

No. 13-720

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

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STEPHEN KIMBLE, ET AL.,

*Petitioners,*

v.

MARVEL ENTERPRISES, INC.,

*Respondent.*

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

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**BRIEF OF PUBLIC KNOWLEDGE  
AS *AMICUS CURIAE* IN SUPPORT OF  
RESPONDENT**

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## INTEREST OF *AMICUS CURIAE*

*Amicus curiae* Public Knowledge is a non-profit organization that is dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. As part of this mission, Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new and emerging technologies.

Public Knowledge has previously served as *amicus* in key patent cases. *E.g.*, *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014); *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014).<sup>1</sup>

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<sup>1</sup>Pursuant to Supreme Court Rule 37.3(a), all parties received appropriate notice of and consented to the filing of this brief. Pursuant to Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amicus*, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief.

## SUMMARY OF ARGUMENT

Though *Brulotte v. Thys Co.* long ago established a clear and workable rule that “a royalty agreement that projects beyond the expiration date of the patent is unlawful,” Petitioners seek to overrule that holding because, in their view, times and thinking have changed.

But, in relevant aspects, the world is not so different from that of the 1964 decision. The interests of patent holders to contravene the public interest to extract monopolistic rents by asserting their patents continue. And the constitutional and statutory limits that seek to prevent this misuse of the patent right remain in place as well.

*Brulotte* remains a critical fixture of patent law today for several reasons.

I. Replacing *Brulotte* with an antitrust-based rule of reason analysis on post-expiration royalty agreements would exacerbate existing problems of patent abuse. Finding anticompetitive behavior under the rule of reason requires proof of market power, and the most harmful abusers of the patent system, non-practicing patent assertion entities, often lack market power. Overruling *Brulotte* would give such entities free rein to demand royalties without end.

II. *Brulotte* ensures that patent law maintains its public-oriented focus, namely “to promote the Progress of Science and the useful Arts.” As part of that public focus, the Constitution permits patents to be granted only for “limited Times.” *Brulotte*’s rule ensures that this limit is maintained, against those who would seek to expand their patent monopolies beyond what is good public policy, that is, those who contrive to contract around the Constitution.

Petitioners rely heavily on principles of antitrust law to justify abrogation of *Brulotte*, but antitrust law does not adequately address the public interest purpose of patents. A properly drawn patent system must not only facilitate inventions but also—more importantly—leave room for future innovators who build upon those patented inventions and guarantee the public with free access to patented inventions once those patent terms expire. These central concerns would not be encompassed by the rule of reason that Petitioners embrace.

III. Current anticompetitive patent practices illustrate the importance of maintaining strong rules against policies contrary to the public interest, such as expanding the patent grant beyond its prescribed term.

In particular, today's connected society is pervaded with standardized technologies, those approved by standards bodies and effectively required to be used by technology product manufacturers. Patents on standardized technologies create troubling opportunities for monopolistic behavior, and overruling *Brulotte* would multiply those opportunities.

To open an avenue for effectively extending patent duration past its statutory expiration date, as Petitioners would have this Court do, would be to open the door to abusive and anticompetitive practices, already existing and problematic as they are. The law should not encourage patent owners to seek expansion of their patent rights beyond those patents' authorized bounds.

Accordingly, the decision in *Brulotte*, that one may not seek post-expiration royalties based on a patent, is soundly reasoned and remains necessary today even after half a century. This Court should maintain the holding of *Brulotte* and affirm the Court of Appeals.

## ARGUMENT

In this case, Petitioners seek to replace the straightforward rule set forth in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), with a complex rule of reason test from antitrust law. They support this dramatic change with arguments based on competition and antitrust rationales. *See, e.g.*, Br. Pet’rs 10–11, Jan. 28, 2015.

But the application of antitrust to matters of patent policy misses the mark. The fundamental goals of the patent system are not consonant with the standards of antitrust, and the discrepancy is highlighted nowhere brighter than in the patent misuse doctrine involved in the present case, for the reasons explained below. Petitioners invite this Court to reject decades of patent policy and supplant *Brulotte* with an ill-fitting antitrust doctrine. This Court should decline that invitation.

### **I. APPLYING A RULE OF REASON TO CONTRACTS FOR POST-EXPIRATION ROYALTIES WOULD EXACERBATE ABUSIVE PATENT ASSERTION**

Using an antitrust rule of reason to evaluate a matter of patent policy would exacerbate well-known existing problems of abusive patent assertion. This is because the most abusive patent actors, known as non-practicing entities or patent assertion entities, would be virtually immune to the rule of reason and thus could demand potentially indefinite royalties of their targets.

1. “An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (citing Fed. Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and*

*Remedies with Competition* 38–39 (2011), available at URL *supra* p. vii). These so-called “patent assertion entities,” whose business model is premised wholly upon exploitation of patents, abuse the patent system and harm the economy to a degree so well documented that the authorities supporting that proposition are too numerous to presentably typeset outside the footnotes of this brief.

