No. ______

IN THE

Supreme Court of the United States

ZIMMER BIOMET HOLDINGS, INC.,
Petitioner,

v.

MARY N. INSALL, AS EXECUTRIX OF THE ESTATE OF JOHN N. INSALL,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

A patent holder cannot "charge royalties for the use of his invention after its patent term has expired." *Kimble v. Marvel Enterprise, LLC*, 576 U.S. 446, 449 (2015); *see also Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Contract provisions requiring these payments are unenforceable. *Kimble*, 576 U.S. at 449.

This petition asks this Court to resolve a circuit split regarding when royalties are "for the use" of a patented invention. The decision below joins the Third Circuit in holding that whether royalties are prohibited turns on how the royalties are calculated.

Petitioner instead urges a straightforward interpretation of *Kimble* and *Brulotte*, consistent with the rule applied in the Ninth Circuit: a royalty—no matter how calculated—exchanged for patent rights may not be enforced after the patent term expires. Courts must consider whether patent rights were within the consideration exchanged for the royalty, not the details of how the royalty is calculated.

The rule adopted in the decision below provides a roadmap for parties to evade the public policy recognized by this Court.

The question presented is:

Whether an agreement for a royalty exchanged for patent rights that extends to sales of products as marketed or branded is enforceable under *Brulotte* and *Kimble*.

PARTIES TO THE PROCEEDINGS AND RULE 29.6 STATEMENT

The parties to the proceedings include those listed on the cover. Pursuant to Rule 29.6, Petitioner does not have a parent corporation, and no publicly held company owns 10% or more of Petitioner's stock.

RELATED PROCEEDINGS

United States Court of Appeals (7th Cir.):

Zimmer Biomet Holdings, Inc. v. Insall, No. 23-1888 (July 12, 2024)

United States District Court (N.D. Ill.):

Zimmer Biomet Holdings, Inc. v. Insall, No. 22-cv-2575 (Apr. 11, 2023)

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PETITION FOR WRIT OF CERTIORARI

Zimmer Biomet Holdings, Inc. respectfully petitions this Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit.

OPINIONS AND ORDERS BELOW

The Seventh Circuit's opinion is reported at 108 F.4th 512 and is reprinted in the Appendix at 1a–14a. The district court's memorandum opinion and order is not reported but was published at *Zimmer Biomet Holdings, Inc. v. Insall*, No. 22-CV-2575, 2023 WL 2895749 (N.D. Ill. Apr. 11, 2023), and is reprinted in the Appendix at 15a–28a.

STATEMENT OF JURISDICTION

The court of appeals entered judgment on July 12, 2024. This Court has jurisdiction under 28 U.S.C. § 1254.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Section 8 of Article I of the Constitution of the United States of America provides, in pertinent part:

> The Congress shall have power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;

Section 154 of Title 35 of the United States Code provides, in pertinent part:

> **(1) Contents.** —Every patent shall contain a short title of the invention and a grant to the

patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

(2) Term.—Subject to the payment of fees under this title, such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States[.]

STATEMENT OF THE CASE

This petition concerns the test for whether a royalty agreement violates public policy (and is thus unenforceable) under this Court's decisions in *Kimble* and *Brulotte*.

1. The Constitution empowers Congress to secure inventors the exclusive right to their discoveries "for limited times." U.S. Const. art. 1, § 8. By statute, Congress has generally limited patent rights to twenty years. 35 U.S.C. § 154.

After the patent term expires, the rights to make, use, and sell the patented invention become public property: "The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures." *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945). "[A]ny attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws." *Id.* at 256. A patentee may not "deprive the public of the benefits of the free use of the invention for which the public has paid by the grant of a limited monopoly." *Id.*

Applying these principles, this Court held that a "patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." *Brulotte*, 379 U.S. at 32. That case involved licenses that "dr[e]w no line between the term of the patent and the post-expiration period." *Id.* "The same provisions as respects both use and royalties [we]re applicable to each [period]." *Id.* Because the agreements attempted "to exact the same terms and conditions for the period after the patents have expired as they d[id] for the monopoly period," they were unenforceable. *Id.*

Decades later, this Court revisited *Brulotte* in *Kimble v. Marvel Entertainment, LLC*, 576 U.S. 446 (2015). The decision reiterated that when a "patent expires, the patentee's prerogatives expire too, and the right to make or use the article, free from all restriction, passes to the public." *Id.* at 451. Any attempt to limit a licensee's post-expiration use, "whatever the legal device employed, runs counter to the policy and purpose of the patent laws." *Id.* at 453.

