488, 492-494 (1942). Under that approach, a licensee under a *Brulotte*-type agreement could cease paying royalties *while the patent remained in effect*, and could defend against any infringement suit on the ground that the patentee had misused its patent by extracting a promise to pay royalties on post-expiration sales. But neither the *Brulotte* Court itself, nor the court below, nor any other court of which we are aware has applied *Brulotte* in that manner. Rather, although the licensees in *Brulotte* had “refused to make royalty payments accruing both before and after the expiration of the patents,” the Court held the royalty provisions unenforceable only with respect to royalties “which accrued after the last of the patents incorporated into the machines had expired.” 379 U.S. at 30; see Resp. Br. 17.

forceable would likely have procompetitive effects. See *id.* at 12, 122. But the report was addressed to antitrust law and expressed no view about the soundness of the *Brulotte* rule as a matter of *patent* law. Nor did it engage in any analysis of the considerations that would be necessary to overcome *stare decisis*, much less make any recommendation that *Brulotte* be reconsidered or overruled by this Court.

If the Justice Department and the FTC had understood *Brulotte* to establish a *per se* rule of antitrust liability, their report presumably would have contained language to the effect that, although patent-licensing agreements are generally analyzed for antitrust purposes under the rule of reason, binding Supreme Court precedent requires courts to analyze *Brulotte*-type agreements in a different manner. But the report did not suggest that *Brulotte* had impaired the courts' ability to enforce the competition laws in accordance with modern antitrust principles. Rather, the report recognized that *Brulotte* "did not involve an antitrust claim," and that "[p]atent misuse is said to be broader than antitrust liability as it extends to 'some sorts of conduct antitrust law would not reach.'" DOJ/FTC Report 117 & n.12 (citation omitted). The position that the United States has taken in this Court therefore does not reflect any change in position about whether *Brulotte* is good patent law or whether it should be overruled.⁵

⁵ Petitioners also cite (Br. 16) congressional testimony by the then-Assistant Commissioner of Patents in 1988 that *Brulotte* was unsound. Because that testimony was offered in support of amendments to the Patent Act that could have *legislatively* overruled *Brulotte*, the Assistant Commissioner did not need to address *stare decisis* considerations.

c. The DOJ/FTC Report expressed the view that some *Brulotte*-type agreements would likely have pro-competitive effects. See DOJ/FTC Report 12, 122. Because *per se* condemnation under the antitrust laws is reserved for types of restraints that “would be invalidated in all or almost all instances under the rule of reason,” *Leegin*, 551 U.S. at 886-887, the report’s assessment logically implies that *Brulotte*-type agreements should not be treated as *per se* antitrust violations. In the antitrust context, modern rule-of-reason analysis entails a case-specific determination about whether a particular arrangement is, on balance, pro- or anticompetitive, in light of “all of the circumstances,” including “[w]hether the businesses involved have market power.” *Id.* at 885-886 (citation omitted).

The patent laws, by contrast, operate largely through bright-line rules that are designed to promote the effective implementation of the patent system as a whole. For instance, Congress selected a term of patent protection—now, generally 20 years from the date of application, 35 U.S.C. 154(a)(2)—that it believed was sufficient to encourage innovation without unduly restricting public access to patented inventions. Congress has enacted limited exceptions to the 20-year period. See 35 U.S.C. 154(b), 156. Apart from those specific exceptions, however, the statutory scheme does not contemplate case-specific inquiries (either by the PTO or by a court) into whether a period of exclusivity longer or shorter than 20 years would strike a better balance between competing interests with respect to particular inventions or categories of inventions.

By the same token, the determination whether particular conduct unlawfully infringes a patent does not depend on any case-specific comparison between the

costs and benefits to the public of allowing the conduct to continue. Although the term of exclusivity granted by a patent is generally intended to promote innovation and competition, a patent holder “has no obligation either to use [his invention] or to grant its use to others” while the patent remains in effect. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 432 (1945); 35 U.S.C. 271(d)(4) (specifying that “refus[ing] to license or use any rights to the patent” does not constitute patent misuse). Even if a particular patentee refuses either to practice his patent or to authorize others to do so, a court cannot invoke anticipated benefits to the public as a ground for treating as lawful another party’s unauthorized production or sale of the patented invention.

This Court has long construed the patent laws as reflecting an affirmative policy of unrestricted public access to unpatentable inventions and inventions for which a patent has expired. *Brulotte* is simply one of many decisions in which the Court has invalidated state-law or contractual provisions that would prevent the full accomplishment of that federal patent-policy objective. *Brulotte* is consistent with those decisions, and with the patent laws’ general preference for bright-line rules rather than case-specific balancing of equities. The fact that some *Brulotte*-type agreements would be viewed as procompetitive under the antitrust rule of reason therefore does not suggest that *Brulotte* reflects an erroneous understanding of the Patent Act.

d. Petitioners attempt (Br. 26) to dismiss the line of decisions discussed above (see pp. 12-16, *supra*) as involving “attempts to extend the duration of patent rights *against the public at large*.” They contend (Pet. Br. 18-28) that royalties based on respondent’s post-

expiration sales do not offend federal patent policy because persons other than respondent can now make unrestricted use of the formerly-patented invention. Petitioners are correct that a hypothetical state law requiring *all* members of the public to pay royalties for post-expiration uses of a previously-patented invention would *more substantially* impede the effectuation of federal patent policy than would enforcement of a single licensee's contractual agreement to do so. *Brulotte* is not the only case, however, in which the Court has construed the federal patent laws to preclude the enforcement of private contracts.