Patent litigation has grown dramatically—24% per year since 2009 by one estimate—the bulk of which has been attributable to patent assertion entities.<sup>2</sup> Economists have estimated billions of dollars of lost productivity and economic output due to this explosion in patent assertion.<sup>3</sup> Stories abound of small startups

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<sup>2</sup>PricewaterhouseCoopers, *2014 Patent Litigation Study: As Case Volume Leaps, Damages Continue General Decline* 5 (2014), available at URL *supra* p. ix; Sara Jeruss et al., *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 Duke L. & Tech. L. Rev. 357, 361 (2012), available at URL *supra* p. viii (“Specifically, lawsuits filed by monetizers increased . . . to almost 40% of the cases filed in the most recent year.”); U.S. Gov’t Accountability Office, *GAO-13-465, Intellectual Property: Assessing Factors that Affect Patent Infringement Litigation Could Help Improve Patent Quality* 15 (2013), available at URL *supra* p. x (“[D]ata from 2007 through 2011 estimates that the number of overall defendants in patent infringement suits increased by about 129 percent over the 5-year period.”).

<sup>3</sup>See, e.g., James Bessen & Michael J. Meurer, Essay, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. 387, 408 (2014), available at URL *supra* p. vi (“Aggregate direct costs of NPE patent assertions grew rapidly from about \$7 billion in 2005 to \$29 billion in 2011.”); James Bessen et al., *The Private and Social Costs of Patent Trolls*, Regulation, Winter 2011–2012, at 26, 30, URL *supra* p. vi (“NPE lawsuits from 1990 through October 2010 are responsible for over half a trillion dollars in lost wealth (in 2010 dollars).”); Catherine Tucker, *The Effect of Patent Litigation and Patent Assertion Entities on Entrepreneurial Activity* 31 (MIT Sloan Sch. of Mgmt., Working Paper 5095-14, 2014), URL *supra* p. x (estimating that venture

and companies laid to waste by “patent trolls” who use patents as tools for “racketeering.”<sup>4</sup>

Indeed, members of this Court and other courts have expressed their concerns about patent assertion entities.<sup>5</sup> And they are not without good company: Congress, the White House, the Federal Trade Commission, and the U.S. Patent and Trademark Office have all concurred on the problematic abuse of the patent system.<sup>6</sup>

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capital investment in technology startups “would have likely been \$21.772 billion higher over the course of five years but-for litigation brought by frequent litigators”).

<sup>4</sup>*E.g.*, Joe Mullin, *Angry Entrepreneur Replies to Patent Troll with Racketeering Lawsuit*, *Ars Technica* (Sept. 16, 2013), URL *supra* p. ix; Colleen Chien, *Startups and Patent Trolls*, 17 *Stan. Tech. L. Rev.* 461, 472 (2014), *available at* URL *supra* p. vii (PAE demands “can divert scarce money and founder time from the business, incense management, and at times, force significant operational changes”); *see also* Blair Silver, *Controlling Patent Trolling with Civil RICO*, 11 *Yale J.L. & Tech.* 70 (2009), *available at* URL *supra* p. x (suggesting use of anti-racketeering laws against abusive patent assertion).

<sup>5</sup>*eBay Inc.*, 547 U.S. at 396 (Kennedy, J., concurring); *Bilski v. Kappos*, 130 S. Ct. 3218, 3257 (2010) (Stevens, J., concurring) (“[P]atent holders may be able to use [patents] to threaten litigation and to bully competitors . . . That can take a particular toll on small and upstart businesses.” (footnote omitted)); *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1326–27 (Fed. Cir. 2011) (criticizing patent owners who display “indicia of extortion” by demanding from over 100 companies “a quick settlement at a price far lower than the cost of litigation”); *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 719 (Fed. Cir. 2014) (Mayer, J., concurring) (explaining how the “scourge of meritless infringement claims has continued unabated for decades”). Indeed, as far back as 1883 this Court decried “speculative schemers who make it their business . . . to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts.” *Atl. Works v. Brady*, 107 U.S. 192, 200 (1883).

<sup>6</sup>*See, e.g.*, H.R. Rep. No. 113-279, at 17 (2013) (report on H.R. 3309, the Innovation Act), *available at* URL *supra* p. vii (“The harm inflicted on American innovation and manufacturing by various abu-

2. Such abusive behavior will only worsen should this Court overrule *Brulotte* and replace it with a rule of reason. The threshold test for proving an anticompetitive restraint under the rule of reason is showing market power. Herbert Hovenkamp et al., *IP and Antitrust* § 3.2e (2d ed. 2014). But patent assertion entities, almost by definition, will rarely have market power, and thus the rule of reason will be powerless to curb their abuses.

Patent assertion entities do not manufacture products, so they are not competitors in the marketplace. Furthermore, they generally lie in wait, not asserting their patents until other companies have successfully manufactured and marketed products independent of those patents. *See, e.g.*, Oskar Liivak & Eduardo M. Penalver, *The Right Not to Use in Property and Patent Law*, 98 Cornell L. Rev. 1437, 1449–50 (2013), available at URL *supra* p. viii. Thus, until a patent assertion entity begins asserting its patents, it has no effect on pricing or the market, and accordingly it likely lacks market power. *See* Section

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sive patent-enforcement practices has been widely known and acknowledged for most of the last decade.”); Executive Office of the President, *Patent Assertion and U.S. Innovation* 6 (2013), available at URL *supra* p. vii (describing PAEs as “pursuing legal action in a way that does not increase incentives for innovation”); Fed. Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 67–68 (2011), available at URL *supra* p. vii (suggesting that increased PAE activity “can be detrimental to innovation”); U.S. Patent and Trademark Office: *The America Invents Act and Beyond, Domestic and International Policy Goals: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. 13 (2014), available at URL *supra* p. x (statement of Michelle K. Lee, Deputy Under Secretary of Commerce for Intellectual Property) (“[T]he USPTO believes that additional legislative changes to build upon the AIA are needed to further enhance patent quality and to lessen litigation abuses in the system.”).

