Brulotte's Web

Herbert J. Hovenkamp
University of Pennsylvania Carey Law School

BRULOTTE'S WEB

Herbert Hovenkamp[*]

I. INTRODUCTION

In *Kimble v. Marvel Entertainment*[1] the Supreme Court decided that *stare decisis* required it to adhere to the half-century-old, much criticized rule in *Brulotte v. Thys*.[2] Justice Douglas's *Brulotte* opinion concluded that license agreements requiring the payment of royalties measured by use of a patent after its expiration are unenforceable per se. The court need not inquire into market power nor anticompetitive effects, effects on innovation, and it may not accept any defense. If the agreement bases royalties on post-expiration patent use it is unlawful. Congress can change the rule if it wants to, but has resisted many invitations to do so.

Well-deserved criticism of *Brulotte* came from both subsequent lower courts who felt bound by the Supreme Court decision[3] and also from academic commentary. As these various critics observed, once a patent has expired its discovery enters the public domain. As a result post-expiration royalties cannot serve to increase the duration of a patent's power to exclude. They simply require a wealth transfer from the contracting licensee to the patentee.[4] Second, even for that licensee the *Brulotte* decision was based on a discredited leverage theory of extraction. A licensee's willingness-to-pay for a patent depends on the value of that patent in its own production process. The payment can be spread out over a longer period or a shorter one, but one cannot simply leverage additional royalties by extending the term of payment. A licensee would insist on an offsetting lower royalty as compensation for the longer payout period.[5] Third, extended royalties can often perform an amortization function, decreasing per period costs but spreading them out over a longer period—such as the decision between a 15-year and 30-year mortgage. As the discussion below develops, courts recognized these deficiencies and often construed *Brulotte* narrowly.

In settlement of patent litigation Marvel, owner of the *Spiderman* comic book and movie franchise, purchased a patent from Stephen Kimble. The patent was alleged to read on a hand-held toy "Web Blaster" enabling a child to throw foam strands resembling spider webs. The purchase price was a lump sum plus a 3-percent royalty on future sales to continue indefinitely as long the market for such sales continued.[6] At the time Marvel did not foresee how successful and long lasting the *Spiderman* movie franchise would be, and therefore how long the market for this particular toy would last. Further, none of the negotiating parties were aware of the Supreme

---

* Ben and Dorothy Willie Chair, Professor, University of Iowa College of Law. Email: herbert-hovenkamp@uiowa.edu.

[1] Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401 (2015).

[2] Brulotte v. Thys Co., 379 U.S. 29 (1964).

[3] *E.g.*, Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017 (7th Cir. 2002); Zila, Inc. v. Tinnell, 502 F.3d 1014 (9th Cir. 2007).

[4] Harold See & Frank Caprio, *The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension*, 1990 UTAH L. REV. 813, 846–51.

[5] William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267, 328–29 (1966); 10 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 1782(c)(3) (Aspen 3d ed. 2011).

[6] *Kimble*, 135 S. Ct. at 2406.

Court's *Brulotte* decision making post-expiration royalty provisions unenforceable per se.[7] The Court observed that in *Brulotte* the patentee retained ownership of the patent while charging prolonged royalties, while in *Kimble* the patent was assigned to *Marvel*, but it placed no significance on this fact and "no one disputes that *Brulotte* covers a transaction structured in that alternative way."[8] Upon the patent's expiration Marvel brought a declaratory judgment action seeking to avoid the royalties. In 2013 the Ninth Circuit agreed with the district court that *Brulotte* precluded further payment. While the court was quite critical of the *Brulotte* holding, it concluded that it was bound by the Supreme Court's earlier decision.[9]

The Supreme Court affirmed, noting that it had always regarded a patent's expiration date as a "cut-off" precluding post-expiration enforcement.[10] It conceded that *Brulotte* may bar certain agreements that benefit the parties, such as smaller payments extending for a longer term.[11] However, it also observed that they could often "find ways around *Brulotte*, enabling them to achieve those same ends."[12] For example, royalties could be computed over the term while the patent was in force, but the actual payment could be amortized over a longer term.[13] The Court re-emphasized a distinction that *Brulotte* had made between payments computed by post-expiration sales or usage, which was unlawful, and extended payments that were made for sales or usage that had occurred prior to patent expiration.

The Court also noted that when a device is covered by multiple patents, royalties could run until the "latest-running patent covered in the parties' agreement expires." It then added, however, that if patent rights and nonpatent rights are combined in a single license, then the royalty must be reduced when the last patent licensed under the agreement expires. For example, "a license involving both a patent and a trade secret can set a 5-percent royalty during the patent period (as compensation for the two combined) and a 4-percent royalty afterward (as payment for the trade secret alone)."[14] The Court also observed that *Brulotte* did not impose any bar on joint ventures or other technology sharing ventures that involve joint risk taking.[15]

The Court rejected Kimble's argument that the situation should be governed by something akin to antitrust's rule of reason, evaluating market power and effects on a case by case basis.[16] This would be a significant departure from *Brulotte*'s per se rule, however, and the Court felt bound by *stare decisis*, even if that entails "sticking to some wrong decisions."[17] In this case

---

[7] *Id.*

[8] *Id.* at 2419 n.2.

[9] Marvel Entm't, LLC v. Kimble, 727 F.3d 856 (9th Cir. 2013).

[10] The Court cited as an analogy state statutes that sought to extend protection to articles after their patents had expired or beyond the scope of federal patent law, but which the Court struck down. *E.g.*, Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 230 (1964); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 152, 167–68 (1989); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 237–38 (1964).

[11] *Kimble*, 135 S. Ct. at 2408.

[12] *Id.*

[13] *Id.*

[14] *Id.*

[15] *Id.*

[16] *Id.* at 2409 (quoting 1 HERBERT HOVENKAMP, MARK D. JANIS, MARK A. LEMLEY & CHRISTOPHER LESLIE, IP AND ANTITRUST § 3.2e, at 3-12.1 (2d ed. Supp. 2014)).

[17] *Kimble*, 135 S. Ct. at 2409.

there was no “special justification,” or factor urging the Court to reverse course other than the simple belief that the former case was wrongly decided.[18]

The Court also observed that *stare decisis* is particularly powerful in cases involving statutory interpretation because losing litigants can readily make their case to Congress. In this case they had done so but Congress had “spurned multiple opportunities to reverse *Brulotte*—openings as frequent and clear as this Court ever sees.”[19] After summarizing these opportunities and the actual statutory changes that were made, the Court concluded that “Congress’s continual reworking of the patent laws—but never of the *Brulotte* rule—further supports leaving the decision in place.”[20]

The Court believed that the argument for *stare decisis* was strong in this case because it involved both property (patents) and contracts (licensing agreements)—areas in which reliance interests have traditionally been strong and judicial overruling of prior precedents can be quite disruptive. In fact, the *Brulotte* rule has never “proved unworkable.”[21] Mainly, it catches people such as the present litigants who did not know about it. Also speaking in its favor is its simplicity when compared with the cumbersome rule of reason that Kimble wanted to put in its place, a rule that produces “notoriously high litigation costs and unpredictable results.”[22] As a result “trading in *Brulotte* for the rule of reason would make the law less, not more, workable than it is now.”[23]

