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The Supreme Court Fails to Correct Past Mistakes by Hiding Behind Super Powered Stare Decisis

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by Brendan Johnson*[1]

Part I: Introduction

In *Brulotte v. Thys Co.*, the United States Supreme Court held that contracts that attempt to extend royalty agreements past the expiration of a patent are *per se* unenforceable.[2] The Court reasoned that patent owners already had a great deal of bargaining power with their limited monopoly on the product and found that extending royalties would extend that monopoly.[3] This ruling has been criticized as being contrary to basic ideals of contract law.[4] Further, this ruling was not interpretation of existing patent law, but instead was entirely judge made law.[5] The ruling in *Brulotte* was recently challenged by Stephen Kimble, the inventor of a popular "Web Blaster Toy," who entered into a royalty agreement with Marvel for three percent of the net product sales of his toy with no end date.[6]

The case made its way to the Supreme Court challenging what the Ninth Circuit called "the Supreme Court's frequently-criticized decision in *Brulotte*."[7] The Supreme Court upheld the ruling in *Brulotte*, stating that, "respecting stare decisis means sticking to some wrong

* Thank you to Professor Caraballo for advising me on this note.
[2] Brulotte v. Thys Co., 379 U.S. 29, 33 (1964).
[3] *Id.*
[4] *IPO Urges End to 50-Year-Old Rule Automatically Nullifying All Agreements To Pay Royalties After Expiration Of A Patent*, IPO DAILY NEWS, https://www.ipo.org/index.php/daily_news/february-6-2015/.
[5] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2415 (2015) (Alito, J., dissenting) (Brulotte was thus a bald act of policymaking. It was not simply a case of incorrect statutory interpretation. It was not really statutory interpretation at all).
[6] Kimble v. Marvel Enters., 692 F. Supp. 2d 1156, 1158 (D. Ariz. 2010).
[7] Kimble v. Marvel Enters., 727 F.3d 856, 857 (9th Cir. 2013).

decisions."[8] To support its ruling, the Supreme Court relied on *Hallibutron Co. v. Erica P. John Fund Inc.,* and *Patterson v. McLean Credit Union.*[9]

The Court held that overturning stare decisis, especially when Congress can correct the mistakes, requires more than just a belief that the ruling was wrong.[10] This note will argue that the majority in the Supreme Court ruled incorrectly and did not properly consider the economic and social realities of its decision. Part II will discuss the background information to *Kimble v. Marvel Enterprises* and the Courts rationale for that decision. Part II will also give a brief overview of anti-trust and parent law. Part III will analyze why the decision in *Kimble* was incorrect and discuss some possible alternative decision the Court could have reached. Additional Part II will break down the cases and arguments used by both the majority and the dissent in *Kimble.*

Part II: Background and Changes leading up to Kimble

This section will discuss background of *Brulotte* and the Courts rationale for that decision. It will also briefly look at the evolution of patent and anti-trust law and the criticism of the *Brulotte* decision. Finally, this section will give a breakdown of *Kimble* as it went through the various courts giving the pertinent facts. There has been a large amount of criticism surrounding the decision in *Buroltte* the Seventh Circuit stated, in *Scheiber v. Dolby Labs., Inc.*, that the Supreme Court's reasoning was dubious and that it showed the Court was out of touch

[8] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2409 (2015).
[9] *Id.* (citing *Halliburton Co. v. Erica P. John Fund, Inc*., 134 S. Ct. 2398, 2406 (2014), *Patterson v. McLean Credit Union*, 491 U.S. 164, 172, 109 S. Ct. 2363, 2369 (1989)).

[10] *Id.*

with reality.[11] The Seventh Circuit in *Scheiber* also stated that if they had the power to that they would overrule the Supreme Court's decision.[12]

A. Summary of *Brulotte*

Brulotte involved an agreement between the owner of patents for a hop-picking machine and two farmers who purchased the machines for a flat sum and a yearly royalty agreement.[13] The royalty agreement did not state an end date and the farmers, after several years, refused to make any further royalty payments.[14]

The trial court and the Supreme Court of Washington held for the owner of the patent and the US Supreme Court reversed.[15] The Court held that to allow a royalty to extend past the expiration of patent would go against the purpose of the Patent Act, although nothing in the Patent Act mentions royalty agreements.[16] The Court reasoned that the restrictions on royalties were necessary in the prevention of unjust patent monopolies.[17] The Court's reasoning was that after the expiration date of a patent the product should be freely available to all who chose to use it and continued royalty agreements would lead to an unjust monopoly.[18]

The Court also found that having a patent already grants the owner with substantial leverage in negotiations and that allowing the owner to use that leverage to extend royalty agreements would give patent owners unfair bargaining power.[19]

[11] Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1018 (7th Cir. 2002).
[12] *Id.*
[13] *Brulotte*, 379 U.S. at 30.
[14] *Id.*
[15] *Id.*
[16] *Id.* (citing 35 USCS § 154).
[17] Brulotte v. Thys Co., 379 U.S. 29, 32 (1964).
[18] *Id.*
[19] *Id*. at 33.

B. Court Interpretation of Anti-Trust Law

Anti-trust law originally had a *per se* rule similar to the Court's current interpretation of patent law.[20] The Court had strict interpretation that all vertical monopolies constituted a restraint on trade.[21] The Supreme Court, however, has held for many years that Congress only intended to outlaw restraints on trade that were unreasonable.[22] Most anti-trust cases are considered on a case-by-case basis employing a rule of reason that looks at the specific information presented in each case.[23] The reasoning behind this case-by-case analysis was based upon on the complicated and situational nature of whether or not an activity is actually restricting competition or creating a monopoly.[24]

Similarly to the Court's interpretation of anti-trust law, patent law is judge made law going beyond the terms found in the statute.[25] This has led many to advocate for a case-by-case analysis of whether a royalty agreement should be allowed to continue past the expiration of a patent.[26] The International Patent Owners Association also endorsed the use of the rule of reason after evaluating more than one hundred years of anti-trust and patent misuse law.[27]

