

No. 13-720

IN THE
Supreme Court of the United States

STEPHEN KIMBLE AND ROBERT MICHAEL GRABB,
Petitioners,

v.

MARVEL ENTERPRISES, INC.,
Respondent.

**On Writ of Certiorari to the
United States Court of Appeals for the
Ninth Circuit**

**BRIEF OF BIOTIME, INC. AS AMICUS
CURIAE IN SUPPORT OF PETITIONERS**

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INTERESTS OF AMICUS CURIAE¹

Amicus curiae BioTime, Inc. is an innovative biotechnology company in the emerging field of regenerative medicine. As one example of its work, BioTime has developed a large bank of NIH-approved clinical grade stem cell lines. These stem cell lines are fundamental tools used by medical researchers at universities and private firms. The cell lines were created using technologies developed and patented by BioTime or licensed from others. Consequently, patent licenses are fundamental to BioTime's primary business activities.

As important as they are, the approximately 400 patents held by BioTime and its subsidiaries are not their only valuable intellectual property. BioTime and its subsidiaries also hold highly valuable trade secrets and know-how for the effective maintenance and use of the stem cell lines. In addition, they own an extensive set of data related to the stem cell lines.

Licenses to BioTime's intellectual property nearly always include both patent and non-patent (e.g., know-how or data) rights. For companies involved with such "hybrid" licenses, the *per se* rule

¹ Pursuant to Supreme Court Rule 37.6, *amicus curiae* states that (1) no counsel for a party in this case authored this brief, in whole or in part, and (2) no person or entity, other than BioTime or its counsel, made a monetary contribution to the preparation or submission of this brief. Copies of consents from the parties to file this brief have been provided to the Clerk of the Court.

under *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), adds complexity and imposes significant transaction costs—factors that should be considered in determining whether to maintain or overrule the *Brulotte* rule. Because BioTime’s position is representative of many other companies that supply basic tools for modern medical research, an examination of its experience illustrates the public interest in moving away from the *per se* rule in favor of a rule of reason approach.

SUMMARY OF ARGUMENT

As a frequent licensor and licensee of intellectual property, BioTime writes to inform the Court of the practical implications of the *Brulotte* rule. As numerous commentators and Courts of Appeal have noted, to the extent *Brulotte* was correctly decided in the first instance, its rule is unsustainable in view of the Court’s more recent and refined view of the intersection between patent and antitrust law.

Brulotte is a legacy of a bygone era when the Court assumed that a patent conferred market power on the patentholder. The Court has since recognized that this assumption is not true. Although the Court has rejected the policies underlying *Brulotte*, the decision continues to bind the lower courts to follow its *per se* rule.

Respondent argues that concerns about *Brulotte* are exaggerated because the *Brulotte* rule is easily circumvented by sophisticated contract drafting. If only that were true. Although

sophisticated parties like BioTime have been forced to draft around *Brulotte* for the past 50 years, there are significant costs associated with such efforts. Such increased transaction costs become particularly burdensome for parties like BioTime that are engaged in negotiating hybrid license agreements.

As we explain below, BioTime supports overturning *Brulotte* and its application by the Ninth Circuit in this case. A rule of reason test would better serve the interests of both licensors and licensees.

ARGUMENT

I. BY OVERRULING *BRULOTTE*, THE COURT WILL HELP REDUCE THE COST AND COMPLEXITY OF PATENT LICENSE AGREEMENTS.

Hybrid intellectual property license agreements between sophisticated parties—the kind of agreements that BioTime regularly negotiates—are complex commercial arrangements. In a typical transaction where BioTime is licensing its intellectual property, the license agreement may grant to its licensee: (a) access to certain stem cell lines, (b) a license to use data associated with those stem cell lines, (c) a license to use proprietary know-how to prepare, maintain and effectively use those stem cell lines, and (d) a license under any BioTime patents and patent applications covering inventions related to those stem cell lines.

One reason for this complexity is that the assets underlying the transaction—the intellectual

property and technology assets—are not as discrete or as easily defined as other commercial assets, such as real estate or equipment. See Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. Marshall Rev. Intell. Prop. L. 325 (2004) (“Posner”).

Assume, for example, that a licensee intends to conduct medical research using BioTime’s cell lines, know-how and data, and following methods that are the subject of BioTime patents or patent applications. In the process, the licensee may develop its own know-how and data, and may even extend BioTime’s patented technology with inventions of its own. The parties may agree to share the rights to such new assets and to make them the subject of license provisions. Thus, the nature of the technology subject to the license may change over time.

The scope of the licensed assets is often uncertain for an entirely different reason. Typically, a license to use patents will include not only issued patents, but also applications that are in prosecution, and even related applications that may be filed in the future, e.g., continuation and divisional applications. At the time of the license agreement, the parties will not know the ultimate scope of those applications that may issue in the future, assuming that they issue at all.

Even if the parties to a license could predict the scope of future patent coverage, they would not know whether those patents would provide exclusive

control over a commercially successful research outcome.