The court also rejected Kimble’s argument that *Brulotte* erroneously found competitive harm in post-expiration royalties. First, a long royalty period translates into lower royalties during the patent term. Second, the requirement of post-expiration payments would act as an inducement to new firms to enter the market upon the patent’s expiration.[24] The Court did not disagree that a “broad scholarly consensus” generally supported Kimble’s view about lack of anticompetitive effects. Here, the Court distinguished between antitrust cases, in which a showing of economic misguidance might call for overruling, and a patent case. In antitrust the Court had felt “relatively free to revise our legal analysis as economic understanding evolves” and to reverse old precedents. However the very meaning of antitrust provisions that use language such as “restrain trade” calls for economic analysis. *Brulotte*, however, was a patent case, not an antitrust case.[25] “By contrast with the Sherman Act, the patent laws do not turn over exceptional law-shaping authority to the courts.”[26]

Further, the Court observed, *Brulotte* never really hinged on economic analysis at all. Rather, it employed a “categorical principle that all patents, and all benefits from them, must end when their terms expire.” Thus “patent (not antitrust) policy gave rise to the Court’s conclusion that post-patent royalty contracts are unenforceable—utterly ‘regardless of a demonstrable effect on competition.’”[27]

---

[18] *Id.* at 2415.
[19] *Id.* at 2409.
[20] *Id.* at 2410.
[21] *Id.* at 2411.
[22] *Id.*
[23] *Id.*
[24] *Id.* at 2412.
[25] *Id.*
[26] *Id.* at 2413.
[27] *Id.* (quoting HOVENKAMP, JANIS, LEMLEY & LESLIE, *supra* note 16, § 3.2d, at 3-10.).

Finally, the Court found no factual support for Kimble's argument that a bar on post-expiration royalties operates as a drag on innovation. The Court concluded that it "just cannot say" on the basis of the evidence in front of it:

> Neither Kimble nor his *amici* have offered any empirical evidence connecting *Brulotte* to decreased innovation; they essentially ask us to take their word for the problem. And the United States, which acts as both a licensor and a licensee of patented inventions while also implementing patent policy, vigorously disputes that *Brulotte* has caused any "significant real-world economic harm." Truth be told, if forced to decide that issue, we would not know where or how to start.[28]

Further,

> Claims that a statutory precedent has "serious and harmful consequences" for innovation are (to repeat this opinion's refrain) "more appropriately addressed to Congress." That branch, far more than this one, has the capacity to assess Kimble's charge that *Brulotte* suppresses technological progress. And if it concludes that *Brulotte* works such harm, Congress has the prerogative to determine the exact right response—choosing the policy fix, among many conceivable ones, that will optimally serve the public interest. As we have noted, Congress legislates actively with respect to patents, considering concerns of just the kind Kimble raises. In adhering to our precedent as against such complaints, we promote the rule-of-law values to which courts must attend while leaving matters of public policy to Congress.[29]

Justice Alito (Joined by Chief Justice Roberts and Justice Thomas) dissented. He observed that, whether or not the *Brulotte* rule was justified by antitrust policy, it was clearly not justified by patent policy. "That decision was not based on anything that can plausibly be regarded as an interpretation of the terms of the Patent Act."[30] Rather, it was based on economic theory that had subsequently been "debunked."[31] Further, the decision interferes with the parties' ability to negotiate agreements that reflect the "true value" of a patent:

> Whatever the merits of this economic argument, it does not represent a serious attempt to interpret the Patent Act. A licensing agreement that provides for the payment of royalties after a patent's term expires does not enlarge the patentee's monopoly or extend the term of the patent. It simply gives the licensor a contractual right. Thus, nothing in the text of the Act even arguably forbids licensing agreements that provide for post-expiration royalties.[32]

As a result, *Brulotte* was a "bald act of policymaking"—not simply a case of "incorrect statutory interpretation. It was not really statutory interpretation at all."[33] Further, its economic reasoning had been "soundly refuted" over the intervening 50 years.[34]

[28] *Kimble*, 135 S. Ct. at 2414.
[29] *Id.*
[30] *Id.* at 2415.
[31] *Id.*
[32] *Id.*
[33] *Id.*

The dissenters observed that no language in the patent act expresses any preference as between royalty term agreements that call for higher royalties over a shorter period, as opposed to those calling for lower royalties spread over a longer period. The dissenters, unlike the majority, found policy-based reasons for overruling *Brulotte*. They observed that in the presence of uncertainty about the future value of a patent, parties might prefer to negotiate a lower royalty for the immediate future, but continue payments down the road after the innovation has proven successful. The *Brulotte* rule serves to limit the parties' discretion in ways that will not reflect their full range of risk preferences, thus forcing them to execute suboptimal agreements. "The sort of agreements that *Brulotte* prohibits would allow licensees to spread their costs, while *also* allowing patent holders to capitalize on slow-developing inventions."[35]

The dissent also argued that because neither party had been aware of the *Brulotte* rule their contractual expectations at the time they negotiated the license agreement were "shattered."[36] It even expressed surprise at the majority's suggestion that "some parties have come to rely on *Brulotte*." Of course, as a general proposition negotiating parties are objectively expected to know what the law is, and the *Brulotte* rule is widely cited and nearly always vilified in books about patent law, antitrust law, and licensing. One must expect that most knowledgeable persons involved in negotiating patent licenses know about it.

The dissenters were not persuaded by the majority's distinction between patent and antitrust law. To be sure, "we have been more willing to reexamine antitrust precedents because they have attributes of common-law decisions."[37] But in this case *Brulotte* was not an exercise in serious statutory interpretation. Rather it "was an antitrust decision masquerading as a patent case."[38] As a result it "makes no sense to afford greater *stare decisis* protection to *Brulotte*'s thinly veiled antitrust reasoning than to our Sherman Act decisions."[39]

II. DID *KIMBLE* CHANGE ANYTHING?

Kimble did not address most of the large variety of practices that lower courts have found to implicate *Brulotte*. Over a half century, as the Court indicated, the patent licensing community and the Courts have come to live with *Brulotte*. The best interpretation of *Kimble* is that it left this "*Brulotte* jurisprudence" untouched. *Kimble* involved a license agreement for a single patent, while *Brulotte* involved a license agreement covering twelve patents, of which seven were actually incorporated in the machine that Brulotte purchased. The royalty payment issue arose after all seven patents had expired.[40]

Most of the case law under *Brulotte* has involved agreements that are more complex than a simple license for a single patent. Some have involved multiple patents with different expiration dates. Others have involved license agreements that cover both patents and trade secrets. Some, such as *Brulotte* itself, have involved patents attached to a device. Others have involved a pure

---

[34] *Id.* (citing AREEDA & HOVENKAMP, *supra* note 5, ¶ 1782(c)(3); See & Caprio, *supra* note 4, at 846–51; Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017 (7th Cir. 2002).
[35] *Kimble*, 135 S. Ct. at 2416.
[36] *Id.* at 2417.
[37] *Id.* at 2418.
[38] *Id.*
[39] *Id.*
[40] Brulotte v. Thys Co., 379 U.S. 29, 29–30 (1964).

patent license given to a manufacturer who then embodied the patent(s) in its technology.[41] *Kimble* itself involved an assignment of the patent from the patentee to Marvel, who then licensed out the manufacture of the Spiderman hand covered by the patent. The perpetual payments that the contract called for were strictly speaking not a license at all, but rather the purchase price of the assigned patent.