II.A(2)(a) *infra* p. 11. Indeed, even after it asserts its patents, it will probably continue to lack market power until it has licensed its patents to a sufficient fraction of the market.

The effect of a finding that patent assertion entities have no market power is to permit them to demand potentially unlimited royalties. At least one patent assertion entity already demands ongoing royalties on its patents. See Nilay Patel, *Lodsys, Patents, and Apple: What's Going On Here?*, The Verge (May 17, 2011), URL *supra* p. ix. Allowing such entities to unilaterally extend their royalties *ad infinitum* would be a pure windfall to the patent asserters and a pure tax upon the targeted innovators.<sup>7</sup>

This unwelcome result of providing a boon to patent abusers is exactly what is to be predicted from adopting a rule of reason framework for a patent policy doctrine. As one practitioner explained, “the determination of economic market power, which presents formidable problems of proof, is further complicated by the legal market power conveyed by a patent . . . . Patent market power analysis should avoid consideration of such traditional antitrust factors.” Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: “Blessed Be the Tie?”*, 4 Harv. J.L. & Tech. 1, 3–4 (1991), available at URL *supra* p. vi. This Court should not accept Petitioners’ invitation to bolt on an ill-fitting doctrine to a carefully balanced system of patent law, lest it open the door to further abuse and misuse of patents.

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<sup>7</sup>Even the more traditional patent assertion entity who demands a lump sum settlement payment rather than an ongoing royalty would be encouraged to compute that lump sum in view of a possibility of unlimited royalties.

## II. REPLACING *BRULOTTE* WITH A RULE OF REASON WOULD LEAVE KEY CONSTITUTIONAL PATENT POLICY GOALS UNFULFILLED

The Constitution grants Congress the power to “promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const. art. I, § 8, cl. 8. *Brulotte* is a simple corollary to the patent policy goals expressed in this clause, and as such can be affirmed by this Court on constitutional grounds alone.

Petitioners primarily argue against *Brulotte* on the basis of antitrust, not patent, doctrines.<sup>8</sup> Their cited authorities rely on “economic theory,” two of their three “premises underlying *Brulotte*” are antitrust-based, and their proposed rule of reason analysis is drawn directly from antitrust law. *See* Br. Pet’rs 14–15, 36–37, 41, 45–49.

However, the antitrust and rule of reason paradigms are wrong for this case. First, the competition-based analysis that animates the rule of reason does not with certainty safeguard future innovation, a central requirement of patent policy. Second, the patent scheme promises the public free and unrestricted access to patented inventions after the term expires, and only *Brulotte*’s rule against post-expiration royalties can fulfill that promise; antitrust cannot. Indeed, numerous authorities observe that the patent misuse doctrine, of which *Brulotte* is a part, is broader in purpose and scope than antitrust. Accordingly, Petitioners’ antitrust-based arguments cannot justify overruling *Brulotte*.

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<sup>8</sup>Petitioners’ one argument on patent policy, *see* Br. Pet’rs § I.B.1, is disposed in this brief at Section II.A(3) *infra* p. 13.

## A. THE RULE OF REASON IS NOT DESIGNED TO PROTECT THE PUBLIC INTEREST IN FUTURE INNOVATION

1. Patent policy holds in especially high esteem the object of promoting future innovation, and particularly of ensuring that patents themselves promote future innovation by not impeding the ability of others to improve upon the patented disclosures.

The Constitution demands that patents serve the public interest: “the benefit to the public or community at large” is the “primary object” of patents. *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 327–28 (1859). That public interest includes several aspects. The one Petitioners highlight is “avoiding monopolies that unnecessarily stifle competition.” *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998); Br. Pet’rs 36–40. But a more important aspect is facilitating *future innovation* that builds upon existing, possibly patented, inventions.<sup>9</sup>

Patent law is greatly concerned with preserving “the range of ideas available as the building blocks of further innovation.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989); *see also KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007); 2 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 704d, at 233 (3d ed. 2008). Thus, this Court has ensured that patent law is balanced, to protect the ability of follow-on innovators to improve upon existing ideas and thereby augment the storehouse of knowledge. *See, e.g., Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014).

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<sup>9</sup>Petitioners’ argument about innovation is directed to “initial creation” of patented inventions, *see* Br. Pet’rs 31, not follow-on innovation based on existing patents as this brief discusses.

2. Given the importance of this constitutional mandate, it is safe to say that any patent doctrine intended to police the use of patents must at a minimum ensure that such use promotes future innovation. However, Petitioners' favored rule of reason test fails this minimum requirement.