C. Summary of Kimble

On May 23, 2008, Marvel informed Kimble that he was not entitled to certain extra value royalties and that Marvel had overpaid him by $282,700 in 2007.[28] Kimble originally brought

[20] United States v. Joint Traffic Ass'n, 171 U.S. 505, 558 (1898).
[21] *Id.*
[22] State Oil Co. v. Khan, 522 U.S. 3, 10 (1997).
[23] *Id.*
[24] *Id.*
[25] *Kimble*, 135 S.Ct. 2401, 2417 (2015) (Alito, J., dissenting).
[26] Scott Doyle, *Brulotte Rule Upheld Despite Suspect Economic Rationale*, http://www.law360.com/articles/670682/brulotte-rule-upheld-despite-suspect-economic-rationale

[27] *IPO Urges End to 50-Year-Old Ruling Automatically Nullifying all to Pay Royalties After the Expiration of a* Patent, IPO DAILY NEWS, https://www.ipo.org/index.php/daily_news/february-6-2015/.
[28] *Kimble*, 692 F. Supp. 2d at 1156.

the breach of contract claim before a state court.[29] The claim was later removed to federal court through diversity jurisdiction.[30] During this initial litigation, Marvel discovered the *Brulotte* decision and informed Kimble that they would no longer pay for royalties for his invention after the expiration of his patent.[31] The district court held that the agreement was *per se* unenforceable, as per the law the Supreme Court had laid down in *Brulotte,* and Kimble appealed.[32] Despite the fact that Kimble and Marvel had intentionally bargained for the extended agreement it was found void without the district court being able to make any inquiry into the fairness of the agreement.

The Ninth Circuit heard the case and also held for the agreement to unenforceable but stated:

> We have previously noted that *Brulotte* has been read to require that any contract requiring royalty payments for an invention either after a patent expires or when it fails to issue cannot be upheld unless the contract provides a discount from the alternative, patent-protected rate. We acknowledged that the Brulotte rule is **counterintuitive and its rationale is arguably unconvincing**. Nonetheless, recognizing that we are bound by Supreme Court authority and the strong interest in maintaining national uniformity on patent law issues, we have **reluctantly applied the rule**.[33]

The Supreme Court decided the case on June 22, 2015 and upheld the rule in *Brulotte*.[34] The Court reasoned that although the ruling would inhibit some parties from entering into arm's length deals that both parties desired, there were ways to achieve similar enough ends using different means.[35]

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[29] *Id.*
[30] *Id.*
[31] *Id.*
[32] Kimble v. Marvel Enters., 692 F. Supp. 2d 1156, 1158 (D. Ariz. 2010).
[33] *Id.*; Zila, Inc. v. Tinnell, 502 F.3d 1014, 1021 (9th Cir. 2007) (emphasis added).
[34] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2415 (2015).
[35] *Id.*

The court relied heavily on the reasoning that overturning the decision was precluded by *stare decisis* and that the Court should stand by yesterday's decisions.[36] The Court stated that to overturn past decisions would create confusion and uncertainty.[37] The Court also found that even if Kimble is correct and the law should be changed because of serious economic error in the *Brulotte* decision, that it was not the Court's place to change it.[38] The Court stated that Kimble could take his grievances to Congress and that Congress has had ample time to change the law if it felt *Brulotte* was incorrect. [39]

i. Kimble dissent

The dissent contended that the Court was free to overrule the law in *Brulotte* because it was judge made law to begin with.[40] The dissent also stated that the holding in *Brulotte* was based upon incorrect economic and policy justifications.[41] The dissent continues that the majority has downplayed the harm of its decision and that not only is counter to traditional contract law, the holding will also serve to upset party's expectations.[42]

Also pointed out is how difficult it is to get legislation passed through Congress and that just because Congress has not addressed an issue does not mean that it supports the current judicial law.[43]

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[36] *Id.*
[37] *Id.*
[38] *Id.*
[39] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2415 (2015)
[40] *Id.* at 2409.
[41] *Id.*
[42] *Id*. at 2404.
[43] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2415 (2015) (Alito, J., dissenting).

III. Analysis

A. The Court's misplaced reliance on Stare Decisis

The Court in *Kimble* relied heavily on the notion that *stare decisis* preempted them from overturning the decision in *Brulotte* by virtue of the fact that it had been decided.[44] The Court stated that it is difficult to override precedent and that adherence to previous decisions is the foundation of the judicial system.[45] The Court goes as far to say that even incorrect decisions should be upheld in the name of reliability.[46] The Court gives additional strength to *stare decisis* when the Court opinion is interpreting a statute because of the possibility that if the Court was incorrect Congress could rewrite the law.[47]

The common law traditions of the United States is undeniably important, as is the necessity of consistent and reliable law. These concerns, however, are not great enough to justify keeping antiquated law in place for consistencies sake. The holding in *Brulotte* is not something that effects a large number of people and is the type of complicated issue that requires close judicial interpretation. Overruling a judicially made law that has served to upset party's reasonable expectation would not decrease the consistency or reliability of the legal system; in fact, it would increase it.

i. The Court's ability to overturn past wrong decisions.

The Supreme Court articulated four factors in *Planned Parenthood v. Casey* to guide in deciding when it is appropriate for to overturn a previous decision despite the concept of *stare decisis*.[48] The factors the court considered were: (1) whether the rule has become unworkable;

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[44] *Kimble*, 135 S.Ct. at 2411.
[45] *Id.*
[46] *Id.*
[47] *Id.*
[48] Planned Parenthood v. Casey, 505 U.S. 833, 844 (1992).

(2) if the rule is subject to a large degree of reliance that would create harm if it were overruled; (3) if the ruling is now subject to abandoned doctrine; and (4) if the facts surrounding the ruling have changed so that the justification for the original ruling is no longer relevant.[49]

When looking at the facts present in *Kimble* it is clear that these factors weigh in favor of abandoning the Court's older ruling because of the lack of reliance on the rule, changes in facts and similar rulings that have been abandoned.

