

PUBLICATION

Supreme Court Leaves Post-Patent Expiration Royalty Rule in Place

Authors: W. Edward Ramage

June 22, 2015

The U.S. Supreme Court today in *Kimble v. Marvel Entertainment, LLC* upheld the longstanding *Brulotte* rule that a patent owner cannot continue to receive royalties for sales made after its patent expires. In a 6-3 decision, the Court affirmed the lower court rulings that a licensee could cease paying royalties on a Spider-Man web shooter device after the underlying patent had expired. The Court held that the doctrine of *stare decisis* required adherence to *Brulotte*.

The *Brulotte* rule derives from the 1964 U.S. Supreme Court case of *Brulotte v. Thys Co.*, in which an inventor of a patented hop-picking machine licensed the invention to farmers in exchange for royalties from crops harvested both before and after his patents' expiration dates. The Court held that the license agreements were unenforceable because they impermissibly extended the patent monopoly beyond their statutory terms.

Since *Brulotte*, parties entering into deals involving patents have been creative in structuring their contracts so as to circumvent the rule. These include deferring payments for pre-expiration use into the post-expiration period, tying royalties to multiple patents, or even tying post-expiration royalties to non-patent rights. For example, so called "hybrid licenses" can involve both patents and trade secrets or "know-how," with a certain percentage royalty during the patent term, and a slightly lower percentage royalty post expiration (as payment for the trade secret or know-how, separate from the patent).

The case decided today arose because the petitioner/inventor, Stephen Kimble, was not aware of *Brulotte*. Mr. Kimble had received a patent for a device for shooting webs (pressured foam string) from the palm of the hand, allowing roleplay as a "spider person." Mr. Kimble met with the President of Marvel Entertainment's corporate predecessor to discuss his idea for "web-slinging fun." Shortly thereafter, Marvel began marketing a "Web Blaster" that allowed users to mimic Spider-Man with a glove and a canister of foam. Kimble sued Marvel for patent infringement and breach of oral contract. The parties settled for an initial lump sum payment and a 3% royalty on future sales. Marvel then found out about the *Brulotte* rule, and sought a declaratory judgment that it could cease paying royalties after the impending expiration of Kimble's patent. The district court agreed that the royalty provision would be unenforceable based on *Brulotte*, and the Court of Appeals for the Ninth Circuit affirmed, although noting that the rule was counterintuitive and its rationale unconvincing.

On appeal, the Supreme Court's analysis begins and ends with the doctrine of *stare decisis* (i.e., that doctrine that previous decisions by the Court should be recognized and followed by later Courts). The doctrine carries "enhanced force" when the prior decision interprets a statute, such as the statutory provision providing for a limited patent term. *Brulotte* had governed licensing agreements for more than 50 years, parties have relied on the rule to order their affairs, and the Court did not find sufficient reasons to change that. The Court also noted that Congress has spurned multiple opportunities to reverse *Brulotte*, and that any changes in the rule are more appropriately addressed by Congress.

While the *Brulotte* rule may be long-standing, a surprisingly high number of patent owners and licensees may have been unaware of it. Perhaps the main benefit of today's decision is educational: reminding those engaging in licensing transactions of the existence of *Brulotte* and the need to give careful consideration to how royalties are structured.

If you have questions regarding how this Supreme Court decision may affect your business, or other questions about your company's intellectual property, contact the author of this alert, W. Edward Ramage, or a member of the Firm's Intellectual Property Group.