In *Scott Paper*, for example, the Court observed that the "aim of the patent laws" includes "not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures." 326 U.S. at 255. The Court further explained that, "[i]f a manufacturer or user could restrict himself * * * from using the invention of an expired patent, he would deprive himself and the consuming public of the advantage to be derived from his free use of the disclosures." *Id.* at 255-256. The Court thus recognized that the contractual extension of patent rights against the licensee himself may prevent the full achievement of the patent laws' objectives. Similarly in *Lear*, the Court explained that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery," and "[i]f they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justifi-

cation.” 395 U.S. at 670. *Brulotte* reflects another application of the same practical judgment.

2. *Petitioners identify no sound reason to believe that the rule announced in Brulotte has caused significant real-world economic harm*

a. The rule established by *Brulotte* is narrow and clear: An agreement is unenforceable only to the extent that it requires royalties based on post-expiration conduct involving a previously-patented invention. 379 U.S. at 31. *Brulotte* specifically exempted from its prohibition the practice of “deferred payments for use during the pre-expiration period.” *Ibid.*; see DOJ/FTC Report 117 (noting that “courts tend to apply [*Brulotte*] narrowly” and that its “holding reaches only agreements in which royalties actually *accrue* on post-expiration use”).⁶ The two sorts of agreement have significantly different implications for federal patent policy. Enforcement of a contractual agreement to defer payment of accrued royalties until after the patent expires creates no meaningful economic disincentive to post-expiration production or sale of the previously-patented invention. But where (as in *Brulotte* and in this case) the amount of royalties owed depends on the volume of post-expiration use or sales, enforcement would both create such a disincentive and increase the licensee’s marginal costs, thereby preventing “the consuming public at large” from “receiv[ing]

⁶ Petitioners acknowledge (Br. 35) that *Brulotte* prohibits only “accrual postponement” and not “payment postponement.” Many of *Brulotte*’s critics, however, have mistakenly lamented contracting parties’ supposed inability “to amortize royalty payments over longer periods than the remaining life of the patent.” 1 Hovenkamp et al., *IP and Antitrust* § 23.2b, at 23-15; accord, e.g., Association of the Bar of the City of N.Y. Amicus Br. 11.

the benefits of the unrestricted exploitation, by others, of [the patent's] disclosures.” *Scott Paper*, 326 U.S. at 255; see Resp. Br. 46.

Subsequent decisions confirm the narrowness of *Brulotte*'s rule. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969), the Court described *Brulotte* as “[r]ecognizing that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time.” *Id.* at 136. In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Court distinguished *Brulotte* and upheld an agreement, made while a patent application was pending, in which the applicant's counter-party agreed to pay a lower royalty if the patent was not granted. *Id.* at 264-265. The Court explained that the lower royalty, “far from being negotiated ‘with the leverage’ of a patent, rested on the contingency that no patent would issue within five years.” *Id.* at 265 (citation omitted).

b. Petitioners and some of their amici identify pharmaceutical development as an area that would benefit from an ability to use royalties to share the risks of commercial success or failure over a long term. See Pet. Br. 32 (quoting Memorial Sloan-Kettering Cancer Ctr. Cert. Amicus Br. 12-13). But Congress has already demonstrated its ability (and willingness) to accommodate the distinctive needs of pharmaceutical companies without requiring case-by-case determinations about market power. Congress has enacted a safe harbor from patent-infringement liability for certain “uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veteri-

nary biological products.” 35 U.S.C. 271(e)(1). As a result, in a situation like that posited by amici—in which a potentially useful new application of a patented drug or device is discovered near the end of the patent term—no patent license may be required, because the activities needed to develop the new application will ordinarily be exempt from patent-infringement liability under Section 271(e)(1). Congress has also extended the term for certain patents related to products regulated by the Food and Drug Administration “by the time equal to the regulatory review period for the approved product which * * * occurs after the date the patent is issued” (with certain exceptions). 35 U.S.C. 156(c).

c. Finally, the alternative approach that petitioners advocate is ill-suited to determining the enforceability, under the patent laws, of royalty agreements like the one at issue here. Petitioners argue that *Brulotte*-type agreements should be (1) analyzed under the antitrust rule of reason and (2) treated as valid and enforceable unless the patentee is shown to have market power. But if a particular *Brulotte*-type agreement were shown to violate the antitrust laws, it would be unenforceable on that ground alone. Petitioners’ proposed alternative approach would thus give no independent weight to the distinct congressional policy choices reflected in the patent laws.

Except under narrowly-defined circumstances (see 35 U.S.C. 271(d)(5)), moreover, the rights and obligations of patentees under the Patent Act do not depend on the presence or absence of market power. Indeed, the contrast between the significant role that market power often plays in modern antitrust analysis, and its virtual irrelevance to application of the patent laws,

simply highlights the anomalous nature of petitioners' proposal to resolve questions of Patent Act preemption by reference to antitrust principles. Under the circumstances, petitioners have not provided the "special justification" (*Halliburton*, 134 S. Ct. at 2407 (citation omitted)) necessary for this Court to take the extraordinary step of overruling one of its statutory-interpretation decisions—much less for it to do so by replacing *Brulotte*'s clear and narrow 50-year-old rule with one imported from a different statutory context.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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