The lack of reliance upon the rule is quite clear, especially when considering how relatively unknown the ruling is.[50] Marvel, a multibillion-dollar corporation with thousands of copyrights that deals frequently with patents, was entirely unaware of the ruling at the outset of its deal with Kimble.[51] Marvel did not realize the rule existed until they stumbled upon it in their first lawsuit against Kimble.[52] The dissent pointed out that so few people and companies are aware of this rule that in most cases it would actually serve to harm a party's reasonable reliance on commonly understood contract law.[53] The notion that an arm's length agreement would be voided regales of the position of the parties and legality of agreement is counter to the notion of *pacta sunt servanda.*[54] The small number of cases on this matter and the relatively small number of people that it affects also shows a lack of reliance on the law. The fact that the cases that have been brought regarding this judge made law have all involved matters where the parties were unaware of the ruling and were not relying upon it is proof of the lack of reliance.[55]

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[49] *Id.*
[50] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2415 (2015).
[51] *Id.*; David Goldman, *Disney to Buy Marvel for $4 Billion Dollars,* CNN, http://money.cnn.com/2009/08/31/news/companies/disney_marvel/.
[52] Kimble v. Marvel Enters., 727 F.3d 856, 857 (9th Cir. 2013).
[53] *Id.*
[54] ARTICLE: From "Sanctity" to "Fairness": An Uneasy Transition in the Law of Contracts?, 18 N.Y.L. Sch. J. Int'l & Comp. L. 95
[55] *Kimble*, 135 S.Ct. at 2404; State Oil Co. v. Khan, 522 U.S. 3, pincite (1997); Pearson v. Callahan, 555 U.S. 223, 233 (2009); Payne v. Tennessee, 111 S.Ct. 2597, 260 (1991).

The facts surrounding the rule have also greatly changed in regard to both patent law and the nature of information in general. In 1963, there were only 90,982 patents filed in the United States that number rose to 615,243 in 2014.[56] The extreme increase in the number of patents filed every year exemplifies the wider range of parties filing patents. This is drastic increase in patents filed has been caused in part by modern technology, which has made it much easier to file a patent. It is now possible to file patent without ever leaving home with the U.S Patent and Trademark Office's online resources.[57]

The case in *Brulotte* involved a patent owner taking advantage of unsophisticated and disadvantaged farmers. [58] Today in cases involving large corporations, such as Marvel, the patent owner is disadvantaged. The Court in *Brulotte* reasoned that if patent owners could continue to reap a benefit from their patents that it may encourage them to keep their patents from becoming public.[59] Perhaps this was a concern during that time period, but today it would be impossible. Anyone can go online and search through all registered patents even ones that have expired.[60] The patents can even be search by keyword or by category, making it easy to specific patents.[61] The website even has a seven-step strategy to help new users find patents.[62]

The *Brulotte* ruling has become a relic of law that is no longer adhered to in any significant extent, as exemplified in the Courts adornment of *per se* antitrust cases under the Sherman Act. The Supreme Court in *Leegin Creative Leather Prods. v. PSKS, Inc.,* overruled

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[56] U.S. PATENT AND TRADEMARK OFFICE, *U.S. Patent Statistics Chart Calendar Years 163-2014,* http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.html.
[57]U.S. PATENT AND TRADEMARK OFFICE, *File Online,* http://www.uspto.gov/patents-application-process/file-online.
[58] Brulotte v. Thys Co., 379 U.S. 29, 33 (1964).
[59] *Id.*
[60]U.S. PATENT AND TRADEMARK OFFICE, *Search for Patents,* http://www.uspto.gov/patents-application-process/search-patents.
[61] *Id.*
[62] U.S. PATENT AND TRADEMARK OFFICE, *Seven Step Strategy, http://www.uspto.gov/learning-and-resources/support-centers/patent-and-trademark-resource-centers-ptrc/resources/seven.*

previous precedent that held vertical price restraints were *per se* illegal under the Sherman Act.[63] The Court replaced the *per se* rule with a rule of reason that looks at each individual case to determine if the vertical price restraints are indeed anti-competitive.[64] In the Court's decision, it reasoned that it is dangerous to rely on the economic understandings of the past, considering how different today's modern economy is than it was in the past.[65] The Court did not accept the argument that certain administrative advantages warrant the Court maintaining the *per se* standard.[66] The Court stated that there are demanding standards that must be meet to justify a *per se* rule and that the possibility that there could be vertical price control and a complete lack of anti-competitive behavior precluded the Court from finding that the standard had been met.[67]

The *Kimble* Court's decision to keep the *Brulotte* rule in place is counter to the standards articulated in *Casey*. The Court stated how difficult it would be to implement a rule of reason and spoke of the challenge administrative challenges of changing past laws.[68] At a certain point administrative challenges should be a factor that influences the Court's decisions, but that should be reserved for situations in which the challenges are great. The greatest challenge of implementing a rule of reason over a *per se* rule would be the requirement that the courts look into each individual matter to determine if an anti-competitive action has taken place. At first this might prove to be a slight challenge but case law would quickly develop and guide the courts. Once a system for evaluating the cases on their merits was in place it would be quick and easy to decide the cases and would lead to an equitable result. Additionally it would not be difficult for a court to quickly determine whether the agreement is anti-competitive. A cursory

[63] Leegin Creative Leather Prods. v. PSKS, Inc., 551 U.S. 877, 882 (2007).
[64] *Id.* at 887.
[65] *Id.* at 888.
[66] *Id.* at 895.
[67] *Id.*
[68] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2411 (2015) (Alito, J., dissenting).

review of the contract and the relative bargaining positions of the two parties would reveal almost any anti-competitive behavior.

The Court's fears of disrupting the consistency of the legal system and administrative challenges are misplaced and shortsighted. The greater value give to administrative efficiency over judicial fairness is harmful to both the economy and our legal system in its entirety.