With this guiding principle, *Kimble* explained that the rule of *Brulotte* "is simplicity itself to apply." *Id.* at 459. "A court need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice." *Id.*

2. This case originates from an agreement executed in 1991. The signatories were Zimmer Biomet Holdings, Inc. and Dr. John Insall, an orthopedic surgeon who specialized in knee reconstruction and replacement.

In this 1991 "License Agreement . . . for Knee Systems with Cruciate Retaining/Sacrificing Features" (the "1991 License Agreement"), Dr. Insall agreed to give Zimmer an exclusive worldwide license to the "Licensed Patents," which included any patents concerning "improvements relating to the" knee system with cruciate retaining/sacrificing features invented by Dr.

Insall over the next five years. CA7Appx299 (Article X); *see also* CA7Appx309 (Attachment A).

In exchange, Zimmer agreed to pay a royalty to Dr. Insall of one percent of the net sales price on all sales of the Product, regardless of whether the particular product was covered by one of the licensed patents.

The royalty payments were to continue—at the same rate—until "expiration of the last to expire of the patents licensed hereunder or so long as Product is sold by ZIMMER, whichever is last to occur." Appx18a (Article XIV, Section A). The defined term "Product" includes any device that would "infringe a Valid Claim" and any device which utilizes any "information, technical data, instruments or other know-how" developed by Dr. Insall that "relates to the manufacture, use or sale" of the knee system with cruciate retaining/sacrificing features. Appx17a; CA7Appx292 (Article I, Section F); CA7Appx291 (Article I, Section E).

The arbitration panel found, and neither party now disputes, that this perpetual royalty was exchanged for patent rights in 1991 and thus violated (and was unenforceable under) *Brulotte* and *Kimble*.

3. In 1994, Zimmer and Dr. Insall amended the 1991 License Agreement to address the development of additional, future knee systems. Dr. Insall agreed to consult exclusively with Zimmer "on the design and evaluation of implants" and "assist with the design of all implant components for any future knee system" until January 1, 2011. CA7Appx311.

Royalties for components of future knee systems would be 0.5% and would end one year after Dr.

Insall's death. Appx18a; CA7Appx304. The existing 1% royalty on sales of the Product—the NexGen Knee—was left unchanged.

Under the amendment, any component compatible with the NexGen Knee was treated as part of the NexGen Knee system (and subject to the higher, perpetual royalty), even if it was designed for a "future knee system":

> [K]nee system components which can be used either in the NexGen Knee or in a future knee system . . . shall be deemed components of the NexGen Knee and not of such future system.

CA7SealedAppx327.

Apart from these changes, the 1994 Amendment confirmed that, "[i]n all other respects the terms and conditions" of the 1991 License Agreement "shall remain in force." CA7Appx313.

4. Zimmer and Dr. Insall amended their agreement again in 1998. Appx18a. This amendment changed the test for which components would be subject to the (higher and perpetual) NexGen Knee royalty and which would be subject to the (lower and limited duration) future knee system royalty.

To qualify for the lower royalty as a "future knee system," a product had to satisfy five criteria:

> (a) include the femoral, tibial and tibial articular surface component;
>
> (b) are not existing or in design or development on the date hereof [1998];

> (c) are not marketed or referred to by Zimmer as "NexGen Knee" components;
>
> (d) do not include the geometry of the femoral/tibial bearing articular surface, the anterior femoral flange or the post-cam posterial stabilizing mechanism of the NexGen Knee regardless of the name of such devices; and
>
> (e) are not based upon a mobile tibial component.

CA7Appx316 (formatting modified); *see also* CA7Appx315-16 (providing that the 1% NexGen Knee royalty would apply to "all subsequently developed articles, devices or components marketed by Zimmer as part of the NexGen Knee family of knee components").

The 1998 Amendment reaffirmed that the higher royalties on the NexGen Knee would be owed "for so long as the NexGen Knee and the NexGen Knee family of knee components are sold." CA7SealedAppx328.

5. Dr. Insall died in 2000, Appx17a, and Zimmer ceased owing royalties on "future knee systems" in 2001.

But for all other products—including any product that was "existing or in design or development" in 1998; any product with specified geometry; and any product marketed or referred to as a "NexGen Knee" component—the agreement requires Zimmer to pay a perpetual 1% royalty, which will never terminate.

6. The parties have arbitrated two disputes in connection with the agreement: AAA Case No. 01-15-0002-6201 (the "Persona Arbitration") and AAA

Case No. 02-12-0001-4010 (the "NexGen Arbitration"). Although this petition relates to the latter, NexGen Arbitration, the arbitration panel relied heavily on testimony from the Persona Arbitration.