In addition, the courts have considered whether *Brulotte* applies to such agreements as a patent license that requires a royalty on the licensee's output of some product made with the patented device or process. That product might be unpatented or it might be covered by different patents than the ones subject to the challenged agreement. In any event, the dispute arises when the patents on the device or process expire, but the agreement calls for ongoing royalties on the products made with it.

A. *Kimble* and "Hybrid" IP Transactions

The *Kimble* decision stated:

> Under *Brulotte*, royalties may run until the latest-running patent covered in the parties' agreement expires.[42] Too, post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent.[43] That means, for example, that a license involving both a patent and a trade secret can set a 5% royalty during the patent period (as compensation for the two combined) and a 4% royalty afterward (as payment for the trade secret alone).[44]

While the passage does not say that royalties may run *without diminution* until the last patent in the package expires, *Brulotte* had suggested as much and that is how the lower courts have interpreted it.[45] By contrast, if non-patent rights are included in the package, then there must be a downward adjustment in the royalty when the last patent expires. The *Kimble* decision did not consider what should happen if the contract does not require an adjustment.

What the *Kimble* Court stated is consistent with the case law under *Brulotte*: the parties could negotiate a license for one or more patents and a trade secret that specified a particular royalty reduction when the last patent expires.[46] But what if the contract says nothing? Must a court assess and write down the royalty reduction? Or simply deny the licensor the right to collect any royalties at all? Most courts conclude the latter: if the agreement does not specify a reduction when the last patent expires, royalties are no longer recoverable for the remaining trade secret.[47]

---

[41] *E.g.*, Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017 (7th Cir. 2002) (discussing patents for "surround sound" technology that were licensed to the manufacturer); Zila, Inc. v. Tinnell, 502 F.3d 1014, 1021 (9th Cir. 2007).

[42] Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2408 (2015) (citing *Brulotte*, 379 U.S. at 30).

[43] *Id.* (citing 3 ROGER M. MILGRIM, MILGRIM ON LICENSING § 18.07, at 18-16 to -17 (2011)).

[44] *Id.*

[45] *E.g.*, GAF Corp. v. Eastman Kodak Co., 519 F. Supp. 1203, 1237 (S.D.N.Y. 1981) (approving package license that did not reduce rate as patents expired, but also did not call for any royalty after expiration of the final patent).

[46] *See, e.g.*, Modrey v. American Gage & Mach. Co., 339 F. Supp. 1213, 1217–18 (S.D.N.Y.1972), *rev'd on other grounds*, 478 F.2d 470, 474–75 (2d Cir. 1973) (upholding hybrid patent/trade secret agreement that required a royalty reduction when the patent expired).

[47] *E.g.*, Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365 (11th Cir. 1983) (ruling that a hybrid agreement containing both patents and trade secrets and not providing for a royalty reduction was unenforceable

If a license agreement on sales of a patented product provides for a reduction in the royalty when the last patent expires, may the remaining royalty be enforced as a simple license on the sale of the product? At least one court has said no.[48] That may make some sense in the world that *Brulotte* creates, provided that no other IP rights were in issue. If the product had simply been unpatented, then the licensee could have made it without any license at all. The fact that it was patented when the license was negotiated, however, gave the patentee leverage to require the longer running royalty stated to run for 25 years. This suggested that the patentee was using the leverage of the patent. Another decision queried whether in joint licensing of a patent and a trademark the licensor used the patent as additional leverage.[49] That approach seems wrongheaded.[50] All license negotiations involve "leverage" in the sense that the licensor tries to obtain as much as possible while the licensee tries to pay as little.[51]

The idea that a hybrid license on a patent and a trade secret should call for a royalty reduction when the last patent expires makes some intuitive sense in *Brulotte*'s world if we think of the patent as bread and the trade secret as butter—that is, two complementary products that a buyer values independently. The two together are much more valuable than either one standing alone. A fallacy in this approach is that there is little reason for thinking that a process is worth more to a licensee when it is covered by both a patent and a trade secret than when it is covered by only a single right. What the licensee wants is access to a technology that reduces its costs or improves the quality of its output. Those numbers are determined by market value and product competition, and are not obviously affected by the number and kind of IP rights that they embody. For example, the price I am willing to pay for a patented weed killer for my back yard depends on the price and availability of alternatives and how much I am willing to pay for a weedless yard. My willingness to pay is not higher because I know that production of the weed killer is protected by a trade secret as well as a patent. In that case the *Kimble*-authorized royalty reduction when the patent in this patent/trade secret license drops out is simply a device for complying with *Brulotte*, not something that reflects a reduction in value that occurs when the patent drops out of the picture.

Of course, the patent and the trade secret might cover two different, severable things. For example, the process for producing the weed killer might be protected by a trade secret while the resulting product itself might be patented. In that case the value of the trade secret after the patent expires will depend on the viability and number of alternative processes for producing the same product, which is now in the public domain. If the trade secret is iron clad—that is, if there

---

once the last patent had expired); *see also* Zila, Inc. v. Tinnell, 502 F.3d 1014, 1021 (9th Cir. 2007) (dicta suggesting that contract is unenforceable "unless it provides a discount from the alternative, patent-protected rate"); Portney v. CIBA Vision Corp., 593 F. Supp. 2d 1120 (C.D. Cal. 2008).

[48] Veltman v. Norton Simon, Inc., 425 F. Supp. 774 (S.D.N.Y. 1977). The agreement on a medical compound provided for a 5-percent royalty while the two patents were in force, but a reduction to 3 percent after. *See also* Rocform Corp. v. Acitelli-Standard Concrete Wall, 367 F.2d 678, 681 (6th Cir. 1966) (finding patent misuse). The licensee of the desired patent was required to take other longer-lived patents as well. When the high-value patent expired, the royalty was not reduced and the licensee was not permitted to terminate. The dissenter would have required proof of power. *Id.*

[49] Baladevon, Inc. v. Abbott Labs., Inc., 871 F. Supp. 89, 95–96 (D. Mass. 1994).

[50] Industrial Promotion Co. v. Versa Prods., Inc., 160 Wis. 2d 916, 923, 467 N.W.2d 168, 172 (1991) (describing great difficulty in making such a determination).

[51] *Cf.* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 141 (1969) (Harlan, J., dissenting) (observing how difficult it would be to go through past negotiations in order to determine whether a patent was being used as leverage).

are no known alternatives for making this product—then the trade secret might be worth just as much alone as the combination of a patent and trade secret were together. The *Brulotte* rule assumes, incorrectly, that the combination of a patent and a trade secret is always worth more than the trade secret standing alone.