While the parties may hope that a commercially successful product will result from their collaboration, the ultimate nature of that product is difficult to predict at the outset. The product might be a drug, a medical device, a new diagnostic technique or device, a database of clinical information, software, or a product used in medical treatment. The licensed patents may cover some but not all of these applications.

Finally, the parties cannot know at the outset how the fruits of the research should best be protected. They might decide, for example, that critical elements of the technology are better protected through trade secrets, not patents, particularly if the result of the research is difficult to reverse engineer. Thus, the optimal mix of patent and non-patent intellectual property rights is typically not known when BioTime negotiates a license with a medical researcher.

Given the significant uncertainties associated with such licenses, one might expect rational parties to adopt royalty and other terms that are both simple and flexible, particularly in the early stages of the license term when the outcome of the research is unclear and the relative contributions of the various licensed assets is unknown. Before there is a commercial product generating a revenue stream, licensees might be expected to favor low royalty payments, just as licensors might prefer to forego early royalty revenues in favor of an interest in a

future commercial product. Alfred C. Server et al., *Reach-Through Rights and the Patentability, Enforcement, and Licensing of Patents on Drug Discovery Tools*, 1 *Hastings Sci. & Tech. L.J.* 21, 62 (2008) (“The ability to share in that upside may be important to the prospects, research programs, and financial viability of the tool inventor.”). It is precisely here that the *Brulotte* rule works its most troubling mischief.

Rather than promoting simplicity and flexibility, *Brulotte* forces licensed parties to adopt separate royalty regimens for patents and for non-patent intellectual property assets unless they can prove a negative: that the terms of the license are clearly not subject to patent leverage. But given the extent to which patents are inevitably intertwined with other intellectual property rights in hybrid license agreements, and considering the uncertainties that the parties are dealing with at the time they enter a license, proving an absence of patent leverage is highly problematic.

In short, *Brulotte* takes an already complex situation and makes it even worse.

The *Brulotte* rule forces BioTime and others to include a so-called royalty step-down in their license agreements. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Indus. Promotion Co. v. Versa Prods., Inc.*, 160 Wis. 2d 916, 923-24 (“To be innocent of patent misuse or even the perception of misuse, the agreement must clearly distinguish between payments for trade secrets and patent royalties.”). But the royalty step-down is an arbitrary

accommodation to the rule. The concept is that when a patent expires, the royalties due under a license should be reduced accordingly. *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1373 (11th Cir. 1983) (“Assuming that the value of the agreement to Pitney Bowes was not as high after the patents expired, it is reasonable to assume that at least some part of the post-expiration payment constituted an effort to extend payments for patent rights beyond the patent period.”). But that assumes both that the value of the license is due primarily to the licensed patents, and that the value of a patent relates only to the product or process developed by the licensee. Neither assumption is warranted.

We have already considered the many ways in which non-patent assets such as trade secrets may generate value for a licensee. Moreover, the value of such assets may change over time. Thus, the know-how covered by a hybrid license may increase in value over the course of the license.

Licensed patents are similarly difficult to evaluate, especially at the outset of a collaboration. For example, even though a broad patent covering a licensee’s product may expire, the license may continue to provide equivalent value to the licensee because a narrow but unexpired patent blocks a potential competitor from developing a similar product.

Brulotte does not merely increase complexity in licensing transactions; trying to accommodate the rule also increases transaction costs. *See, e.g.*, U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust*

Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (Apr. 2007) (“2007 DOJ/FTC Report”) at 121 (explaining that bundling different IP rights, i.e., trade secrets and patent rights, reduces transacting costs); Posner at 334 (“bundling reduces transaction costs”). One natural consequence of increasing transaction costs is a concomitant decline in the number of transactions. *See* Posner at 325 (“The higher that [transaction] cost, the less likely the transaction is to be made.”).

When the number of issues that must be negotiated in a license agreement increases, it is natural to expect that the cost of the transaction will also increase. Royalty terms in a hybrid license agreement are not “boilerplate” contractual terms; rather, they are at the core of the business agreement. Thus, it is BioTime’s experience that requiring parties to distinguish the value of the licensed patent rights from the licensed non-patent rights significantly increases the transaction costs associated with the license.

In summary, the *per se* rule adopted in *Brulotte* forces parties such as BioTime to make an allocation between licensed patent and non-patent assets. The rule thereby adds unnecessary complexity and cost to an already complex and expensive undertaking. *See* 2007 DOJ/FTC Report at 118-19 (noting that agreements that violate *Brulotte* “enables a licensor to overcome incomplete contracting” that prevents the parties from negotiating a satisfactory royalty rate).

CONCLUSION

For at least the foregoing reasons, the Court should overrule the “reluctant” judgment of the Court of Appeals for the Ninth Circuit and the holding in *Brulotte* that a royalty payment extending beyond the life of a licensed patent is illegal *per se*. BioTime supports a rule of reason approach to payments in license agreements, which is consistent with the Court’s recent precedents.

Respectfully submitted,

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