The Persona Arbitration—which occurred in 2016—concerned knee replacement products sold by Zimmer under the "Persona" brand. Appx3a; Appx25a. Dr. Insall's estate (the "Estate") argued that these products were subject to the perpetual "NexGen Knee" royalty.

Applying the definition of "future knee system" in the 1998 Amendment, the Persona panel concluded that the Persona products constituted "future knee systems." Appx25a–26a .

The panel rejected the Estate's reliance on the "compatibility" provision of the 1994 Agreement, which was replaced in the 1998 Amendment. CA7SealedAppx332. It was irrelevant whether the Persona components "c[ould] be used . . . in the NexGen Knee" (the test from the 1994 Amendment). *Id.* The controlling test for a "future knee system" is the five-part test of the 1998 Amendment.

Although the arbitration panel received testimony, its decision applies the plain and unambiguous text of the 1998 Amendment.

7. The decision below arises out of a challenge to the second arbitration, the NexGen Arbitration.

The last surviving U.S. patent licensed under the parties' agreement expired in March 2018. Appx4a. Following this Court's decisions in *Brulotte* and *Kimble*, Zimmer recognized that the perpetual-royalty provisions are unenforceable and ceased paying royalties to respondent. *Id.*

Respondent initiated arbitration, seeking a determination that Zimmer's royalty obligations continue forever, despite the licensed patents' expiration. *Id.*

The panel first held the original royalty provisions of the 1991 License Agreement violated public policy under *Brulotte* and *Kimble*. CA7SealedAppx324–26. The 1991 License Agreement was a "hybrid" agreement, encompassing inseparable patent and non-patent rights. CA7SealedAppx326. Such a "hybrid" agreement is generally "unenforceable beyond the expiration date of the underlying patent." *Id.* (quoting *Kimble v. Marvel Enters. Inc.*, 727 F.3d 856, 857 (9th Cir. 2013), *aff'd* 576 U.S. 446 (2015)).

But the arbitration panel nonetheless held that the 1998 Amendment rendered the perpetual royalty enforceable.

To reach this determination, the panel focused on two factors: (1) the scope of the royalty (including the parties' intent); and (2) the parties' negotiations. First, the panel emphasized that the royalty payment was not limited to Zimmer's products that practiced Dr. Insall's patents. Zimmer also owed a royalty on any products "marketed or referred to by Zimmer as 'NexGen Knee' components." Thus, the panel concluded that the 1998 Amendment "separates Insall's royalty rights from anything based on patents or technology." CA7SealedAppx334. Because the royalty included any products marketed by Zimmer as "NexGen Knee" components, the panel reasoned that the royalty was not "dependent on Insall's patents, products, or technology." *Id.*

Second, the panel relied heavily on the fact that the parties did not discuss Dr. Insall's patents (and thus concluded that he did not exercise "patent leverage") when negotiating the 1998 Amendment.

Because the royalty base extends to products marketed by Zimmer as NexGen Knee components and because the parties did not discuss Dr. Insall's patents in the negotiations that extended the royalty base, the panel concluded that Zimmer's payment of a perpetual royalty to the Estate did not violate public policy under *Brulotte* and *Kimble*.

8. Zimmer filed an action in the District Court for the Northern District of Illinois seeking vacatur of the arbitration award. Appx4a. The Estate cross-moved for confirmation of the Award. *Id*.

The district court confirmed the Award, *id*., agreeing with the panel that extending the royalty to cover products marketed as part of the NexGen Knee evaded the public policy prohibitions of *Brulotte* and *Kimble*: "The 1998 Amendment decoupled the royalty from Insall's patents by instead basing the royalty on sales of 'NexGen Knee and all subsequently developed articles, devices or components *marketed by Zimmer* as part of the NexGen Knee family of knee components." Appx27a (emphasis in original).

The district court held that "*Brulotte* does not apply to NexGen Knee royalties set out in the 1998 Amendment" because "post-expiration royalties are allowable so long as tied to a non-patent right," *id.* (quoting *Kimble*, 576 U.S. at 454), and the 1998 Agreement "ties payment to Zimmer's decision to market certain components as part of the NexGen Knee family," *id*.

9. Zimmer appealed to the United States Court of Appeals for the Seventh Circuit, which affirmed the district court. Appx2a.

