Merchant & Gould
A Technology & Innovation Law Firm

ROYALTY AGREEMENTS ON EXPIRED PATENT REMAIN UNENFORCEABLE

6/23/15

In a 6-3 decision in *Kimble v. Marvel Entertainment, LLC*, the Supreme Court upheld its long-standing *Brulotte* rule barring royalty agreements over expired patents. [1] The Court adhered to the principles of *stare decisis* and required critics of the *Brulotte* rule to seek relief from Congress.[2]

I. The Facts and Proceedings Below

Petitioner Stephen Kimble ("Kimble") was issued a patent in 1991 that allows a child to play as Spider-Man by mimicking the superhero's web-shooting abilities with foam string. Kimble had discussion with the president of Marvel's corporate predecessor ("Marvel"), which verbally agreed to compensate Kimble if the company used his invention and related ideas. Marvel, however, allegedly used his ideas in developing a toy called "Web Blaster" without compensating Kimble. Kimble sued Marvel for infringement of the patent and breach of contract, and the dispute was settled in 2001. Under the settlement agreement, the patent and other non-patent intellectual property rights to Kimble's toy ideas were conveyed to Marvel, and Marvel agreed to pay Kimble a lump-sum payment and a running royalty payment of 3% on sales of the Web Blaster. The parties set no end date for royalties. At the time the agreement was signed, neither party was aware of the *Brulotte* decision.[3] In 2008, Kimble filed a suit against Marvel for breach of the settlement agreement. In defense, Marvel, which since became aware of *Brulotte*, counterclaimed, arguing it owed no further royalties after the expiration of the assigned patent.

The district court granted summary judgment to Marvel, reasoning that, in the absence of a royalty rate reduction at patent expiration or other indication to the contrary, the post-expiration royalty was at least partially attributable to the assigned patent and thus entirely uncollectable under *Brulotte*.[4] The Ninth Circuit affirmed, but acknowledged the criticism of *Brulotte*.[5]

II. The *Brulotte* Doctrine

In *Brulotte*,[6] a respondent, who was an owner of patents for hop-picking, sold a machine to a petitioner for a flat sum and issued a license for its use in return for a royalty for each hop-picking season. The royalty payments for the license were to continue beyond the expiration of the patents. The respondent sued the petitioner when the petitioner refused to make royalty payments accruing both before and after the expiration of the patents. The Court held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*," reasoning that "[t]he exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when ... the patent has entered the public domain." [7]

III. The Court's Reasoning

The Supreme Court affirmed the Federal Circuit's decision, adhering to *stare decisis* to uphold *Brulotte*.

The Court held that *Brulotte* involved a well-established patent law policy and a series of decisions supporting it.[8] The statutory patent term was carefully crafted by Congress to promote unrestricted public access to expired patents, [9] and the Court has declined laws and contracts that restrict such free public access to post-expiration inventions.[10] Applying this principle to a patent licensing agreement, the Court in *Brulotte* held the post-patent royalty provision was unlawful *per se* because it continued the patent monopoly beyond the statutory term, and, thus, conflicted with the patent law's policy.[11] The Court further recognized that, while *Brulotte* forbids a practice of extracting royalties for the post-expiration use of an invention, it leaves parties with options to achieve similar outcomes.[12] For example, *Brulotte* does not prohibit parties from deferring payments for pre-expiration use of a patent, tying royalties to non-patent rights, or making non-royalty-based business arrangements.[13]

The Court further found many reasons for staying the stare decisis course and no "special justification" for overruling *Brulotte*.[14] Where a precedent, as in *Brulotte*, interprets a statute, *stare decisis* carries enhanced force because critics can take their objections to Congress.[15] In fact, Congress had multiple opportunities to reverse *Brulotte* for more than half a century, but did not amend the specific patent provision on which *Brulotte* rested.[16] The Court saw that Congressional silence reinforces *Brulotte*. In addition, *Brulotte* involves both property (patents) and contract (licensing agreements) rights, in which considerations favoring *stare decisis* are "at their acme," because parties are especially likely to rely on such precedents in taking their actions.[17] Further, the Court observed that the patent statute at issue in *Brulotte*, as well as the precedents on which *Brulotte* relied, have not changed over time.[18] Moreover, the Court found that the decision itself is much simpler to apply than Kimble's proposed approach that employs antitrust law's rule of reason.[19]

Finally, the justifications offered by Kimble were not sufficient to persuade the Court to overrule *Brulotte*.[20] Kimble first argued that *Brulotte* rested on a mistaken view of the competitive effects of post-expiration royalties.[21] The Court responded that, even assuming Kimble's argument had merit, Congress is the right entity to fix it because the patent laws are statutory laws unlike the Sherman Act, which gives courts exceptional authority to shape the law based on economic analysis.[22] Kimble also argued that *Brulotte* discourages technological innovation and harms the national economy.[23] The Court was not persuaded by this argument without empirical evidence connecting *Brulotte* to decreased innovation, and again deferred to Congress for addressing *Brulotte* consequences for innovation.[24]

---

[1] No. 13-720, 576 U.S. , slip op. (June 22, 2015).

[2] Slip op. at 1.

[3] *Brulotte v. Thys Cor.*, 379 U.S. 29 (1964).

[4] *Kimble v. Marvel Enters., Inc.*, 692 F. Supp. 2d 1156 (D. Ariz. 2010).

[5] *Kimble v. Marvel Enters., Inc.*, 727 F.3d 856 (9th Cir. 2013).

[6] *Brulotte*, 379 U.S. at 29.

[7] *Id.* at 32-33.

[8] *Kimble*, slip op. at 3-5.

[9] 35 U.S.C. §154(a)(2).

[10] *See, e.g., Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945).

[11] *Kimble*, slip op. at 5.

[12] *Id.* at 6.

[13] *Id.*

[14] *Id.* at 8.

[15] *Id.*

[16] *Id.* at 8-9. ("Indeed, Congress has rebutted bills that would have replaced *Brulotte*'s *per se* rule with the same antitrust-style analysis Kimble now urges.").

[17] *Id.* at 9.

[18] *Id.* at 10-11.

[19] *Id.* at 11-12.

[20] *Id.* at 12-18.

[21] *Id.* at 12-13.

[22] *Id.* at 14-15.

[23] *Id.* at 16.

[24] *Id.* at 17.