The rule of reason analysis includes two steps: first, determining whether the patentee "had market power in the relevant market"; and second, assessing whether the agreement "imposes an unreasonable restraint on competition, taking into account a variety of factors." Br. Pet'rs 47–48 (citing *County Materials Corp. v. Allan Block Corp.*, 502 F.3d 730, 735 (7th Cir. 2007)); *see also* *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 885–86 (2007). Neither step properly accounts for follow-on innovation.

a. Market power analysis would fail to fully account for follow-on innovation because it would exclude many patents from the full rule of reason analysis, despite the fact that *every* patent will suppress some future innovation to some degree. Market power is defined as "the power to control prices or exclude competition." *United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966) (quoting *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 391 (1956)). The mere existence of a patent does not confer market power to the patentee. *See Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006); *see also* 35 U.S.C. § 271(d) (2013). A patentee lacking market power will generally not be held to be engaging in anticompetitive practices under the rule of reason.

But even a patentee without market power always maintains veto power over subsequent innovation that builds upon the invention of the patent. The exclusive

right of the patent prevents others from making or using the patented invention, *see* § 271(a), and thus inhibits the discovery of improvements or modifications that may advance the state of the art.

It may be thought that the risk to future innovation is minimal when it comes to patentees without market power, on the argument that their patents are intrinsically less valuable and thus less amenable to follow-on improvement. This is not the case. Market power based on a patent is not merely a function of the patent's value, but also the patent owner's interest and success in marketing the invention. Even a highly valuable pioneering patent, which might stimulate substantial future developments, will not confer market power if the patentee fails to sell or license the patented technology. Under the rule of reason, then, such a patentee would be unrestricted in ability to engage in patent licensing practices contrary to the goals of the patent system. Such a result should not be permitted.

b. Nor does the "unreasonable restraint" analysis following a finding of market power properly account for follow-on innovation. Such analysis considers multiple factors including "specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect." *E.g., State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997).

However detailed this inquiry may be, however, its focus and end goal are competition over existing products in the marketplace. In what has been called the classic statement of the rule of reason, Justice Brandeis explained that the test is "whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even de-

stroy competition.” *Bd. of Trade of Chi. v. United States*, 246 U.S. 231, 238 (1918); see *Arizona v. Maricopa County Med. Soc’y*, 457 U.S. 332, 343 n.13 (1982). Thus, “the antitrust rule of reason focuses on one particular issue: the impact on competition, rather than all possible equitable considerations” relevant to patent policy. Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 *Hastings L.J.* 399, 422 (2003), available at URL *supra* p. vii.

Consequently, the “unreasonable restraint” test does not ordinarily contemplate future products that do not yet exist. A leading treatise notes that “innovation itself is rarely of antitrust concern.” 3 *Antitrust Law, supra*, ¶ 704d, at 226. And, indeed, scholars have criticized the rule of reason because “in innovation intensive markets antitrust has been overly concerned with the impact of practices on price, and insufficiently concerned with longer run effects on technological progress.” Herbert Hovenkamp, *Restraints on Innovation*, 29 *Cardozo L. Rev.* 247, 255 (2007), available at URL *supra* p. vii. Thus, the rule of reason is insufficient to “enhance the overall progress of science by ensuring that those who create initial steps do not discourage those who would take the next steps.” Feldman, *supra*, at 445. It is an inappropriate test for preventing misuse of patents.

3. The importance of follow-on innovation explains the error in Petitioners’ argument that *Brulotte* “impairs the ability of contracting parties to balance and allocate the risks of developing and commercializing new patentable technologies.” Br. Pet’rs 31. Respondent has already minimized the effect of this argument by pointing out alternate financial arrangements that would achieve the same balance and allocation of risks. See Br. Resp’t

47–48, Feb. 27, 2015. But neither party weighs the cost of overruling *Brulotte* to *future* developments. Regardless of how competitive the contracting parties remain after instituting a post-expiration royalty contract, the licensee will have less incentive to build improved products based on the licensed patent, knowing that such improved products will only trigger more royalty payments down the road. Such a disincentive to improvement is anathema to patent policy.

“[I]f innovation contributes so much [more than competition to economic growth, then *restraints* on innovation very likely produce a far greater amount of economic harm than traditional restraints on output or price. As a result, antitrust, with its heavy concern that prices be kept as close as possible to cost, is often shooting at the wrong target.” 3 *Antitrust Law, supra*, ¶ 704d, at 227. Where the risk to future innovation is great, the constitutional requirement that patents promote progress must override patentees’ wishes for further commercialization options. Accordingly, Petitioners’ argument cannot carry the day.

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Certainly it is difficult to quantify the value of the public’s ability to build upon existing knowledge from any given patent; one cannot easily put a price tag on future innovation. But any rule intended to prevent misuse of patents must at least recognize the importance of that value. The traditional antitrust-based rule of reason, by lacking a doctrinal structure for evaluating future innovation, effectively sets that value at a default of \$0. The constitutional requirement that patents promote progress cannot tolerate such a debasement of future innovation, and this Court should not tolerate it either.

## B. THE RULE OF REASON IS NOT DESIGNED TO PROTECT THE PUBLIC RIGHT TO FREELY USE PATENTED TECHNOLOGY AFTER EXPIRATION

Another key aspect of patent policy, also expressed in the Constitution, is that the public must be guaranteed free and unrestricted access to inventions covered by patents, once the terms of those patents have expired. This imposes a strong requirement that the right to exploit a patent by demanding royalties be confined to “limited Times.” Only *Brulotte’s per se* rule, and not an uncertain rule of reason, can make that guarantee.