B. Distinguishing Cases Cited by the Majority

The majority overly relies on stare decisis to avoid facing their incorrect past decisions.[69] The Justices in the majority place unfounded dependence upon past cases that deal with judicial interpretation of statutes. As the dissent aptly states this is not simply a matter of judicial review of the interpretation of a statute, this is judicial review of judge made law.[70] In addition the Court fails to take proper account of other factors that affect overturning past decisions, such as changed conditions.[71]

One such case the majority cites for its stare decisis argument is *Michigan v. Bay*.[72] This case involved the state of Michigan suing a Native American tribe that was attempting to build a casino on land that they had purchased outside of the reservation.[73] The state claimed that the casino would be in violation of the Indian Gaming Regulatory Act.[74] The Court held that the tribe was immune from the suit because of tribal suit immunity, regardless of the fact that the area in question was not on the reservation.[75] The Court stated that it does not overturn precedent lightly when it made its decision to uphold the rule.[76] The Court however, goes on to

[69] *Id.*
[70] Kimble, 135 S.Ct. 2401, 2417 (2015) (Alito, J., dissenting).
[71] *Casey*, 505 U.S. at 844.
[72] *Kimble*, 135 S.Ct. at 2411.
[73]Michigan v. Bay Mills Indian Cmty., 134 S.Ct. 2024, 2026 (2014).
[74] *Id.*
[75] *Id.* at 2038
[76] *Id.*

state how nothing has changed in since that last Supreme Court case regarding tribal immunity.[77] The Court goes to great lengths to justify why the law should not be overturned going into various policy justifications and showing how the original ruling was not only correct, but that the circumstances surrounding the original interpretations are still just as valid.[78]

Michigan is easily distinguishable from *Kimble* because of the extensive and concrete analysis that *Michigan* gives.[79] The Court in *Michigan* goes to great length to explain why their original interpretation of the law was the correct and that the circumstance that lead to their previous decision had not substantially changed.[80] In *Kimble*, the Court merely says it is unclear if the original ruling was incorrect and that whether the circumstances behind the decision has changed enough is unclear without any substantial analysis.[81]

Another case the majority relies on is *Payne v. Tennesse*.[82] This case, which was has been overruled on other grounds, involves a Defendant challenging the introduction of statements made by the family members of murder victim that he claimed were overly prejudicial.[83] Although the Court speaks of the value of *stare decisis*, it also states that there is not a strict formula to adhere to when deciding whether to overrule past decision.[84] The Court went on to state that when reviewing past decisions it is important to consider wide policy implications.[85] The Court decided to overrule the previous decisions, despite the previous decision being of a class that is afforded additional adherence.[86] The Court in *Payne* also stated

[77] *Id.*
[78] Michigan v. Bay Mills Indian Cmty., 134 S.Ct. 2024, 2026 (2014).
[79] *Id.*
[80] *Id.*
[81] *Kimble*, 135 S.Ct. at 2412.
[82] Payne v. Tennessee, 111 S.Ct. 2597, 260 (1991).
[83] *Id.*
[84] *Id.*
[85] *Id.* at 2610.
[86] *Id.* at 2610-11.

"[c]onsiderations in favor of stare decisis are at their acme in cases involving property and contract rights, where reliance interests are involved."[87]

Payne can be distinguished from the case at hand because as the dissent points out the current rule of law is operating primarily to upset party's reasonable expectations.[88] In addition to parties' expectations, this case is distinguishable from *Kimble* because the Court in *Payne* overruled the past holdings even after extoling the virtue of *stare decisis*.[89]

i. Cases Cited by the Dissent

The dissent cites the case *Pearson v. Callahan* to bolster their argument regarding the majority's over reliance on *stare decisis*.[90] This case involved whether or not a police officer was entitled to qualified immunity.[91] The Court overturned the old categorical rule stating that it would better adhere to party's expectations and that the old rule was erroneous judge made law.[92] The Court also stated that, "[r]evisiting precedent is particularly appropriate where, as here, a departure would not upset expectations, the precedent consists of a judge-made rule . . . and experience has pointed out the precedent's shortcomings".[93] This speaks exactly to the case at hand because *Brulotte* was judge made law.[94] There is nothing in the Patent Act that mentions royalties so the entire holding is judge made law.[95]

The Court in *Kimble* had the opportunity to address the shortcomings in the judge made law that was erroneously created and instead decided to fall back on the *stare decisis*.[96] This

[87] *Id.*
[88] *Kimble*, 135 S.Ct. 2401, 2417 (2015) (Alito, J., dissenting).
[89] Payne v. Tennessee, 111 S.Ct. 2597, 260 (1991).
[90] *Kimble*, 135 S.Ct. at 2417 (Alito, J., dissenting).
[91] Pearson v. Callahan, 555 U.S. 223, 233 (2009).
[92] *Id.* (*citing* Saucier v. Katz, 533 U.S. 194 (2001)).
[93] *Id.*
[94] *Brulotte* at 177.
[95] 1 USCS § 1-376
[96] *Kimble*, 135 S.Ct. at 2411.

note does not argue that there is no strength behind stare decisis, but rather that it should not be used to avoid fully delving into an issue of judge made law to reveal the shortcomings in past precedent.