Despite the limits on judicial review of arbitration awards, "[t]he question of public policy is ultimately one for resolution by the courts." *W.R. Grace & Co. v. Loc. Union 759, Int'l Union of United Rubber, Cork, Linoleum & Plastic Workers of Am.*, 461 U.S. 757, 766 (1983). The panel thus reviewed *de novo* whether the award violates public policy. Appx5a.

The decision below notes the arbitration panel's determination that *Brulotte* foreclosed the 1991 License Agreement's royalty provision. Appx11a. Testimony from the Persona Arbitration stated that the 1998 amendment "changed the structure" of the royalty and gave Insall a "royalty on components he doesn't have any technology in or any involvement in."

Accepting that the arbitration panel applied the correct legal test for public policy, the decision below credits the arbitration panel's determination that "the royalty payments in question were *not* grounded in any patent rights" and thus holds that the royalty "d[oes] not offend *Brulotte* and *Kimble*." Appx14a.

Zimmer now respectfully petitions this Court for certiorari.

REASONS FOR GRANTING THE PETITION

The decision below exacerbates a circuit conflict and unsettles the clear prohibition of *Brulotte*, which should be "simplicity itself to apply." *Kimble*, 576 U.S. at 459. Like the arbitration panel and district court, the decision below erroneously focuses on the way royalty payments are calculated, not the reason that royalty payments are owed.

The Third Circuit applies the same rule, holding that a "royalty obligation is unenforceable only if it is calculated based on activity requiring use of inventions after their patents expire." *Ares Trading S.A. v. Dyax Corp.*, No. 23-1487, 2024 WL 4020210, at *1 (3d Cir. Aug. 14, 2024). Like the decision below, the Third Circuit rejected the argument that *Brulotte* prohibits a perpetual royalty "that is exchanged for a patent license." *Id.* at *14.

The rule applied in the Seventh and Third Circuits conflicts with the Ninth Circuit's decision in *Kimble* and, arguably, with this Court's decision in *Kimble*. Marvel agreed to pay royalties on "product sales that would infringe the Patent . . . as well as sales of the Web Blaster product," which did not infringe the patent. *Kimble*, 692 F. Supp. 2d at 1165; *see also id.* ("The District Court ruled as a matter of law that the Web Blaster did not infringe the Kimble patent[.]"). This Court did not focus on the method of calculating the royalty or the breakdown of the royalty base between infringing and non-infringing products—it simply described the agreement as involving a "3% royalty on Marvel's future sales of the Web Blaster and similar products." 576 U.S. at 450. As in *Kimble*, the royalty here, which covered both infringing and non-infringing products, violated public policy.

Moreover, the rule of the Third and Seventh Circuits provides a roadmap for evading *Brulotte*. Parties often agree "to base royalties on total sales than to face the burden of figuring royalties based on actual use." *Zenith Radio Corp. v. Hazeltine Rsch., Inc.*, 395 U.S. 100, 138 (1969) (blessing the practice). Such a royalty, like the royalty at issue here, fits squarely within the public policy prohibition of *Brulotte* and *Kimble*.

This Court should grant certiorari.

I. Certiorari Is Warranted to Address the Conflict Over *Kimble*'s Prohibition of Royalties "For Post-Expiration Use of a Patent."

Kimble recognized the need for clear standards to guide parties in their contractual arrangements, emphasizing that *Brulotte* "is simplicity itself to apply." *Id.* at 459. "A court need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice." *Id.*

But the rule adopted in the Third Circuit and in the decision below renders the principle of *Brulotte* and *Kimble* anything but "simplicity itself."

Under the rule applied by the Third and Seventh Circuits, courts must analyze the royalty base and determine whether the scope of the royalty base matches the scope of the patents. And the decision below further suggests that courts must review the parties' negotiations to determine the extent to which patents were discussed and what motivated the parties to select a particular royalty calculation. Such an approach muddies *Kimble*'s clear standard and conflicts with its holding.

Nor does the rule adopted by the Third and Seventh Circuits protect the public against perpetual royalties that extend beyond a patent's expiration. The decision below, like the rule applied in the Third Circuit, allows a perpetual royalty so long as it is not expressly "calculated based on activity requiring use of inventions after their patents expire." *Ares Trading*, 2024 WL 4020210, at *1.

A. The Third and Seventh Circuits Have Adopted a Rule that Conflicts with *Kimble*.

The courts of appeals are divided on the meaning of *Brulotte* and *Kimble*'s prohibition of royalty payments "for post-expiration use of a patent." Does public policy prohibit a perpetual royalty only when it is expressly calculated based on use of a patent? Or does public policy prohibit a perpetual royalty that was exchanged for patent rights, even if the royalty extends beyond products that use the patent?