Brulotte itself recognized that when patents are licensed in packages, as opposed to the combination of a patent and a trade secret, then no royalty reduction is called for as long as at least one patent in the package remains valid. This answer is critical, because licensing of patents in packages is much more common today than it was when *Brulotte* was decided, particularly in information technologies. Technology pools or standard setting arrangements often involve large numbers of licensed patents, many of which have never been evaluated in litigation. Further, they do not appear to fit within *Kimble's* acknowledged exception for joint ventures of multiple parties who are developing "an invention."[52] For example, the MPEG LA pool contains more than 5,000 patents related to digital video creation, dissemination, and display.[53] Each licensee individually has a product line, which includes everything from digital cameras (independent and contained in cellphones), televisions, computer monitors and other display devices, digital editing software, and storage devices. Some licensees are competitors; others are producing complementary products. For the most part they are not engaged in joint production of products. Licensee members pay a scheduled royalty for indemnified access to the patents in the pool, or some subset of it. On a rolling basis new patents come into the pool while others expire and there is no instant when there are no unexpired patents in the pool. As a result, the *Brulotte* rule should never apply.

Brulotte itself had concluded that the agreement could not be enforced "after the last of the patents incorporated into the machines had expired."[54] It then cited *Automatic Radio*—a decision from which Justice Douglas had dissented—for the proposition that although some of the patents in the blanket license at issue had expired, not all of them had. As a result the Court upheld that agreement without requiring any royalty reduction upon individual patent expiration.[55]

Automatic Radio, which had been decided in 1950, involved a package license of 570 patents, which was very large for that day.[56] Hazeltine Research, the patentee, was a non-practicing entity[57] engaged in researching and licensing technology for radios. Its business method was to charge radio manufacturers a 1-percent royalty on its entire patent portfolio on a rolling basis. As patents expired they were dropped but as new patents were approved they automatically became part of the pool.[58] The entire package was licensed at a single price, with no attempt to allocate royalties among individual patents. Manufacturer Automatic Radio had challenged this arrangement by comparing it to antitrust tying: it complained that it was forced to take the patents it did not want as a condition of obtaining those that it did.[59] The Court observed and approved the conclusion of both lower courts that the package license "was a convenient

---

[52] Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2408 (2015).

[53] *See A History of Success—A Future in Innovation*, MPEG LA, http://www.mpegla.com/main/Pages/AboutHistory.aspx.

[54] Brulotte v. Thys Co., 379 U.S. 29, 30 (1964).

[55] *Id.* at 32 (discussing Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950)).

[56] *Automatic Radio*, 339 U.S. at 829 (referring to 570 patents and 200 applications).

[57] *Id.* at 831 ("Hazeltine does not even manufacture or sell goods; it is engaged solely in research activities.").

[58] *Id.* at 829 (noting that the license referenced "any or all of the patents which respondent held or to which it might acquire rights").

[59] *Id.* at 833.

mode of operation designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents."[60] Further, the Court concluded, simply fixing the royalty as a percentage of each licensee's total sales was "the most convenient method of fixing the business value of the privileges granted."[61]

In sum, the best reading of *Brulotte/Kimble* is that the post-expiration royalty problem does not arise until the moment that a license agreement no longer contains any unexpired patents. It does not matter if the patents in question were explicitly covered when the agreement was created or whether they were added later.

Automatic Radio also indicates that *Brulotte* does not apply to contractual determination of the royalty base. For example, a patentee might base its royalty on a total product sales price even though the patented technology is only a small part of the product. The courts have consistently agreed, for both devices and process patents, and nothing in *Kimble* changes that outcome.[62]

As a drafting matter, the trick for agreements involving multiple IP rights is to load as much of the royalty as possible on the rights that will last the longest time. For example, a license that placed all the royalties on the trade secret and permitted such licensees to practice the patent without royalty would not face a *Brulotte* issue.

B. Patent/Device Combinations

A second type of "hybrid" transaction is the combination of a patent and a device that embodies the patent. As a general proposition the purchase of a device covered by patents includes an implied license to practice the patents consistent with the ordinarily anticipated uses of that device.[63] For example, the purchaser of a patented weed killer receives an implied license to practice the invention by applying it to her yard. That implied license does not include the right to duplicate the compound and sell it to others. Often sales or lease transactions for goods covered by patents make no reference to patents and do not charge a separate royalty. That is so even for devices that might incorporate large numbers of patents, such as a computer, smartphone, or automobile. Not even the most expansive reading of *Brulotte* contemplates a price reduction upon patent expiration in these cases. That is even true of leases with ongoing payment obligations, and even when the payment is metered to usage, thus making it resemble a patent license. For example, the lease of a truck at a rate of $2,000 per year plus 10 cents per mile is not likely to make explicit reference to any patents. No court has required that the lease rate be reduced as various patents embodied in the truck expire, even if the truck reaches 20 years old and all of them have expired.

---

[60] *Id.* (citing Hazeltine Research, Inc. v. Automatic Radio Mfg. Co., 77 F. Supp. 493, 496 (D. Mass 1948)).

[61] *Id.* at 834.

[62] *E.g.*, Hull v. Brunswick Corp., 704 F.2d 1195 (10th Cir. 1983) (upholding a license basing royalties on the full price of a fishing reel even though patent covered only a small component) (not implicating *Brulotte* because at least one licensed patent was in force during the entire time that royalties were paid); Miller Insituform, Inc. v. Insituform of N. Am., Inc., 605 F. Supp. 1125 (M.D. Tenn. 1985), *aff'd*, 830 F.2d 606 (6th Cir. 1985) (not implicating *Brulotte* by patent arrangement calling for royalty based on entire price of sewer cleaning service, including labor, where a patented process was a small portion of the entire service).

[63] *E.g.*, Met-Coil Sys. Corp. v. Korners Unlimited, Inc., 803 F.2d 684 (1986); General Electric Co. v. Continental Lamp Works, 280 F. 846 (2d Cir. 1922).

In *Zila* the Ninth Circuit observed that *Brulotte* had involved "the sale of a physical machine along with a use license." As a result, *Brulotte* clearly applied to at least some combinations of the sale of a patented good and a patent license.[64] The facts of *Brulotte* don't quite support the Ninth Circuit's characterization, however. As stated by the Washington Supreme Court:

> The plaintiff Thys Company, of which Mr. Edouard Thys, an inventor, was and is the president, holds numerous duly issued patents on mechanical hop-picking machines. The defendants are hop farmers who purchased portable hop-picking machines from sellers other than the plaintiff. In connection with the purchase of these machines, which embodied devices patented by the plaintiff, each defendant agreed to pay the plaintiff royalties for the use of his machine for a period which was to end 17 years after the date the machine was first sold by the plaintiff. The royalties were to be paid at the rate of $3.33 1/3 per two hundred pounds of hops harvested with the machines, and in any event a minimum royalty of $500 per year was to be paid for the use of each machine.[65]

In other words, the arrangement in this case resembled a reach through royalty by a separate patentee rather than a sale by a manufacturer of a machine that embodied the manufacturer's own patent. Edouard Thys was an inventor and the owner of Thys Iron and Steel Foundry in Sacramento. His father-in-law was a hops farmer with extensive land holdings.[66] The principal patent, which Thys apparently licensed to manufacturers, was for a device that separated the useable part of the hops plant from stems and other debris.[67] Under the arrangement the manufacture was merely an intermediary with respect to the patent.

