



Alerts

U.S. Supreme Court Maintains Prohibition on Post-Patent Expiration Accrued Royalties

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Hinshaw Alert

On June 22, 2015, the U.S. Supreme Court decided [*Kimble v. Marvel Entertainment, LLC*](#) and held that, primarily for *stare decisis* reasons, it would not overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which had prohibited post-patent expiration royalties for use of formerly patented inventions. While not endorsing the economics underpinning *Brulotte*, the Court viewed Congress as the appropriate audience to resolve any complaints.

Stephen Kimble owned a utility patent on a toy that allowed people to shoot pressurized foam strings from the palm of their hands. After patent infringement litigation over a Spider-Man toy, Marvel acquired Kimble's patent and agreed to an upfront payment, as well as a 3 percent royalty on its future sales of the Spider-Man toy. The 3 percent royalty provision had no end date as neither party was aware of *Brulotte* at the time of the agreement. In *Brulotte*, the U.S. Supreme Court had prohibited a patentee's receiving royalties from a licensee for sales made after patent expiration. A provision for such post-expiration royalties was found to be unenforceable and unlawful *per se*.

Marvel subsequently discovered *Brulotte* and sought a declaratory judgment that it could stop paying royalties once the patent expired. The federal district court agreed with Marvel and the U.S. Court of Appeals for the Ninth Circuit, being bound by *Brulotte*, reluctantly affirmed. The Supreme Court granted *certiorari* to decide whether it should overrule *Brulotte* given the significant economic criticism of the decision.

The Court's 6-3 opinion, by Justice Elena Kagan, began by noting that the Court had long protected the public's right to freely use inventions of expired patents. The Court acknowledged that *Brulotte* may hamper some parties' preferred contractual arrangements. For example, spreading royalties out over a longer period of time might make the invention affordable to more licensees. Such an arrangement also might better allocate the risks and rewards associated with technology that may take many years to commercialize.

Thus, Kimble contended the Court should abandon *Brulotte* and adopt a flexible, case-by-case analysis using the rule of reason. The Court declined to do so for *stare decisis* reasons. "*Stare decisis*—in English, the idea that today's Court should stand by yesterday's decisions—is 'a foundation stone of the rule of law.'" While not an "inexorable command," *stare decisis* is the "preferred course." According to the Court, *Brulotte* involved statutory *stare decisis*, which is harder to overcome than constitutional reasoning because complaints about

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statutory interpretation can be taken up with Congress. In the 50 years since the Supreme Court decided *Brulotte*, Congress has amended the patent laws many times, but never changed this rule. Moreover, in cases like this one, involving property and contract rights, considerations favoring *stare decisis* are at their strongest. The Court noted that many parties may have relied on *Brulotte* to structure their transactions.

The Court further found that none of the typical bases for overcoming the force of *stare decisis* apply here, even if *Brulotte* may have been wrongly decided. "*Brulotte*'s statutory and doctrinal underpinnings have not eroded over time." *Brulotte* has not proved unworkable, but is "simplicity itself," especially compared to the "elaborate inquiry" proposed by Kimble. The Court did not take issue with Kimble's assertion that post-expiration accrued royalties are not necessarily anti-competitive. Rather, the Court viewed that as an argument to make to Congress. In any event, the Court did not agree that *Brulotte* depended on such an assertion. *Brulotte* focused on patent law, not antitrust law. The patent law does not aim to maximize competition. To the extent Kimble has an issue with patent policy, he should take it up with Congress.

As a practical matter, the Court noted that contracting parties have other permissible mechanisms to achieve their goals short of incorporating prohibited post-expiration accrued patent royalties. The parties can agree to:

- defer payment for pre-expiration use over a longer period of time, even into expiration
- pay royalties under multiple patents with different expirations
- tie royalties to additional rights beyond the patent, such as a trade secret
- use a joint venture to allocate risk and reward for the commercialization of an invention

Justice Samuel Alito wrote the dissent and argued that "*stare decisis* does not require us to retain this baseless and damaging precedent." The dissent argued that *Brulotte* did not involve statutory interpretation, but rather was pure policymaking. As such, the Court should feel free to overrule *Brulotte*, whose "reasoning has been soundly refuted."

For more information, please contact Patrick L. Patras or your regular [Hinshaw attorney](#).