The decision below holds that because the perpetual royalty at issue is not limited to products that practice the expired patents but also includes products marketed or referred to by Zimmer as "NexGen Knee" components, it evades the public policy restrictions under *Brulotte* and *Kimble*. The Third Circuit's rule would reach the same result.

But under the test of *Kimble*, public policy prohibits "[a]ny attempt to limit a licensee's post-expiration use of the invention, 'whatever the legal device employed.'" 576 U.S. at 453 (quoting *Brulotte*, 379 U.S.

at 31). This royalty was exchanged for Dr. Insall's patent rights, and as in *Kimble*, the fact that it is not expressly calculated based on use of the patents does not let it evade this public policy prohibition.

1. The Third Circuit, like the decision below, focuses on how a royalty is calculated, not what it was exchanged for.

The Third and Seventh Circuits have narrowed *Brulotte* and *Kimble*, holding that they prohibit only royalty payments that are expressly calculated based on use of the expired patents.

In this case, the arbitration panel properly analyzed the original royalty provisions of the 1991 License Agreement, which it deemed a violation of *Brulotte* and *Kimble*. The 1991 License Agreement was a "hybrid" agreement, encompassing inseparable patent and non-patent rights. As the arbitration panel explained, such a "hybrid" agreement is "unenforceable beyond the expiration date of the underlying patent, unless the agreement provides a discounted rate for the non-patent rights." CA7SealedAppx340 (quoting *Kimble*, 727 F.3d at 857). Because there was no such provision or any other evidence of accounting for the patents' expiration, the 1991 License Agreement's royalty provision was unenforceable under *Brulotte* and *Kimble*. The district court and Seventh Circuit acknowledged the same. Appx11a; Appx24a.

But because the 1998 Amendment extended these royalties to products "marketed or referred to by Zimmer as 'NexGen Knee' components," the arbitration panel held that it made the royalty "no longer dependent on Insall's patents, products, or technology."

The decision below reiterates the arbitration panel's finding "that the 1998 amendments created a different royalty regime" by basing royalties on "a marketing and branding based determination." Appx11a; Appx12a. Agreeing that "the royalty payments in question" were no longer "grounded in any patent rights" after they were extended to products marketed as NexGen Knee components, the decision below holds that the royalty provisions of the 1991 License Agreement as amended "did not offend *Brulotte* and *Kimble*." Appx14a.

The Third Circuit applied an identical rule two months ago in *Ares Trading S.A. v. Dyak Corporation*. The Third Circuit determined that the royalty provisions of a license agreement complied with *Brulotte* because the "obligation [wa]s not calculated based on activity requiring use of inventions covered by the CAT Patents after their expiration." No. 23-1487, 2024 WL 4020210, at *1 (3d Cir. Aug. 14, 2024).

The Third Circuit interpreted "*Kimble*'s definition of *Brulotte*'s rule" to include three requirements. First, "post-expiration use" refers to "practicing the inventions after their patents expire—acts that would have infringed the patents pre-expiration." *Id.* at *11. Second, "to determine whether a royalty is 'provided for' post-expiration use, courts must determine whether the royalty is calculated based on activity requiring post-expiration use." *Id.* Third, "a royalty may be calculated based on activity requiring post-expiration use even if the royalty's value does not vary with that use." *Id.* at *11-12.

Because the royalty in *Ares* was not expressly calculated based on "post-expiration use of the inventions covered by the [patents-at-issue]," the Third Circuit held that "*Brulotte* is not implicated." *Id.*

The Third Circuit expressly rejected the argument (which Zimmer made below) that *Brulotte* applies "when a royalty obligation that is exchanged for a patent license survives undiminished into the post-expiration period." *Id.* at *14. According to the Third Circuit, "it is instead necessary to consider how the . . . royalties [a]re calculated." *Id.*

And the Third Circuit similarly rejected the argument (also raised by Zimmer below) that its holding conflicts with the facts of *Kimble* itself. The Third Circuit stated that this Court "granted certiorari in *Kimble* solely to determine whether *Brulotte* should be overruled" and thus "did not consider whether the Ninth Circuit correctly applied *Brulotte*." *Id.* at *16. Thus, the Third Circuit concluded that it was not bound by the outcome of *Kimble*.

The *Ares* decision suggests, alternatively, that the Ninth Circuit's opinion in *Kimble* could be interpreted as consistent with the rule it adopts. *Id.* The meaning of this paragraph is far from clear. The *Ares* opinion could simply be read as relying on the Ninth Circuit's presumption that "the post-expiration royalty payments [were] for the then-current patent use." *Id.*

Or the Third Circuit's decision may have focused on the fact that the royalty in *Kimble*—like the royalty at issue in this case—included both infringing and non-infringing products. *Id.* If so, even the Third Circuit's rule would invalidate the perpetual royalty at issue here.