1. “The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States, to promote the Progress of Science and the useful Arts.” *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942) (quoting U.S. Const. art. I, § 8, cl. 8) (internal quotations omitted). Time and again this Court has recognized that this clause limits the scope of the patent right, for “the patent power may not overreach the restraints imposed by the stated constitutional purpose.” *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966).<sup>10</sup>

Promoting progress requires that the benefit of the disclosed and patented invention ultimately inure to the

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<sup>10</sup>See also *KSR*, 550 U.S. at 427 (explaining that excessively strong patents “might stifle, rather than promote, the progress of useful arts”); *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 126–27 (2006) (Breyer, J., dissenting from dismissal of certiorari) (“[S]ometimes *too much* patent protection can impede rather than ‘promote the Progress of Science and the useful Arts’ . . . .”); *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 154 (1950) (Douglas, J., concurring) (“The Congress acts under the restraint imposed by the statement of purpose in Art. I, § 8.”).

public, in the form of unbridled access to that invention. Justice Story explained that the “main object” of the constitutional purpose “could be done best, by giving the public at large a right to make, construct, use, and vend the thing invented, at as early a period as possible; having a due regard to the rights of the inventor.” *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 19 (1829). Thus, “[i]t is 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.” *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896); *see also Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974) (after patent expires, “the knowledge of the invention enures to the people” (quoting *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933))).

The terms of patents are consequently limited, so as to “bring new designs and technologies into the public domain through disclosure.” *Bonito Boats*, 489 U.S. at 151; *see also Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945) (aim of patent system is “unrestricted exploitation” after expiration). “[T]he patent system has strong policy reasons for limiting the time of a patent grant. These include not only concerns related to anti-competitive effects but also concerns related to limiting wasteful and duplicative activities and creating disincentives to future inventors.” Feldman, *supra*, at 445.

Accordingly, the requirement that patent rights be only for “limited Times” is a critical component of the patent system. That requirement is mandated by the Constitution and essential to promoting innovation and protecting the public’s right to access technologies after patent expiration.

2. This policy behind limited patent terms necessitates doctrines that strongly disfavor any encroachment upon the public’s right to free access to post-expiration patented inventions. “[C]ourts have treated extension of a patent grant . . . as an evil to be avoided regardless of a demonstrable effect on competition.” *IP and Antitrust, supra*, § 3.2d. Such protective doctrines thus ensure that the patent law is “forward-looking, growth-oriented, [and] entrepreneurial” rather than a “backward-looking” “attempt to preserve old markets.” Robert Patrick Merges & Glenn Harlan Reynolds, *The Proper Scope of the Copyright and Patent Power*, 37 Harv. J. on Legis. 45, 56 (2000), available at URL *supra* p. ix.

*Brulotte’s per se* rule against post-expiration royalty contracts is such a protective doctrine, as it ensures that no patentee maintains the ability to exploit the post-expiration term when the invention has been dedicated to the public. By contrast, the rule of reason fails to provide that protection, by permitting patentees in some situations to extract royalties based on property dedicated to the public. Patent policy rejects the latter and favors the former; this Court should do so as well.

3. It is no justification for the rule of reason that only licensees are encumbered by patent royalties after the expiration of the term, as Petitioners suggest. *See* Br. Pet’rs 20. The patent policy objective of post-expiration freedom goes unsatisfied even when only licensees are required to pay royalties after the patent expires.

The public interest expressed in patent policy is offended by private agreements that purport to only restrain single parties. *See Brulotte*, 379 U.S. at 32 (post-expiration royalty contracts undercut “the free market visualized for the post-expiration period”); *Lear, Inc. v.*

*Adkins*, 395 U.S. 653, 670 (1969) (“[T]he technical requirements of contract doctrine must give way before the demands of the public interest . . .”). This is in part because licensees often sell products to the public, and so by paying post-expiration royalties, the licensee “would deprive himself *and the consuming public* of the advantage to be derived from his free use of the disclosures.” *Scott Paper Co.*, 326 U.S. at 255–56 (emphasis added). When it comes to the public purpose of patent policy, one cannot simply contract around the Constitution.

Indeed, to withhold prior licensees from the general post-expiration freedom requirement would be to withhold the most valuable fraction of the public, in relation to the invention, from making beneficial use of that post-expiration freedom period. Existing licensees are the parties most interested in the invention, since they are willing to pay the license fee to obtain access. They have spent time and effort learning about the patented invention, and thus are the most likely to exploit, improve, and innovate upon the invention. *See* Br. Resp’t 35 (“A licensee may be the best party, and perhaps the only party, suited to make use of the invention or to build upon it with additional innovation.”). Such parties’ activities are essential to turning inventions into consumer products that promote the progress of science and the useful arts.

The constitutional benefit of the patent bargain is thus in large part brokered by these interested parties who likely are licensees. It would deteriorate that patent bargain to deny the unrestricted access to expired patents to those licensees, who are the most likely parties to benefit society with that unrestricted access. This Court should not allow such a result, it should not sanction such restrictive contracts, and it should not overrule *Brulotte*.