In *Kimble*, by contrast, Marvel actually acquired the patent by assignment and the purchase price called for indefinite royalty-like payments as long as the patent was practiced. The Court observed that no one had disputed that *Brulotte* applied to this transaction.[68] In fact, however, Marvel was not licensing a patent. Rather it was paying a purchase price predicated on the number of uses that would be made of the patent for the commercial life of the product to which it was attached. Neither *Brulotte* nor *Kimble* involved the "classic" story of the sale of a device combined with a separate per use license for a patent that read on the device.

Once again, the drafting trick is to load the price onto the device instead of the patent. If the *Brulotte* transaction had simply been restructured as a purchase of the hop-picking machine at a price that depended on usage, no patent issue would have arisen. Of course, that might be difficult to do when the patentee and the manufacturer are separate entities.

Product prices that vary with usage can be valuable second degree price discrimination devices, enabling the seller of the machine to obtain different rates of return from different buyers. In second degree price discrimination a seller puts out a price schedule and purchasers "select" the price, typically by their amount of usage. Second degree price discrimination can increase output by reaching more marginal customers who would not purchase otherwise. In

[64] Zila, Inc. v. Tinnell, 502 F.3d 1014, 1021–22 (9th Cir. 2007).
[65] Thys. Co. v. Brulotte, 62 Wash. 2d 284, 285–86, 382 P.2d 271, 272 (1963).
[66] *See Thys Iron and Steel Foundry*, SACRAMENTO PUB. LIBRARY, http://cdm15248.contentdm.oclc.org/cdm/ref/collection/p15248coll1/id/1060 (providing brief biographical information).
[67] U.S. Patent No. 2,139,046 (filed June 17, 1936).
[68] Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2419 n.2 (2015).

such cases it very likely increases economic welfare as well.[69] The alternative, third degree price discrimination, is typically inferior. Under third degree price discrimination the seller must identify ex ante who places a higher value on the device, segregate the customers by groups, and then charge them different prices. Third degree price discrimination can also be efficient when it increases output, but it rarely results in so precise a result as per use prices do.[70]

C. "Leveraged" Patent Packages

In *Brulotte* both the majority opinion[71] and Justice Harlan's dissent[72] spoke about the use of a patent to "leverage" additional royalty payments. As a general proposition, today leverage theories are in disrepute. When two goods are complements, such as a machine and a patent license needed to operate the machine, willingness to pay depends on the buyer's value for the combination. In this case the license to practice the patent is valuable to the hop farmer only if attached to the machine, and while under patent the machine has no value without a license to practice the patent. Because the buyer needs both, its willingness to pay for one is determined by the price of the other. Ordinarily a buyer will pay more for a leveraged complementary product only if it receives an offsetting discount on the other product.[73]

The peculiarities of the *Brulotte* rule create leveraging possibilities, however. For example, suppose a licensee would like to license a patent with three years remaining. The patentee has recently patented a secondary invention that still has 15 years remaining. Leveraging is possible in this situation if the parties' anticipate that the licensee will be more profitable in the future than it is currently. The patentee insists on bundling the two together in order to take advantage of *Brulotte's* rule that no royalty reduction is called for until the last patent in the package expires. In an extreme case the licensee may place no value at all on the second patent, not even intending to practice it in its technology. In *Rocform* the Sixth Circuit found patent misuse when the owner of a highly desired patent required licensees to take longer-lived patents as well, with no reduction in royalties when the desired patent expired. A dissenter would have required proof of market power.[74]

The Patent Misuse Reform Act of 1988 effectively codifies the dissent's position. That statute permits a challenge to someone who has "conditioned the license of any right to the patent . . . on the acquisition of a license to rights in another patent" only if the licensor has "market power in the relevant market for the patent . . . on which the license . . . is conditioned."[75]

---

[69] *See* Erik N. Hovenkamp & Herbert Hovenkamp, *Tying Arrangements*, *in* 2 OXFORD HANDBOOK OF INTERNATIONAL ANTITRUST ECONOMICS 329 (Roger D. Blair & D. Daniel Sokol eds., Oxford Univ. Press 2015).

[70] *Id.*

[71] Brulotte v. Thys Co., 379 U.S. 29, 33 (1964).

[72] *Id.* at 36 (Harlan, J., dissenting).

[73] Ward Bowman, *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19, 21–23 (1957); *see also* Richard Markovits, *Tie-Ins, Reciprocity and the Leverage Theory*, 76 Yale L.J. 1397 (1967); AREEDA & HOVENKAMP, *supra* note 5, ¶ 1782(c)(3).

[74] Rocform Corp. v. Acitelli-Standard Concrete Wall, 367 F.2d 678, 681 (6th Cir. 1966).

[75] 35 U.S.C. § 271(d)(5).

D. Reach-Through Royalties

Both *Brulotte* and *Kimble* make clear that the post-expiration rule applies only to royalties that are *measured* by reference to post-expiration production or use.[76] The rule does not apply when payments stretch out beyond the patent's expiration but the obligation in question was accrued prior to expiration. For example, suppose that a patent license called for royalties of 3 percent of sales for the life of the patent, but during that period payment was limited to 2 percent of sales. Upon the patent's expiration roughly one-third of this obligation would remain unpaid, but no royalties are being accrued during the post-expiration period. Under *Brulotte*, the remaining royalties-in-arrears could be paid. By contrast, if the agreement simply called for ongoing payment of 2 percent of sales for 25 years, then the contract would no longer be enforceable upon the patent's expiration and the licensee would have no obligation to pay royalties after that point.

This is one area where the *Brulotte* rule has the potential to limit efficient risk sharing behavior. Researchers in some areas often require costly patented research tools, or inputs, that may produce considerable value once a successful product has been developed. One example is Harvard University's legendary OncoMouse, a patented, genetically engineered mouse that was particularly useful in cancer research.[77] At the time the mouse is needed the research in question is still in progress and with an uncertain outcome. The research might succeed in producing a highly valuable drug but there is also a high chance that it will fail. A rational way to price out such an asset is conditionally, perhaps with little or no royalty up front during the research period, but with a substantial royalty down the road if the research project should succeed.[78] Depending on the age of the patent and the timeline for the project, this could easily contemplate the payment of royalties on the pharmaceutical drug long after the patent on the OncoMouse expires. In that case royalties are charged beyond the expiration of the patent, but they are measured by the sale of the innovated product, often a pharmaceutical drug. While the pharmaceutical drug is very likely also patented, it is not the same patent as the one on the OncoMouse.