2. The rule applied in the decision below and the Third Circuit conflicts with *Kimble*.

The facts of *Kimble* itself demonstrate the error in the decision below. There, Marvel agreed to pay royalties on "product sales that would infringe the Patent . . . as well as sales of the Web Blaster product," which did not infringe the patent. *Kimble*, 692 F. Supp. 2d at 1165; *see also id.* ("The District Court ruled as a matter of law that the Web Blaster did not infringe the Kimble patent[.]"). This agreement "involved one royalty rate for both patent and Web Blaster rights, with no distinction or other clear indication that the Web Blaster royalties were not subject to patent leverage." 727 F.3d at 864. The Ninth Circuit refused to draw the distinction urged by the patentee and held that providing "one royalty for patent rights and Web Blaster rights" violated public policy under *Brulotte*. *Id.*

This Court's decision did not focus on the method of calculating the royalty or the breakdown of the royalty base between infringing and non-infringing products. Instead, this Court simply described the agreement as involving a "3% royalty on Marvel's future sales of the Web Blaster and similar products." 576 U.S. at 450. This Court readily recognized that these royalties violated *Brulotte*, even though the royalty base included products that the licensed patents may not have covered.

Neither the Ninth Circuit nor this Court held (or even suggested) that a royalty becomes permissible if it extends beyond products covered by the expired patents.

3. Under the holding of *Kimble*, the perpetual royalty at issue violates public policy.

The royalty at issue in *Kimble* is remarkably similar to the royalty at issue in this case. In the same way that the royalty in *Kimble* applied to "product sales that would infringe the Patent . . . as well as sales of the Web Blaster product," the perpetual royalty here applies both to products that practice Dr. Insall's expired patents and products that do not.

Under the 1998 Amendment, Zimmer must pay a perpetual 1% royalty on any product it ever sells that:

> (a) [does not] include the femoral, tibial and tibial articular surface component;
>
> (b) [is] existing or in design or development on the date hereof [1998];
>
> (c) [is] marketed or referred to by Zimmer as "NexGen Knee" components;
>
> (d) . . . include[s] the geometry of the femoral/tibial bearing articular surface, the anterior femoral flange or the post-cam posterial stabilizing mechanism of the NexGen Knee . . . [or]
>
> (e) [is] based upon a mobile tibial component.

CA7Appx316. For as long Zimmer sells products that were in design or development in 1998—including products that practice Dr. Insall's patents—it must pay a royalty to the Estate. The same is true of products with the particular geometry of the NextGen Knee designed and patented by Dr. Insall.

Like the royalty in *Kimble*, this royalty extends beyond products that practice Dr. Insall's patents, and like the royalty in *Kimble*, the provision of "one royalty for patent rights and [non-patent] rights" violates public policy under *Brulotte*. 727 F.3d at 864. Following the analysis in *Kimble* on indistinguishable facts, the perpetual royalty at issue is unenforceable.

To the extent that this Court's decision in *Kimble* is read as affirming the Ninth Circuit's holding on the facts, the decision below "has decided an important federal question in a way that conflicts with relevant decisions of this Court." S. Ct. R. 10(c). To the extent that the Third Circuit is correct that this Court did not opine on the correctness of the Ninth Circuit's application of *Brulotte*, the decision below is "in conflict with the decision of another United States court of appeals on the same important matter." S. Ct. R. 10(a). Either way, certiorari is warranted.

B. The Decision Below Provides a Roadmap for Evading the Public Policy Prohibition.

Not only does the decision below (and the Third Circuit's *Ares* decision) conflict with *Kimble*, but its reading of *Brulotte* would render its public policy a dead letter, easily evaded.

Parties often find it convenient to base patent royalties on total sales rather than actual use, a practice this Court has blessed as a "convenient mode of operation":

> The royalty provision of the licensing agreement was sustained by the District Court and

> the Court of Appeals on the theory that it was a convenient 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. The Court of Appeals reasoned that since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege. Numerous District Courts which have had occasion to pass on the question have reached the same result on similar grounds, and we are of like opinion.