### C. MANY AUTHORITIES AGREE THAT PATENT MISUSE SERVES A DIFFERENT PURPOSE FROM ANTITRUST

That antitrust doctrine does not serve the policy goals underlying *Brulotte* should be unsurprising, because it is well recognized that the doctrine of patent misuse, of which *Brulotte* is a part, works to a different end than antitrust. Patent misuse protects the constitutionally mandated balance of the patent system from undue expansions of patent rights, while antitrust protects consumers from anticompetitive practices. These fields are non-overlapping.

1. Patent misuse occurs when a patentee has engaged in conduct that “attempts to broaden the physical or temporal scope of the patent monopoly.” *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971). In a case described as the origin of the patent misuse doctrine, this Court cited specifically to the Constitution in order to reject a tying arrangement between patented and unpatented goods. *See Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917). Similarly, the Court of Appeals for the Federal Circuit has explained that patent misuse is directed to practices “contrary to public policy,” that policy being “to prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right.” *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992).

Commentators recognize that the misuse doctrine maintains patent law’s constitutional balance. “Patent policy permits the grant of exclusive rights only under certain conditions and only within a limited scope, and the expansion of that scope through coercive use of a

government-granted legal right has been thought to undermine the limitations built into patent law.” *IP and Antitrust, supra*, § 3.2d. “Patent misuse thus helps maintain patent law’s equitable symmetry” between favoring patentees and protecting public policy, another scholar writes. Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. Pat. & Trademark Off. Soc’y 793, 797 (1988), available at URL *supra* p. ix.

Accordingly, the patent misuse doctrine is driven by policies of the patent system, derived from the Constitution and, as explained above, ensuring the public interest in promotion of progress and unfettered post-expiration access.<sup>11</sup>

2. These constitutional and policy concerns behind patent misuse are significantly different from antitrust doctrines, which primarily focus on market competition issues. Patent misuse generally prohibits a wider swath of activities than antitrust, at least with respect to patent-related conduct.

One scholar notes that “patent misuse is tested under patent policy, not antitrust policy. Thus, while the behavior may be insufficient for a Sherman Act or Clayton Act violation, it may still constitute misuse.” Feldman, *supra*, at 413; accord *IP and Antitrust, supra*, § 3.2d (courts “apply misuse doctrine to at least some sorts of conduct antitrust law would not reach”). “A behavior that retards the progress of science would be of concern

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<sup>11</sup>Certainly at times *Brulotte* makes reference to monopoly and competition concerns to justify its result. See 379 U.S. at 32–33. But while Petitioners would suggest that the concern for monopoly “undergirds the entire opinion in *Brulotte*,” Pet. Writ Cert. 21, Dec. 13, 2013, antitrust is not the whole basis for the ruling. Patent policy, which incorporates antitrust policy but also reaches further, is the basis of *Brulotte*.

to patent policy,” for example, but “antitrust tests are not attuned to this type of problem.” Feldman, *supra*, at 448. Thus, “patent misuse should transcend the contours of traditional antitrust law and should concern itself with policy of patent law and the effect on innovation.” Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. High Tech. L. 142, 148 (2010), available at URL *supra* p. viii. Even critics of the patent misuse doctrine still concede that “there may well be areas where the antitrust laws do not deter anticompetitive conduct sufficiently.” Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 Cal. L. Rev. 1599, 1631 (1990), available at URL *supra* p. viii.

Specifically, the *per se* prohibition of attempted patent term extensions in *Brulotte* “seems to be driven by noneconomic concerns about the use of patent law to gain some perceived economic advantages.” *IP and Antitrust, supra*, § 3.3c. Petitioners make much of *Scheiber v. Dolby Laboratories, Inc.*, 293 F.3d 1014 (7th Cir. 2002) (Posner, J.), which argues that *Brulotte*’s rule is incorrect from a competition and antitrust perspective. See Br. Pet’rs 15, 21–22. But even *Scheiber* concedes that its antitrust-based criticisms of *Brulotte* would be “wide of the mark if *Brulotte* had been based on interpretation of the patent clause of the Constitution.” *Cf. Scheiber*, 293 F.3d at 1018. But *Brulotte* is based on that clause of the Constitution, see 379 U.S. at 30 (quoting U.S. Const. art. I, § 8, cl. 8), so *Scheiber* effectively concedes that its antitrust-focused criticism of *Brulotte* is misplaced.<sup>12</sup>

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<sup>12</sup>Certain decisions of the Federal Circuit appear to equate patent misuse and antitrust violations. See, e.g., *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986) (“The doctrine of patent misuse . . . requires that the alleged infringer show . . . anticompetitive effect.”). However, these should be viewed not as ac-

*Illinois Tool Works* does not suggest otherwise. There, the Court determined that, because patent misuse could not extend to a tying arrangement, antitrust could not reach that arrangement either. *See* 547 U.S. at 42. But Petitioners argue the reverse: if antitrust law does not justify *Brulotte*, then patent misuse should not justify it either. *See* Br. Pet’rs 43–45. Petitioners err because they fail to recognize that patent misuse disallows a wider range of activities than antitrust, and accordingly *Illinois Tool Works* is not in conflict with *Brulotte*.