In the *Bayer* case the court rejected the licensee's argument that *Brulotte* precluded royalties on the resulting product once the patent on the research product expired.[79] It reasoned that the royalties paid on the product were actually compensation for use of the research tool, and the research had been completed prior to the patent's expiration. Nevertheless, one of the royalty

---

[76] *See* Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2408 (2015) ("A licensee could agree, for example, to pay the licensor a sum equal to 10 percent of sales during the 20-year patent term, but to amortize that amount over 40 years."); *Brulotte*, 379 U.S. at 30 ("The royalty payments due for the post-expiration period are by their terms for use during that period, and are not deferred payments for use during the pre-expiration period.").

[77] *See* Rebecca S. Eisenberg, *Noncompliance, Nonenforcement, Nonproblem? Rethinking the Anticommons in Biomedical Research*, 45 HOUS. L. REV. 1059 (2008); Richard Li-dar Wang, *Biomedical Upstream Patenting and Scientific Research: The Case for Compulsory Licenses Bearing Reach-Through Royalties*, 10 YALE J.L. & TECH. 251 (2008).

[78] *See* Christopher Anderson, *Researchers Win Decision on Knockout Mouse Pricing*, 260 SCIENCE 23 (1993).

[79] Bayer AG v. Housey Pharms., 228 F. Supp. 2d 467 (D. Del. 2002); *see also* Christina Bohannan, *IP Misuse as Foreclosure*, 96 IOWA L. REV. 475 (2011).

provisions in question did provide for a "royalty for sales of pharmaceutical products discovered using the subject invention."[80]

A lively debate has emerged about the economics of reach through royalties, with some believing that they contribute to a patent "thicket" that is difficult for researchers to negotiate,[81] and others arguing that they constitute a reasonable form of risk sharing.[82] That issue is a serious one and should never be addressed by any rule as ham handed as the *Brulotte* per se rule against post-expiration royalties. In fact, the risk-sharing argument makes a great deal of sense. If the owner of the OncoMouse patent had simply contributed a large amount of research cash up front in exchange for a stated percentage of sales of a successful product, the transaction would raise no patent law issues and there is little reason for thinking a court would invalidate it.

III. MAKING ANTITRUST POLICY VIA PATENT LAW: MISUSE

Procedurally, neither *Brulotte* nor *Kimble* was a patent misuse case. Misuse is raised as a defense to a patent infringement claim and, when it succeeds, makes the patent unenforceable against all infringers until the misused is "purged."[83] By contrast, *Brulotte* arose as a defense to a state law breach of contract claim seeking to recover unpaid patent royalties.[84] *Kimble* was a declaratory judgment action seeking to have *Brulotte* applied to the Kimble/Marvel license agreement.[85]

Nevertheless, *Brulotte* has often been likened to patent misuse, and for good reason. Although *Brulotte* is not an antitrust case, its stated rationale seems to rest more on competition policy than on anything articulated in patent policy. That is also true of most cases of patent misuse. Justice William O. Douglas, *Brulotte's* author, certainly thought so. He compared the *Brulotte* royalty extension to a tying arrangement in which the patentee attempted to leverage additional royalties by conditioning a license for the term of the patent on the licensee's agreement to continue paying royalties after the patent expired. In the process it was attempting to enlarge the scope of the lawful patent monopoly.[86]

Today consensus is widespread that patent misuse doctrine seriously exaggerated the social harm that might result from certain patent licensing practices, particularly tying arrangements and related practices where an antitrust-style structural analysis would indicate no competitive harm.[87] That was equally true of *Brulotte*'s per se rule. In the great majority of cases *Brulotte* forecloses arrangements that would otherwise benefit both parties and not injure anyone else—particularly in cases where extended payments serve to amortize or stretch out obligations. As so

---

[80] *Bayer*, 228 F. Supp. 2d at 468.

[81] Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698 (1998); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399 (2003).

[82] *E.g.*, Bohannan, *supra* note 80; CHRISTINA BOHANNAN & HERBERT HOVENKAMP, CREATION WITHOUT RESTRAINT: PROMOTING LIBERTY AND RIVALRY IN INNOVATION 282–85 (Oxford Univ. Press 2012).

[83] Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 491 (1942); *see also* AREEDA & HOVENKAMP, *supra* note 5, ¶ 1781.

[84] *See* Thys Co. v. Brulotte, 62 Wash. 2d 284, 382 P.2d 271 (1963) (approving and enforcing the royalty agreement).

[85] *See* Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2406 (2015).

[86] Brulotte v. Thys Co., 379 U.S. 29, 33 (1964); *see also* Herbert Hovenkamp, *The Rule of Reason and the Scope of the Patent*, 53 SAN DIEGO L. REV. (forthcoming 2016).

[87] *E.g.*, *Morton Salt*, 314 U.S. 488; Carbice Corp. of Am. v. Am. Patents Dev. Corp., 283 U.S. 27, 29 (1931).

many patent misuse cases, it found patent licensing conduct to be anticompetitive without ever considering how the conduct excluded anyone or facilitated market wide price fixing.

Kimble should not be read, however, as a call for a general revival of patent misuse doctrine. Indeed, the Court indicated its disapproval of the antitrust economics that seemed to be inherent in *Brulotte*. This was a *stare decisis* decision, pure and simple.

IV. AVOIDING THE FEDERAL QUESTION

The *Brulotte* rule is strictly a creature of federal patent law. As noted earlier, the fact that *Brulotte* came to the court via a state law contract suit makes it unusual, giving the Supreme Court an opportunity to make federal patent policy out of a transaction historically within the domain of state commercial law. Given that the Patent Act itself says almost nothing about the permissible terms of licensing agreements, *Brulotte* represented a significant expansion of federal patent jurisdiction.

Although *Brulotte* is clearly part of patent law—a point that *Kimble* re-emphasized[88]—*Brulotte* issues are not ordinarily within the exclusive jurisdiction of the Federal Circuit because the cases do not typically arise under 35 U.S.C.[89] *Kimble* itself came from the Ninth Circuit, and Judge Richard Posner's *Scheiber* decision severely criticizing but following *Brulotte* came through the Seventh Circuit.[90] This is also in contrast to ordinary patent "misuse" law. Because claims of patent misuse are nearly always asserted as defenses to patent infringement suits, today the Federal Circuit hears nearly all of them.

Nonetheless, *Brulotte* acquires its federal status only because a patent is present. The decision expressly distinguished situations "where non-patented articles are marketed at prices based on use."[91] It also stated that:

> The sale or lease of unpatented machines on long-term payments based on a deferred purchase price or on use would present wholly different considerations. Those arrangements seldom rise to the level of a federal question.[92]

This language has turned out to be important because *Brulotte* was making *patent* policy, an area traditionally subject to exclusive federal jurisdiction, at least since the 1830s.[93] As a result, the best way to avoid *Brulotte* altogether is to avoid the patent. This became clear a little more than a decade after *Brulotte* when the Supreme Court decided the *Aronson* case.[94] The licensee had agreed to pay a relatively high royalty on the licensor's key holder, which was subject to a patent application. The parties also agreed that if no patent issued within five years the royalty rate would be lower. In fact, the PTO rejected the application on nonobviousness grounds, the Eighth

---

[88] *See Kimble*, 135 S. Ct. at 2413.