C. Judicial Interpretation of Patent Act compared to Antitrust Law

The Supreme Court has done away with *per se* findings in regards to vertical price fixing in antitrust law.[97] The primary motivations behind the Court overruling its past precedent in regards to antitrust law were economic changes and upholding party's reasonable expectations.[98]

The Court implemented a rule of reason, which is a case-by-case analysis that better serves party's expectations and notions of justice.[99] The Court in *Kimble* should have created a case-by-case analysis for cases where a royalty agreement continues after the expiration of patent. Both the original price fixing analysis and the analysis in *Brulotte* was based upon fears of monopolies that are no longer serious concerns.[100]

The case *State Oil v. Khan* involves an interpretation of the Sherman Anti-trust Act.[101] The court of Appeals had found it was bound by previous rulings made by the Supreme Court that a vertical maximum price fixing scheme was a *per se* anti-trust violation.[102] Similar to the lower court in *Kimble*, the lower court in *State Oil* did not agree with the ruling, but felt bound by previous Supreme Court rulings.[103]

The Supreme Court overruled the past precedent and held that vertical maximum price fixing scheme was not a *per se* anti-trust violation.[104] The Court established a rule of reason that

[97] State Oil Co. v. Khan, 522 U.S. 3 (1997).
[98] *Id.*
[99] *Id.*
[100] *Id.*; Brulotte v. Thys Co., 379 U.S. 29, 33 (1964).
[101] State Oil Co. v. Khan, 522 U.S. 3 (1997).
[102] Khan v. State Oil Co., 93 F.3d 1358, 1362 (7th Cir. 1996).
[103] *Id.*
[104] State Oil Co. v. Khan, 522 U.S. 3 (1997).

would address each matter on a case-by-case basis.[105] The Court looked towards economic justifications and found holding all forms of pricing fixing to be *per se* unenforceable would not properly be addressing the issues at hand.[106] When justifying the new rule of reason the Court stated:

> Although we do not lightly assume that the economic realities underlying earlier decisions have changed, or that earlier judicial perceptions of those realities were in error, we have noted that "different sorts of agreements" may amount to restraints of trade "in varying times and circumstances," and "it would make no sense to create out of the single term 'restraint of trade' a chronologically schizoid statute, in which a 'rule of reason' evolves with new circumstances and new wisdom, but a line of per se illegality remains where it was.[107]

State Oil is also relevant because of the stare decisis implications. The Court overturned the precedent after going through a detailed analysis and determining that the rule of law that had been established in *Albrecht v. Herald Co.*, was wrong and was based upon an economic situation that no longer existed.[108]

Plaintiff in *Kimble* asked the Court to adopt a similar reasoning stating that courts should look into each individual matter to see if the patent owner is exerting unreasonable control on their patent or is attempting to create or further a monopoly.[109]

The Court in *State Oil* relied on another case, *Continental v. GTE Sylvani* , which overturned precedent of a *per se* rule that was not economically practical or and judicially inflexible.[110]

In *Continental v. GTE Sylvani* the Court stated: “Since its announcement, *Schwinn* has been the subject of continuing controversy and confusion, both in the scholarly journals and in

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[105] *Id.*
[106] *Id.*
[107] *Id.* (*citing* Bus. Elecs. Corp. v. Sharp Elecs. Corp., 485 U.S. 717 (1988)).
[108] State Oil Co. v. Khan, 522 U.S. 3 (1997).
[109] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2411 (2015).

[110] State Oil Co. v. Khan, 522 U.S. 3, 118 S.Ct. 275 (1997); Cont'l T.V. v. GTE Sylvania, 433 U.S. 36, 49 (1977).

the federal courts".[111] The majority of scholarly opinions have disagreed with the decision, and many of the federal courts that have encountered vertical restrictions have attempted to limit its reach.[112] In the Court's view, the experience that the judicial system had obtained in the 10 years prior to that decision should be applied to the subject of because of its substantial commercial importance.[113] The Court went on to overrule the *per se* rule involving broad restrictions on selling locations for products.[114]

The circumstances surrounding the decision in *Continental* are strikingly similar to the circumstances the Court faced in *Kimble*.[115] In both cases, federal courts and scholars alike criticized the past decisions.[116] Recent trends in economic development were also cited, showing how the older decisions were out of touch with proper legal and economic ideals.[117]

The dissent in *Kimble* stated "[e]ven taking the Court on its own terms, *Brulotte* was an antitrust decision masquerading as a patent case."[118] This type of case is so similar to an anti-trust case that would be very reasonable for the Court to adopt a similar analysis.[119] Adopting the analysis would also create a greater degree of consistency in the law.

It would be practical for the Court to apply the same rule of reason standard to cases involving a royalty agreement extending past the expiration of a patent that is applied to anti-trust cases. The two are very similar because they both involve potential anti-competitive activities, but have a productive and legitimate utility.

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[111] Cont'l T.V. v. GTE Sylvania, 433 U.S. 36, 49 (1977).
[112] *Id.*
[113] Cont'l T.V. v. GTE Sylvania, 433 U.S. 36, 49 (1977).
[114] *Id.*
[115] Kimble; Cont'l T.V. v. GTE Sylvania, 433 U.S. 36, 49 (1977).
[116] Kimble v. Marvel Enters., 727 F.3d 856, 857 (9th Cir. 2013); GTE Sylvania, Inc. v. Cont'l T. V., Inc., 537 F.2d 980, 993 (9th Cir. 1976).
[117] *Id.*
[118] *Kimble*, 135 S.Ct. 2401, 2417 (2015) (Alito, T., dissenting).
[119] *Id.*

Applying the rule of reason of reason would be beneficially from an administrative and judicial perspective. Having more case where judges apply the rule of reason would give the judges the experience they need to make decisions that are equitable. Judges applying the rule of reason in more situations will allow them to make their decisions faster and more efficiently because of the case law developing more quickly as more cases are decided.

D. Parties should not be restricted from their freedom to Contract in non-adhesive or immoral contracts

The notion that freedom to contract, within certain limitations, is of paramount importance to the United States economy was clearly articulated in *Standard Oil Co. v. United States.*[120]

This case deals with an oil corporation monopoly, but goes into an in depth analysis of whether agreements that create a monopoly can be ever be enforceable.[121] The case also establishes that freedom to contract in situations where there are no moral or legal barriers is essential.[122] The Court referring the great importance of the freedom to contract stated:

> [F]reedom of the individual right to contract when not unduly or improperly exercised was the most efficient means for the prevention of monopoly, since the operation of the centrifugal and centripetal forces resulting from the right to freely contract was the means by which monopoly would be inevitably prevented if no extraneous or sovereign power imposed it and no right to make unlawful contracts having a monopolistic tendency were permitted. In other words that freedom to contract was the essence of freedom from undue restraint on the right to contract.[123]

The notion that freedom to contract, absent coercion or illicit content, should be protected is not just a relic of the past but still something that is very relevant in American law.[124]

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[120] Standard Oil Co. v. United States, 221 U.S. 1, 31 S.Ct. 502 (1911).
[121] *Id.*
[122] *Id.*
[123] *Id.* at 62.
[124] Quality Prods. & Concepts Co. v. Nagel Precision, Inc., 469 Mich. 362, 666 N.W.2d 251 (2003).