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In sum, antitrust doctrine and the rule of reason are not a right fit for handling the patent policy concerns that motivate *Brulotte* and patent misuse. In view of the language of the Constitution, patent doctrine is strongly concerned with promoting future innovation and ensuring a free post-expiration period of public access; misuse doctrine has evolved to account for these concerns, but general antitrust law has not. The discrepancy in legal basis has resulted in discrepancy between the respective doctrines’ prohibitions. But such discrepancies should not indicate a need for reconciliation; they should rather indicate that different doctrines are needed for different systems. Accordingly, this Court should reject the suggestion to apply rule of reason to patent misuse situations, and uphold *Brulotte*.

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curate statements of the law but rather as examples of the Court of Appeals “defying Supreme Court doctrine” by inventing its own law. *See, e.g.,* Feldman, *supra*, at 419; *cf. Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2130 (2014) (rejecting Federal Circuit’s “insolubly ambiguous” test for § 112(b) as contrary to this Court’s precedents); *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 849–50 (2014) (reversing a declaratory judgment burden shifting rule devised by the Federal Circuit).

### III. EXISTING ANTICOMPETITIVE PATENT PRACTICES DEMONSTRATE THE NEED TO DISALLOW POST-EXPIRATION ROYALTIES

That patent misuse and *Brulotte* serve constitutional purposes beyond what standard antitrust doctrine contemplates is sufficient to maintain *stare decisis* and affirm the Court of Appeals. But even from just an antitrust standpoint, the *Brulotte* rule against post-expiration royalty contracts prevents serious and troubling anticompetitive practices from obtaining. In particular, where “substantial entry barriers or scale economies” keep new entrants out of the market, and where the licensees bound to post-expiration royalties “make up most of the market,” then “it may be possible for the patentee to maintain a hold on the market even after the patent expires,” which would effectively grant the patentee an extension of patent term. *IP and Antitrust, supra*, § 3.3c.

One such particular area is described in detail below.

#### A. HOLDERS OF PATENTS ON STANDARDIZED TECHNOLOGIES COULD EFFECTIVELY MONOPOLIZE THE STANDARDS INDEFINITELY

The anticompetitive effects of overruling *Brulotte* are most clearly demonstrated in the area of “standard-essential patents.” As explained below, permitting post-expiration royalty agreements would enable the holders of these kinds of patents to potentially monopolize certain fields indefinitely, in full contradiction to the limited term of those patents. Furthermore, this fear is likely far from hypothetical, given numerous present examples of standard-essential patent holders attempting to abuse their patents already.

1. A standard-essential patent is one that, by design, is prone to anticompetitive abuse. Such patents arise out of the technology standard-setting process, by which an organization selects among various competing technologies, deeming one of them a “standard.” See U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 34 (2007) [hereinafter FTC-DOJ Report], available at URL *supra* p. x.

Technology standards “one of the engines driving the modern economy,” central to the rapid development of Internet, mobile communications, and computer technologies today. *Id.* at 33. These technologies require multiple, diverse manufacturers to coordinate their development to ensure that their products can communicate with each other in the same language—a concern known as “interoperability”—and standards serve as an anchor point for such coordination. *Id.* Technologies ranging from the commands for transmitting an email message to the structure of a PDF document (both technologies that this Court requires) are specified by standards. See Jonathan B. Postel, *RFC 821, Simple Mail Transfer Protocol* (1982), available at URL *supra* p. ix (email protocol); Int’l Org. for Standardization, *ISO 32000-1:2008: Document Management—Portable Document Format* (2008).

This standards process means that the holder of a patent covering that standardized technology has unusual market power and accordingly unusual opportunity to overreach with that patent. Manufacturers are effectively locked into using the standard, because to deviate from it would prevent their devices from interoperating with devices compliant with the standard. See FTC-DOJ

Report, *supra*, at 36. Thus, every device manufacturer operating within the standard is obliged to take a license for such a “standard-essential patent” or risk an infringement lawsuit. *See id.*

While, for non-standards technologies, a manufacturer can negotiate a patent license with the option of working around the patent should negotiations fail, a manufacturer negotiating with a standard-essential patent owner has no such option. This gives the patent owner market power to raise licensing fees or engage in other monopolistic behavior, creating a substantial competition problem. *See id.*; *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310 (3d Cir. 2007) (holder of a patent on standardized technology is in a “unique position of bargaining power”); *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012) (“[S]tandards threaten to endow holders of standard-essential patents with disproportionate market power.”); *In re Dell Computer Corp.*, 121 F.T.C. 616, 624 n.2 (1996) (“[T]he standard effectively conferred market power upon Dell as the patent holder.”).

2. Overruling *Brulotte* would create a worrying new opportunity for anticompetitive behavior using standard-essential patents. Since every relevant manufacturer would be required to take a license from the holder of a standard-essential patent, the patent holder effectively could be guaranteed full ongoing royalties for whatever duration the patent owner specifies, regardless of the patent term.

A rule of reason analysis would not certainly overcome this possibility of abuse. There is already a general belief that “private standards can have significant procompetitive advantages.” *E.g.*, *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 501 (1988).

Evidence demonstrating anticompetitive use of standard-essential patents is difficult to come by, in large part perhaps because of lack of transparency in the licensing process and the newness of the monopolistic practices involved. *See, e.g., Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1234 (Fed. Cir. 2014) (finding that defendant “failed to provide evidence” of certain anticompetitive theories “sufficient to warrant a jury instruction”). And given the overall difficulties of proving anticompetitive behavior under a pure rule of reason analysis, *see* Br. Resp’t 52–53, it is likely that many post-expiration royalty agreements on standard-essential patents would survive scrutiny even though such a practice is almost certainly always anticompetitive.