[89] *See* 28 U.S.C. § 1295 (giving the Federal Circuit exclusive jurisdiction arising under "any Act of Congress relating to patents or plant variety protection").

[90] Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1017 (7th Cir. 2002).

[91] *Brulotte*, 379 U.S. at 32.

[92] *Id.*

[93] *See* Herbert Hovenkamp, *The Emergence of Classical American Patent Law* (University of Iowa Working Paper, 2015), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625596.

[94] Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979).

Circuit affirmed, and no patent ever issued.[95] That left the licensee with a royalty obligation that ran for the commercial life of the product. The Supreme Court held that since no patent had ever issued *Brulotte* did not apply. Rather, the challenged licensee agreement was merely a contract, which "traditionally are the domain of state law" even if "the contract relates to intellectual property which may or may not be patentable."[96] Lower courts have generally confined *Quick Point* to situations where no patent issued. A few have even indicated that the contract *must* provide for a lower royalty rate if the patent does not issue than if it does.[97] The Ninth Circuit characterized that as an overreading of *Brulotte*.[98]

So another oddity of *Brulotte* is that an inventor can actually obtain greater royalties if it patent application fails than if it succeeds. So far, apparently no one has intentionally abandoned a patent application after entering a contract such as the one in *Aronson*, although the incentive is clear, at least in cases where the market is unlikely to be flooded with competitors.

V. JOINT VENTURES AND OTHER TECHNOLOGY SHARING ARRANGEMENTS

The *Kimble* decision defended the *Brulotte* rule as being "simplicity itself to apply." All a court must ask is "whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice."[99] On the particular facts of *Brulotte* and *Kimble* that may be true, but as this article suggests the Court was overlooking many complicating factors that the lower courts have had to confront over the half century since *Brulotte* was decided.

Kimble also held that the *Brulotte* rule "poses no bar to business arrangements other than royalties—all kinds of joint ventures, for example—that enable the parties to share the risks and rewards of commercializing an invention."[100] This exception seems odd, given that there is virtually no case law applying *Brulotte* to technology sharing within joint ventures.[101] Justice Kagan was apparently thinking of a joint venture to develop a particular patented device. For example, the well known *Berkey Photo* antitrust decision in the Second Circuit involved a joint venture between Kodak and General Electric to develop a disposable flash cube for a small compact camera.[102] Depending on who did the production and marketing, such an agreement would very likely involve cross licensing of patents. *Kimble* may then stand for the proposition that as long as production of such a device developed or produced jointly continues, underlying financial arrangements may continue, even if some of them take the form of royalties on now expired patents. Or to state it differently, *Brulotte* applies when the relationship between the

[95] Quick Point Pencil Co. v. Aronson, 567 F.2d 757, 760 (8th Cir. 1977), *rev'd on other grounds*, 440 U.S. 257 (1979). The Supreme Court did not upset the finding of patent invalidity.

[96] Aronson, 440 U.S. at 261–62.

[97] Meehan v. PPG Industries, Inc., 802 F.2d 881, 884–85 (7th Cir.1986); Boggild v. Kenner Products, 776 F.2d 1315, 1319–20 (6th Cir.1985) (applying *Brulotte* even though the patent had not yet been issued when the license agreement was executed and the agreement was made contingent on the issuance of the patent); Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365, 1372–74 (11th Cir. 1983).

[98] Zila, Inc. v. Tinnell, 502 F.3d 1014, 1021 (9th Cir. 2007).

[99] Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2411 (2015).

[100] *Id.* at 2408.

[101] A possible exception is R.T. French Co. v. Commissioner of Internal Revenue, 60 T.C. 836 (1973) (ruling on deductibility of royalty payments made in context of joint enterprise). Another possible exception is Tres Tech. Corp. v. Carefusion Corp., No. 3:13-cv-04033, 2014 WL 2438374 (N.D. Tex. May 29, 2014).

[102] Berkey Photo, Inc. v. Eastman Kodak Co., 603 F.2d 263, 301 (2d Cir. 1979).

parties is as licensor and licensee and there is no additional integration of research, production, or distribution.

Reach through royalties of the kind approved in the *Bayer* case, discussed above, could also fall into the category of joint ventures as well without too much linguistic overreaching. Contractual provision of a research input is certainly joint innovative activity. If that is so there is no good reason why royalties on the secondary product could not extend indefinitely, even after the patent on the research input expired.

VI. PRECEDENT: PATENT VS. ANTITRUST LAW

The *Kimble* majority made the sensible point that the Patent Act is a detailed code that Congress amends frequently. As a result, "the patent laws do not turn over exceptional law-shaping authority to the courts."[103] By contrast, the highly general formulations of the Sherman Act are very little more than an authorization to pursue anticompetitive conduct, saying very little about how to identify or remedy it. The Court's antitrust "rulings necessarily turned on its understanding of economics."[104] As a result, the Sherman Act has been much more responsive to changes in economic theory than the Patent Act, and the "Court has viewed *stare decisis* as having less-than-usual force in cases involving the Sherman Act."[105] For this reason the Court has felt less bound by *stare decisis* in antitrust cases, and freer to abandon doctrines later considered to be obsolete. In the case of patent doctrine that parties disagreed with, they can always "take their objections across the street, and Congress can correct any mistake it sees."[106]

The Court observed that Congress had "spurned multiple opportunities to reverse *Brulotte*," providing a good sized list. Perhaps the most compelling of these is the 1988 Patent Misuse Reform Act,[107] which provided that unilateral refusals to license or ties in the absence of market power could be neither misuse nor "illegal extension of the patent right," a phrase widely interpreted as being a reference to antitrust law.[108] However, Congress chose not to add an additional provision addressed to royalty extensions. As the Court summarized, "Congress's continual reworking of the patent laws—but never of the *Brulotte* rule—further supports leaving the decision in place."[109]

The Court also suggested that *Brulotte* itself was not a case about competitive harm, real or imagined. The Court's opinion "did not undertake to assess that practice's likely competitive effects. Instead, it applied a categorical principle that all patents, and all benefits from them, must end when their terms expire."[110] As a result, Brulotte was a creature of patent policy, not of antitrust. That brought a loud objection from Justice Alito in dissent, who complained that if *Brulotte* was an interpretation of the Patent Act, where was the provision that the Court was

[103] *Kimble*, 135 S. Ct. at 2413.

[104] *Id.*

[105] *Id.* at 2418 (citing State Oil Co. v. Khan, 522 U.S. 3, 20–21 (1997) (overruling an antitrust rule condemning maximum resale price maintenance under the per se rule)).

[106] *Id.* at 2409.

