One Minute Memo®

High Court Upholds Ban On Post-Expiration Patent Royalties While Recommending Loopholes

By Matthew A. Werber

Background

On Monday, the U.S. Supreme Court left intact a 50-year-old rule prohibiting royalties for post-expiration use of a patent. In *Kimble v. Marvel Entertainment, LLC*, No. 13-720 litigation arose from Marvel's licensing of an invention that enables would-be action heroes to mimic Spider-Man by shooting pressurized foam string from a glove. In their license agreement the parties set no end date for payment of patent royalties. When Marvel learned of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) – which held that agreements requiring payment of patent royalties after expiration are "unlawful per se" – Marvel initiated litigation to confirm it could cease paying royalties.

Supreme Court Decision

In urging the Court to abandon *Brulotte*, Kimble argued that it harms competition and prevents parties from having the freedom to enter into deals they desire. The court had some fun in finding these reasons insufficient to overturn clear precedent: "As against this superpowered form of stare decisis, we would need a superspecial justification to warrant reversing *Brulotte*."

Also factoring into the decision was the fact that the *Brulotte* rule is extremely narrow. Thus, parties still have the freedom to negotiate a deal that provides for a longer payment period. The Court observed:

> [P]arties can often find ways around *Brulotte*, enabling them to achieve those same ends. To start, *Brulotte* allows a licensee to defer payments for pre-expiration use of a patent into the post-expiration period; all the decision bars are royalties for using an invention after it has moved into the public domain.

Implications

For those crafting patent license agreements, the 6-3 majority decision is, in large part, a non-story as it simply upholds well established precedent most have known about for decades. Still, *Kimble* provides a greater degree of certainty as to the types of licenses a court should find permissible – if there was any room for doubt to begin with. The court even provided examples of ways to structure a deal to avoid *Brulotte* scrutiny:

> A licensee could agree, for example, to pay the licensor a sum equal to 10% of sales during the 20-year patent term, but to amortize that amount over 40 years. That arrangement would at least bring down early outlays, even if it would not do everything the parties might want to allocate risk over a long timeframe.

The Majority also explained that *Brulotte* allows for post-expiration royalties tied to non-patent rights like a trademark or trade secret, even if closely related to the patent.

Thus, going forward, patent licensors/licensees should be well equipped to negotiate deals that get around *Brulotte*. Per *Kimble*, the key is simply the wording of the agreement as parties "need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice."

Matthew A. Werber is a senior associate in the Intellectual Property practice group in Seyfarth's Chicago office. If you have any questions, please contact your Seyfarth attorney or Matthew A. Werber at mwerber@seyfarth.com.

Seyfarth Shaw LLP One Minute Memo® | June 25, 2015