Enforcing contracts as written in arm's length agreements, where there is no oppression or coercion is well established in the common law.[125] There is nothing oppressive in the agreement between Kimble and Marvel it was clearly an arm's length transaction between two sophisticated parties.[126] If there were any party that would be suspected of having an unfair bargaining position, it would be the multi-national corporation and not the individual inventor.

The Court in *Quality Prods. & Concepts Co.* exemplified another important facet of contract law, that deals should not be unilaterally altered.[127] The Court stated, "[h]owever, with or without restrictive amendment clauses, the principle of freedom to contract does not permit a party *unilaterally* to alter the original."[128] This ruling has essentially allowed Marvel to unilaterally alter the original agreement in manor sanctioned by the Court.[129] Marvel and Kimble had reached a mutually beneficial where Marvel would spread out paying the royalties for a lower rate over a longer period of time.[130] After Marvel discovered *Brulotte* they used the law to unilateral alter the contract in their favor.[131] Now, the consideration Kimble gave for lowering the royalty rate is worthless.

Contract law in the United States aims to promote free business and enforce both reasonable expectations and general enforcement. A fairly formed contract should not be held to be invalid without a strong justification. The mere fact that arms length agreement would enable a royalty agreement to extend past the expiration of a patent is not a substantial enough justification for the contract to be held invalid. If all the other elements of a fairly established contract are present and no actual harm is shown to flow from the contract than the contract

[125] *See* W. Coast Hotel Co. v. Parrish, 300 U.S. 379, 392 (1937).
[126] *Kimble*, 135 S.Ct. 2401, 2417 (2015).
[127] *Quality Prods*, 469 Mich. at 364.
[128] *Id. (emphasis added).*
[129] *Kimble*, 135 S.Ct. 2401, 2417 (2015).
[130] *Id.*
[131] *Id.*

should be enforced. This consistent enforcement of properly formed contracts is of paramount importance to the proper functioning of both our judicial system and the United States economy.

E. Parties should not have to contract around a complicated rule to make an agreement

The Court's argument in *Kimble*, manifesting its desire to uphold *Brulotte* in order to create predictable and stable law that will uphold party's reasonable expectations, is not persuasive because the rule is actually severing to upset party's expectations. This is clear from the very circumstances of the case where the parties were unaware of the law and it neither of the parties expected that the agreement could be nullified. The Court stated:

> The *Brulotte* rule, like others making contract provisions unenforceable, prevents some parties from entering into deals they desire. As compared to lump-sum fees, royalty plans both draw out payments over time and tie those payments, in each month or year covered, to a product's commercial success. And sometimes, for some parties, the longer the arrangement lasts, the better—not just up to but beyond a patent term's end. A more extended payment period, coupled (as it presumably would be) with a lower rate, may bring the price the patent holder seeks within the range of a cash-strapped licensee. (Anyone who has bought a product on installment can relate) . . . yet parties can often find ways around *Brulotte*, enabling them to achieve those same ends.[132]

The Court's reasoning begs the question, that if the end result of the deal is acceptable, then why must parties overcome unnecessary obstacles to achieve their desired results. The Court admits the value of allowing the deal and how the consideration is reasonable and is something that is potentially better for both parties.[133] The danger in this decision lies with uninformed parties. The Court is creating a complicated and unintuitive system for parties to reach their desired ends. If two parties enter into a royalty agreement without being aware of this

[132] *Kimble*, 135 S.Ct. at 2408.
[133] *Id.*

ruling, as were the parties in *Kimble*, there is a serious risk that their reasonable expectations will be upset.

In addition to innocent mistakes between unaware parties, sophisticated businesses could use this rule to harm small investors who have little legal knowledge. In the future, Marvel could structure a deal for royalties for a long period of time and then refuse to continue payments after the patent has expired. Since the current rule is a *per se* rule, the clause will be invalidated without the harmed party having the opportunity to show why it should be enforced.[134]

The ruling that the Supreme Court articulated in *Kimble* could actually enable parties to be more coercive. A clever party could work an extended royalty agreement into a contract with the knowledge that once the patent had expired they would no longer be required to pay the royalties. As the rule stands there would be no opportunity for a judge to review the formation of the royalty agreement or for a judge to review the relative bargaining power of the two parties.[135] So, even if a large corporation is duplicitous and underhanded in forming a contract with an inventor, the judge will be precluded from reaching an equitable result. This is essentially allowing potential coercion to go unchecked.

F. Policy Reasons for overturning Brulotte

There are many public policy reasons in favor of contract enforcement and incentivizing inventions. There is also no potential danger that a patent owner would be able to extend their monopoly over the product because at the end of the day they would not have a patent, but a

[134] *Id.*
[135] *Id.*

contract that allowing them royalties for the product.[136] There is nothing keeping a third party from profiting off the invention once the patent expires.

i. Party's reasonable expectations

The dissent in *Kimble* makes clear that there is no reasonable risk that extending royalty agreements could increase the likelihood of monopolies. [137]

Parties would expect that a properly drafted contract would be enforced by the United States government, baring any issues of illegality. Additionally, parties would expect to be able to bring a complaint in court if a one of the parties has been coercive. A sophisticated party could know the current *per se* law on royalties and intentionally make a very long royalty agreement for a low percentage. That harmed party would not be able to bring this information into court to make a case that the contract should be enforced.[138] The *per se* rule is serving not only to upset a party's reasonable expectations, but is also allowing for more sophisticated parties to take advantage of their counter parties without any real judicial review.