[107] Act of Nov. 19, 1988, § 201, 102 Stat. 4676 (codified at 35 U.S.C. § 271(d)(4) to (d)(5)) (limiting misuse law so as to exclude unilateral refusals to deal and tying in the absence of market power, but saying nothing about *Brulotte*).

[108] *E.g.*, Illinois Tool Works, Inc. v. Independent Ink, Inc., 547 U.S. 28 (2006).

[109] *Kimble*, 135 S. Ct. at 2410.

[110] *Id.* at 2413 (citing Brulotte v. Thys Co., 379 U.S. 29, 30–32 (1964)).

interpreting? Other than expressly permitting licenses,[111] the Patent Act says next to nothing about the specific provisions contained in license agreements, including the size of the royalty or how long the agreement can run. Judge Posner stated similar sentiments in *Scheiber*, which followed but severely criticized *Brulotte*. He concluded that the decision could not be interpreted as a construction of either the Constitution's IP Clause or the Patent Act. Rather it was a "free-floating product of a misplaced fear of monopoly."[112]

Justice Douglas had seen it differently, however. He had stated in *Brulotte* that:

> A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent 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.[113]

The Court had held nearly 20 years earlier that tying arrangements involving patented tying products were also illegal per se.[114] Only three years prior to *Brulotte* it had extended the per se rule to block booking, a form of tying of motion pictures.[115] So it was not so clear, at least in Justice Douglas's mind, that this case was merely about patent boundaries. Rather, he saw it as a simple variant on antitrust tying law, which was already under the per se rule. Douglas himself had done something similar in the two Mercoid cases that came before the Court in the 1940s. In *Mercoid I* he wrote the Court's opinion finding unlawful patent misuse when the owner of a patent on a combination of three devices working together insisted on selling all three of them together.[116] In a separate opinion he wrote for the Court that the forced combination also violated the antitrust laws.[117]

The *Kimble* majority is certainly correct that *Brulotte* did not call for an analysis of competitive effects, but neither did antitrust tying law at the time. Patent ties were illegal per se, and the market power requirement was satisfied by a simple showing that the tying product was patented.[118] In an era when antitrust courts often spoke categorically, *Brulotte* fit right in.

One problematic effect of *Kimble* is that antitrust tying law is undergoing a process of revision that calls for considerably more analysis today than it did a half century ago and is coming close to removing per se illegality.[119] That has largely happened for just the reasons that the Court suggested; that is, the underlying economic theory has changed, deemphasizing leverage and emphasizing efficiencies.[120] By contrast, the *patent* law of tying arrangements—heavily borrowed from antitrust—remains stuck in a time warp until Congress gets around to

---

[111] 35 U.S.C. § 261.

[112] Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1018 (7th Cir. 2002).

[113] *Brulotte*, 379 U.S. at 33.

[114] International Salt Co. v. United States, 332 U.S. 392 (1947).

[115] United States v. Loew's, Inc., 371 U.S. 38 (1962).

[116] Mercoid Corp. v. Mid-Continent Inv. Co. (*Mercoid I*), 320 U.S. 661 (1944).

[117] Mercoid Corp. v. Mid-Continent Inv. Co. (*Mercoid II*), 320 U.S. 680 (1944).

[118] International Salt Co. v. United States, 332 U.S. 392 (1947), *overruled on this issue by* Illinois Tool Works, Inc. v. Independent Ink, Inc., 547 U.S. 28 (2006).

[119] While *Illinois Tool Works* did not completely reject a per se rule against ties, it did reject the rule that patent ties are per se unlawful without individualized inquiry into market power.

[120] *See* HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE ch. 10 (West Grp. 5th ed. forthcoming 2016).

changing it. While that happened in the case of tying law's market power requirement,[121] so far it has not happened in the case of post-expiration royalties.

In defending its rule of *stare decisis*, the *Kimble* Court also observed that the challenged practice involved two areas of law, property (patents) and contract (license agreements). In these areas *stare decisis* has traditionally been regarded as strong, because reliance interests are more likely to develop.[122]

Of course, contract and property law produce different types of reliance interests depending on which way the law is changing. A legal regime that previously permitted unlimited licensing but then adopted the *Brulotte* rule could certainly upset a great many reliance interests. Many contracts of long duration would become unenforceable or have to be rewritten so as to limit their duration to the patent's remaining life. Settled expectations would be undermined.

When the legal change is in the other direction, however, the weight of reliance interests is less clear. Acting under *Brulotte* people would have structured shorter or more complex agreements around its rule. They might have created a different agreement in a world without *Brulotte*. The principal fear that the Court articulated is that "long-dormant" agreements might spring back to life because their duration was no longer limited by the patent expiration rule. Presumably, one value of overruling *Brulotte* legislatively is that the statute could be limited so as to exclude agreements that were already executed at the time the statute was passed. Whether the Constitution requires that result, however, is not entirely clear. For example, the Supreme Court has upheld retroactive extensions in patent and copyright terms.[123] Further, the Court, if it chose, could have made its own overruling prospective, without undermining prior agreements.

The real impact of overruling would be on those people, who like the parties in *Kimble*, wrote their agreements in ignorance of *Brulotte*. In such cases the effect of overruling would be that these parties would get precisely what they bargained for.

VII. CONCLUSION: ANTITRUST ALTERNATIVES

The *Kimble* Court rejected Kimble's proposed alternative—namely, that post-expiration royalty extensions be addressed under a rule of reason similar to that applied under the antitrust laws. The Court found this unacceptable, substituting a bright-line (although ill-conceived) rule for something as complex and indeterminate as antitrust's rule of reason.

To be sure, the rule of reason is much less "bright line" than the per se rule that *Brulotte* imposed. But the fact is that while nearly every commercial transaction in the country is subject to antitrust evaluation under section 1 of the Sherman Act, only a trivial percentage are ever found to be unlawful. Contracts licensing patents and requiring post-expiration payments would join the general run of agreements that are nearly always legal—even if they stipulate resale prices[124] or impose nonprice distribution restraints.[125] The only two classes of purely vertical

[121] 35 U.S.C. § 271(d)(5) (explaining that patent ties cannot be misuse or unlawful extensions of patent unless "in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product").

[122] Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401, 2410 (2015).

[123] *E.g.*, Bloomer v. McQuewan, 55 U.S. 539 (1852) (allowing the retroactive extension a patent term under the 1836 Patent Act); Eldred v. Ashcroft, 537 U.S. 186 (2003) (allowing the retroactive extension of a patent term under the Copyright Act).

[124] *E.g.*, Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877 (2007).

[125] Continental Television, Inc. v. GTE Sylvania, 433 U.S. 36 (1977).

agreements that provoke much antitrust litigation are tying and exclusive dealing, and a simple post-expiration royalty agreement does not have any obvious impact restricting the output of others.

In other words, using antitrust rather than patent law to address post-expiration royalties would not create nearly the tempest of uncertainty that the Court feared. Nearly all of the situations applying it would simply be lawful. A tiny number of cases involving both market power and plausible anticompetitive exclusion or restraint on trade might be addressable under the antitrust laws. Such an approach would give the parties a better set of tools for managing innovation risk in sensible ways.