Furthermore, this abusive practice would likely be quickly adopted by standard-essential patent holders, in view of their already-known disposition for overreaching with their patent rights. Most standard-setting bodies, attempting to limit anticompetitive behavior through private ordering, require patent holders who participate in the standard-setting process to agree to license their patents under “Reasonable And Non-Discriminatory” (RAND) terms. *See* FTC-DOJ Report, *supra*, at 36. But despite these efforts, owners of standard-essential patents have attempted numerous tactics to evade these RAND obligations, such as demanding unreasonably high royalties despite the obligations, seeking injunctions as leverage for demanding higher royalties, and selling the patents to third parties to circumvent the RAND agreement. *See, e.g., Microsoft*, 696 F.3d at 879; Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 Berkeley Tech. L.J. 1135, 1158–60 (2013).

Should this Court sanction post-expiration royalty contracts, it is practically certain that standard-essential patent holders will add this option to their toolbox of methods for expanding their patent royalties, to the detriment of technology standards, technology development, and the public interest. Such a course would be unwise as a matter of public policy and the consumer interest, and this Court should avoid it.

**B. THIS STANDARD-ESSENTIAL PATENT SITUATION COUNTERS SEVERAL OF THE PROCOMPETITIVE ARGUMENTS MADE BY PETITIONERS**

Besides being an example of a serious antitrust concern that would arise in the absence of *Brulotte*, the standard-essential patent issue rebuts several of Petitioners' arguments for overruling *Brulotte*.

1. Petitioners' primary contention is that a contract for pre- and post-expiration royalties can always be equated with solely pre-expiration royalties at a higher rate. *See* Br. Pet'rs 20–21. But this assumes that the patentee has the option of selecting the higher or lower pre-expiration rate.

For a patent subject to a RAND agreement, the patentee does not have such an option. The “reasonable” component of “RAND” sets a ceiling on the royalty that may be charged to a licensee; to demand more would constitute a breach of contract. *See, e.g., Ericsson*, 773 F.3d at 1231 (“A RAND commitment limits the market value to what the patent owner can reasonably charge for use of the patented technology.” (parentheses omitted)).

Thus, permitting post-expiration royalties would give standard-essential patentees a windfall to which they were never entitled. Under *Brulotte* the patentees would

receive the RAND royalty pre-expiration and nothing post-expiration; absent *Brulotte* the patentees would be free to charge the RAND royalty post-expiration as well. Thus, Petitioners' claim that post-expiration royalties "represent an amortization of the predicted value of the pre-expiration authorization," Br. Pet'rs 20, fails to hold for a commercially significant slice of patents.

2. Petitioners also argue that post-expiration royalty agreements allow parties "to balance and allocate the risks of developing and commercializing new patentable technologies," thereby promoting innovation. *Id.* at 37. That may be true in some situations, but Petitioners seem to indicate that *Brulotte* always impedes innovation in this way. *See* Br. Pet'rs 31 (asserting that "*Brulotte* harms innovation"). Standard-essential patents prove this unqualified statement to be untrue.

As explained above, overruling *Brulotte* would potentially have the effect of transferring additional royalties from manufacturers to standard-essential patent holders, without necessarily a corresponding benefit to manufacturers. This would discourage those manufacturers from developing products under the relevant standard. Besides simply cutting consumers off from products never developed, the decrease in product development would undercut adoption of the standard itself, thereby making the technology—and the standard-essential patents, for that matter—less valuable.

Thus, standard-essential patents demonstrate several of Petitioners' positive predictions of overruling *Brulotte* to be flawed. In view of *Brulotte*'s long history, the certain protections it brings to patent policy, and the uncertain arguments against it, this Court should uphold its precedent and affirm the Court of Appeals.

\* \* \*

“With great power comes great responsibility.” *Spider-Man* (Columbia Pictures 2002) (perhaps referencing *Luke* 12:48). The exclusive rights granted by a United States patent are a great power, and attendant to that power is a great responsibility of the patentee not to misuse the patent right in ways that inhibit future innovation or discourage free use of ideas in the public domain.

The task of ensuring that patentees live up to that responsibility falls to the doctrine of patent misuse, and in this case particularly to the doctrine of *Brulotte v. Thys Co.* For half a century those doctrines have protected the public and defended constitutional patent policy.

Yet now Petitioners ask this Court to replace those strong protections with the rule of reason, a doctrine fit for its antitrust context but ill-suited to the patent policies that misuse serves. They hypothesize possible benefits to competition, but the effect on the patent system is certain: powerful patent actors—patent assertion entities, standard-essential patent holders—will gain new abilities to wield their patents against the public and against the public interest. Those actors will be free to shirk their great responsibility while retaining their great power. This Court should not allow for such a result to come to pass.

Petitioners patented a Spider-Man style device for shooting foam string spiderwebs, that patent being the origin of this case. Petitioners now seek permission to construct never-ending webs of patent royalties, by having this Court overrule *Brulotte*. Lest the entire public be ensnared in the ensuing tangle of patent rights, this Court should refuse to take such a step.

## CONCLUSION

For the foregoing reasons, this Court should affirm the Court of Appeals.

Respectfully submitted,

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