This cuts against the majority's argument that they are adhering to previous decisions to create more uniformity and predictability in the law. By upsetting party's reasonable expectations, the court is creating less predictability in the law.

ii. Incentivizing invention

The Intellectual Property Owners ("IPO") urged the Supreme Court in their amicus brief to end the outdated rule that automatically nullifies all contracts that pay royalties after the expiration of a patent.[139] The IPO stated that the "*Brulotte* rule undermines the basic integrity of

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[136] Joshua Kennon, *Kimple v. Marvel Enterprises: Supreme Court Clarifies Intellectual Property Contracts in Spider Man Dispute*, http://www.joshuakennon.com/kimble-v-marvel-enterprises-supreme-court-clarifies-intellectual-property-contracts-in-spider-man-dispute/.
[137] *See* Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2411 (2015) (Alito, J., dissenting).
[138] *See* Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2402 (2015)
[139] *IPO Urges End To 50-Year-Old Rule Automatically Nullifying All Agreements to Pay Royalties After Expiration of Patent,* https://www.ipo.org/index.php/daily_news/february-6-2015/.

contracts".[140] The IPO made that statement after reviewing more than 100 years of history of antitrust and patent misuse law.[141]

Inventions are of vital importance to the advancement of culture and society. Inventions are so integral to the advancement and success of our society that it is easy to forget inventions lay the foundation to the modern world. From medical breakthroughs that have cured diseases that plagued our ancestors to the information revolution that has connected our world like never before, invention is the heart of it all. The Court has made a great error in so significantly limiting incentives for invention.

If inventors are unable to make financially viable agreements, they may be discouraged from the field that has laid down the bedrock to the modern world. Although inventors may seem to gift us with the innovations that we require to continue our modern society they like most others are motivated by economic gain. To take away the possibility of long term benefits from a patent regardless of the circumstances is to take away the life blood of the inventor. The rule of reason would enable the courts to balance the need to incentive inventors while still being able to safe guard against any possible anti-competitive provisions that might be in the contract.

iii. How Technology and the Economy has changed since the *Brulotte* decision

Having a monopoly on a technological innovation is implausible considering how quickly information spreads on the Internet.[142] Innovations in communication and the Internet now allow information to spread without restrictions more rapidly than anyone could have predicted.[143] In additionally, all patent information is accessible through the United States

[140] *Id.*
[141] *Id.*
[142] Heather Leonard, *The Fascinating Spread Of Content Through Social Networks,* http://www.businessinsider.com/how-content-spreads-on-social-media-2013-4.
[143] *Id.*

patents website.[144] There is even a search function that allows you to quickly find the patent or type of patent that you are looking for.[145] This significantly cuts against the stated justification that extending royalty agreements would incentivize parties to hide away inventions and innovations. Even if a corporation or inventor wanted to keep their patent secret from the world and monopolize the innovation it would be impossible. Not only are all patents available for viewing, on the United States patent website, the prevalence of social media and Internet communications allows for a fast and wide dissemination of information[146]

It is also important to consider how the parties have changed since *Brulotte* the case involved two farmers who had no legal or business experience.[147] In *Kimble*, Marvel is the party who made the agreement to use the patent.[148] A large and sophisticated corporation already has an advantage in the bargaining process and the Court has increased that power.[149] In *Brulotte*, there was real possibility that if the royalty agreement could continue for a longer period of time there would be an unfair monopoly on the patented information.[150] This is no longer the case as even farmers who live far from a metropolitan center have the same access to information via the Internet.[151]

The dissent addressed the fact that there is no reasonable way that the extension of a patent could keep that patent from the public.

> The Supreme Court's majority opinion reasoned that by extracting a promise to continue paying royalties after expiration of the patent,

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[144] *United States Patent and Trademark* Office, http://www.uspto.gov/patent.
[145] U.S. PATENT AND TRADEMARK OFFICE, *Search for Patents,* http://www.uspto.gov/patents-application-process/search-patents.
[146]*See* Todd Leopold, *In Today's Warp-Speed World, Online Missteps Spread Fast Than Even,* CNN, http://www.cnn.com/2012/03/06/tech/social-media/misinformation-social-media/
[147] Brulotte v. Thys Co., 379 U.S. 29, 33 (1964).
[148] *Kimble*, 135 S.Ct. at 2411.
[149] *Id.*
[150] *Brulotte*, 85 S.Ct. 176, 180 (1964).
[151] Andrew Perrin, Maeve Duggan, *Americans Internet Access: 2000-2015, http://www.pewinternet.org/2015/06/26/americans-internet-access-2000-2015/.*

> the patentee extends the patent beyond the term fixed in the patent statute and therefore in violation of the law. That is not true. After the patent expires, anyone can make the patented process or product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish. For a licensee in accordance with a provision in the license agreement to go on paying royalties after the patent expires does not extend the duration of the patent either technically or practically.[152]

iv. A long royalty period might be in the best interest of all of the parties

As the dissent in *Kimble* stated the economic reasoning behind allowing parties to contract past the expiration date is quite simple.[153] The ability to spread out the royalty agreement allows the company purchasing the rights to patent to put up less money up front and reduce its risks.[154] Speaking on the *Kimble* decision, Joshua Kennon, a business investor and author of several prominent books, stated "cash flows cannot be valued as a perpetuity."[155] This speaks to the potentially difficulties an inventor may have in reaching an agreement that is economically viable for parties. It also addresses the inherit difficulties in structuring a long-term royalty agreement. He went on to state that "[t]he court just reiterated that a major negotiation tool remains out of your toolbox, even if both parties agree to it in a free market transaction."[156] The current state of the law will require a substantial increase in the upfront payment, or the royalty rate itself.[157] There could by many situations where this rigid cash structure could make a deal unworkable. If the party paying the royalties cannot afford a high yearly percentage they are

[152] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2411 (2015) (Alito, J., dissenting).
[153] *See Kimble*, 135 S.Ct. at 2417 (Alito, J., dissenting).
[154] *Id.*
[155] Joshua Kennon, *Kimple v. Marvel Enterprises: Supreme Court Clarifies Intellectual Property Contracts in Spider Man Dispute*, http://www.joshuakennon.com/kimble-v-marvel-enterprises-supreme-court-clarifies-intellectual-property-contracts-in-spider-man-dispute/.
[156] *Id.*
[157] *Id.*

left without any options. That would mean even if the transaction would be beneficial for both parties with an extension on the royalty agreement the deal will not go through.