Automatic Radio Mfg. Co. v. Hazeltine Rsch., 339 U.S. 827, 833 (1950), *overruled on other grounds by Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). "Sound business judgment could indicate that such payment represents the most convenient method of fixing the business value of the privileges granted by the licensing agreement." *Id.*

In *Zenith Radio*, this Court reiterated that this practice is permissible "[i]f convenience of the parties rather than patent power dictates the total-sales royalty provision." 395 U.S. at 138. It may be "more convenient and efficient from several standpoints to base royalties on total sales than to face the burden of figuring royalties based on actual use." *Id.*; *see also Engel Indus., Inc. v. Lockformer Co.*, 96 F.3d 1398, 1408 (Fed. Cir. 1996) ("[R]oyalties may be based on unpatented components if that provides a convenient means for measuring the value of the license.").

The lesson of *Automatic Radio* and *Zenith Radio* is clear: parties may (and often do) base patent royalties on total sales rather than expressly conditioning them on "use" of the patent.

The holding of the Third Circuit and the decision below are based on the assumption that patent royalties must always be expressly calculated based on the use of a patent. This Court's decisions hold to the contrary, and if *Brulotte* and *Kimble* are limited to royalties expressly calculated based on the use of a patent, then they are easily evaded by common licensing arrangements. If the rule is truly this narrow, then such a decision should come from this Court.

II. The Issue is Important and Recurring.

There is significant need for this Court to clarify *Brulotte* and *Kimble*'s prohibition on royalty payments tied to patent rights after the patent's expiration.

The issue is recurring and will not resolve itself without this Court's review. Just this year, in addition to the decision below, the Ninth and Third Circuits have addressed the applicability of *Brulotte* and *Kimble*. *See C.R. Bard, Inc. v. Atrium Med. Corp.*, No. 23-16020, 2024 WL 3909375 (9th Cir. Aug. 23, 2024); *Ares Trading*, 2024 WL 4020210. And a little over two years ago, the Tenth Circuit addressed the issue in *Hildebrand v. Wilmar Corporation*, No. 21-1345, 2022 WL 2824258 (10th Cir. July 20, 2022).

Since *Kimble*, the issue has arisen frequently in the district courts as well. *See, e.g.*, *Dasso Int'l, Inc. v. Moso N. Am., Inc.*, No. 17-CV-1574, 2023 WL 5349374, at *7 (D. Del. Aug. 21, 2023); *Arconic Corp. v. Novelis*

Inc., 670 F. Supp. 3d 196, 200-204 (W.D. Pa. 2023); *Honeywell Int'l Inc. v. Opto Elecs. Co.*, No. 3:21-CV-00506, 2023 WL 3029264, at *10 (W.D.N.C. Apr. 20, 2023); *Bradley Corp. v. Lawler Mfg. Co.*, No. 1:19-CV-01240, 2022 WL 18958777, at *2-*4 (S.D. Ind. May 31, 2022); *Sunoco Partners Mktg. & Terminals L.P. v. U.S. Venture, Inc.*, 598 F. Supp. 3d 520, 528-530 (S.D. Tex. 2022); *De Simone v. VSL Pharms., Inc.*, 395 F. Supp. 3d 617, 635 (D. Md. 2019); *Tessera, Inc. v. Toshiba Corp.*, No. 15-CV-02543, 2019 WL 5395158, at *6 (N.D. Cal. Oct. 22, 2019); *PNY Techs., Inc. v. Netac Tech. Co.*, No. 13-cv-6799, 2019 WL 459245, at *3 (D.N.J. Feb. 6, 2019); *Galbraith Lab'ys, Inc. v. Nanochem Sols. Inc.*, No. 3:15-CV-00553, 2016 WL 3630163, at *5 (W.D. Ky. June 29, 2016); *Children's Med. Ctr. Corp. v. Celgene Corp.*, No. 13-cv-11573, 2016 WL 3561603, at *12 (D. Mass. Feb. 23, 2016); *Ocean Tomo, LLC v. Barney*, 133 F. Supp. 3d 1107, 1115-1116 (N.D. Ill. 2015).

A district court in the Sixth Circuit recently refused to follow the district court's decision in this case, holding that *Brulotte* and *Kimble* cannot be evaded by basing the impermissible royalty on a brand:

> There is no evidence before the Court that either EFE or Tanner had a role in the branding of Cricut machines. Because neither EFE nor Tanner have shown they contributed anything of value to Cricut's branding beyond the contributions to the design patents, it does not follow that EFE is entitled to royalties based on Cricut's use of its own branding.

Cricut, Inc. v. Enough for Everyone, Inc., No. 2:21-CV-00601-TS-DAO, 2024 WL 2847946, at *4 (D.