For example, I want to make a royalty agreement but cannot afford to pay more than 3% royalty per year. If the inventor requires more money for his /her invention than the 3%, it may be in the interest of both parties to extend that agreement. If that point in which extending the agreement at 3% becomes economically viable for both parties is after the expiration of the patent than the deal may be unworkable.

The Court in *Scheiber* stated, "If the licensee agrees to continue paying royalties after the patent expires the royalty rate will be lower. The duration of the patent fixes the limit of the patentee's power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time."[158]

The majority has taken a critically important bargaining chip off the table for both parties in a patent royalty agreement.[159] As a result of the *Kimble* decision there are many potential deals that could have served both parties and the public in general that will never come to fruition.

F. The Court overly relies on the possibility that Congress can overturn the case

The dissent properly points out that the majority has placed too much trust in Congress and has not properly considered the realities of the current political climate.[160] Speaking on this matter the dissent stated: **"**The Court also places too much weight on Congress' failure to

[158] *Id.*
[159] *Kimble*, 135 S.Ct. at 2418 (Alito, J., dissenting).
[160] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2418 (2015) (Alito, J., dissenting).

overturn *Brulotte*. We have long cautioned that '[i]t is at best treacherous to find in congressional silence alone the adoption of a controlling rule of law.'"[161]

The mere fact that Congress considers enacting new legislation, that would over turn a judicial decision, but does not enact that legislation should not be interpreted to mean that Congress approves of that decision.[162] Even where Congress has considered, but not adopted, legislation that would abrogate a judicial ruling, it cannot be inferred that Congress' failure to act shows that it approves the ruling.[163] To take this view would severely simplify the complicated nature of political dealings within Congress. "A federal statute must withstand the 'finely wrought' procedure of bicameralism and presentment."[164] Even if the proposed law can be agreed upon by both parties it still has to be brought up for discussion and not passed over in favor legislation that is more important. Additionally Senate rules require sixty votes to end debate on most legislation.[165] With the countless pressing matters that Congress must attend to and the friction between our two main political parties, to interpret Congressional silence as acceptance would be a grave mistake. Considering also the small number of people that are effect by the decision in *Brulotte* that was upheld by *Kimble* its no wonder Congress has never got around to addressing the matter.

[161] *Id.*
[162] *Id.*; *Central Bank of Denver, N. A.* v. *First Interstate Bank of Denver, N. A.*, 511 U.S. 164, 187 (1994).
[163] *Id.*
[164] *INS* v. *Chadha*, 462 U.S. 919, 951 (1983).
[165] Kimble v. Marvel Entm't, LLC, 135 S.Ct. 2401, 2418 (2015) (Alito, J., dissenting).

G. Gridlock in Congress

The political climate in America makes it difficult for even the most mundane laws to pass through Congress.[166] Bills are not being considered on their merits, but instead on value to certain political agendas. Congressional silence can in no way be considered tacit approval of the ruling in *Brulotte*.[167]

The political parties in Congress are more willing to shut down the government than to cross-political lines.[168] Despite fact that congressional gridlock has been shown to be objectively harmful to the United States economy it does not seem the standstill will be ending any time in the near future.[169] This means that even though overruling *Brulotte* would be good for the United States economy, the legislation may never come to fruition because of political divides and ineffectiveness in Congress.[170]

The problems with bipartisanship has led to a less efficient Congress that not only has problems considering legislation, but is also working less.[171] The House of Representatives worked ninety-five days in 2015, compared to 1995 in which The House worked one-hundred and twelve days.[172] The Senate worked one-hundred and eighteen days in 2015 and ninety-nine in 2013 compared to one-hundred and fifty-one in 1995.[173] Although *Brulotte* is an old decision,

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[166] *See* Aaron Blake, *Gridlock in Congress? It's Probably Worse Than You Think,* https://www.washingtonpost.com/news/the-fix/wp/2014/05/29/gridlock-in-congress-its-probably-even-worse-than-you-think/.
[167] *Id.*
[168] *Id.*
[169] Frank Islam, Ed Crego, *Braking Bad: The Critical Need to End Congressional Gridlock,* http://www.huffingtonpost.com/frank-islam/braking-bad-the-critical-_b_4167947.html.
[170] *Id.*
[171] BIPARTISAN POLICY CENTER, *Healthy Congress Index,* http://bipartisanpolicy.org/congress/#working-days.
[172] *Id.*
[173] *Id.*

it has not been widely reexamined until recently. Even when Congress is properly functioning it would be incorrect to take Congressional silence as tacit approval.[174]

Part IV. Conclusion

The majority in *Kimble* has given unnecessary superpowers to *stare decisis* that has allowed an incorrect ruling to stand. The Court places far too much weight on Congressional silence. At the end of the day, the matter is judge made law and for there to be any progression in the field it must be judge made change.

The Court underestimated the importance of the freedom to contract in an otherwise perfectly legal and acceptable contract. There are obvious reasons why the freedom to contract is not absolute, but nothing that typically makes a contract unenforceable (coercion, illegality…) is present in this case.

The court is dis-incentivizing invention and has created a rule of law that will upset party's reasonable expectations. A rule of reason that addresses the facts of each individual case would have better served party's interests and better served justice. The success that the rule of reason has had in antitrust cases shows how it would be successful in this matter (which the dissent points out is really an antitrust case).[175]

[174] *See id.*
[175] *Kimble*, 135 S.Ct. 2401, 2417 (2015) (Alito, J., dissenting).