Utah June 5, 2024). There is similarly no evidence here that Dr. Insall had any role in the branding of Zimmer's products. He contributed nothing to the NexGen Knee brand beyond patents and trade secrets.[1] Like the agreements here, the agreement in *Cricut*, covered both products covered by the patents at issue and products that were not. The *Cricut* district court granted summary judgment that "the post-expiration royalty payments are unlawful per se." *Id.* at *5. *Cricut* confirms both that the issue arises frequently and that the split is deepening.

And even on the facts of this case, the issue is important. Perpetual royalties harm the public. Restricting Zimmer's use of Dr. Insall's discoveries "deprive[s] the public of the benefits of the free use of the invention for which the public has paid by the grant of a limited monopoly." *Scott Paper*, 326 U.S. at 256.

Here, because of the perpetual royalty agreement upheld in the decision below, the public must forever face increased costs and decreased innovation in the important field of medical devices, despite the fact

[1] The *Cricut* district court referenced a finding about decoupling the royalty from the patents at issue, but that "decoupling" concerned only future knee technology, not existing products or products that include the patented geometry, which remain subject to the perpetual royalty. *Compare Cricut*, 2024 WL 2847946, at *4 (D. Utah June 5, 2024) ("Moreover, there is no evidence presented here that the parties entered the 2007 agreement to 'decouple[ ] the royalty from [the design] patents,' as there was in *Zimmer*."), *with* Appx27a ("The 1998 Amendment decoupled the royalty from Insall's patents by instead basing the royalty on sales of 'NexGen Knee and all *subsequently developed* articles, devices or components marketed by Zimmer as part of the NexGen Knee family of knee components." (emphasis added)).

that Dr. Insall has already been more than well-compensated for the intellectual property rights he conveyed to Zimmer in 1991. *See, e.g.*, M. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117, 2134 (2013) ("A running or per-unit royalty would increase the cost of producing and selling products subject to the royalty and would thus tend to increase prices charged to buyers, reduce product sales, and result in deadweight loss."); W. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 Yale L.J. 267, 328 (1966) (recognizing that "[r]oyalties affect [the licensee's] marginal cost, and hence output and prices" during the period in which they accrue).

Nor is this an area of the law in which uncertainty should be tolerated. The circuit split undermines the predictability in private contractual arrangements that *Brulotte* and *Kimble* intended to create. As this Court has observed, "contractual and property rights" are "matters in which predictability and stability are of prime importance." *Landgraf v. USI Film Prods.*, 511 U.S. 244, 271 (1994). "Like any property rights," the boundaries of patent rights "should be clear," and "[t]his clarity is essential to promote progress, because it enables efficient investment in innovation." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730–31 (2002).

Whatever the right answer, the deepening circuit conflict on this question will upend parties' settled expectations regarding the applicability of *Brulotte* and *Kimble*. "Without . . . per se rules," like *Brulotte*'s, "businessmen would be left with little to aid them in predicting in any particular case what courts will find to be legal and illegal[.]" *United States v. Topco Assocs., Inc.*, 405 U.S. 596, 609 n.10 (1972).

The same royalty agreement should not be unenforceable in the Ninth Circuit but enforceable in the Third and Seventh Circuits. This Court should grant certiorari to clarify the rule before more contracts are erroneously held unenforceable or more decisions force the public to bear the burden of perpetual royalties.

III. The Issue is Squarely Presented, and This Case Is the Appropriate Vehicle to Resolve It.

The question presented was raised and squarely addressed by the Seventh Circuit.

This case is an ideal vehicle to resolve the circuit split on the *Brulotte* and *Kimble* inquiry. Zimmer did not (and does not) challenge the arbitration panel's findings of fact or its interpretation of the contract. Zimmer fully accepts them. Zimmer challenges only the arbitration panel's misapplication of *Brulotte* and *Kimble*, a legal issue for the courts. *W.R. Grace*, 461 U.S. at 766.

The only question is the correctness of the legal rule applied below: Does *Brulotte* and *Kimble*'s prohibition on post-expiration royalty obligations depend only on how the royalties are calculated? That is, must the royalty be expressly tied to use of the patent? Or does the public policy prohibition turn on what the royalties were exchanged for? The answer to that question is determinative.

No further percolation is necessary or warranted. There are only two possible answers to the legal question: The phrase "for post-expiration use of a patent" means either (1) calculated only based on use of a patent (as the decision below and Third Circuit hold); or (2) exchanged for patent rights, as this Court and the Ninth Circuit indicated in *Kimble*. Intervention by this Court is necessary, and it should come now.

CONCLUSION

For these reasons, this Court should grant the petition for writ of certiorari.

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