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SUMMARY

U.S. Supreme Court ruling affirms that a patent owner cannot receive patent royalties on sales after the patent expires.

If you have any questions regarding the issues raised by the *Kimble v. Marvel Entertainment, LLC* decision, please contact:

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U.S. SUPREME COURT RULING AFFIRMS THAT A PATENTEE CANNOT CHARGE PATENT ROYALTIES ON SALES AFTER THE PATENT EXPIRES

On June 22, 2015, the U.S. Supreme Court issued a ruling in *Kimble v. Marvel Entertainment, LLC,* affirming that a patent owner cannot receive patent royalties from its patent licensee on sales of a product covered by the patent after the patent expires.

Background of the Case

In 1990, Stephen Kimble ("Kimble") patented a hand-held toy that shoots foam string. Kimble met with the president of Marvel Entertainment, LLC ("Marvel"), a marketer of Spider-Man products, to discuss selling or licensing the patent to Marvel. Marvel declined, but then began marketing a "Web Blaster" toy. In 1997, Kimble sued Marvel for patent infringement, and the parties settled the litigation. In their settlement agreement, Marvel agreed to purchase Kimble's patent for a lump sum (of roughly $500,000) and a 3% royalty on Marvel's future sales of the Web Blaster toy. The agreement did not specify an end date for payment of the royalties.

Later, Marvel learned of a patent case, *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) ("*Brulotte*"), that held that a patentee cannot collect patent royalties for sales made after the patent expires. Marvel then filed a declaratory judgment action in federal district court, requesting that the court confirm that Marvel could stop paying royalties to Kimble in 2010, when Kimble's patent would expire. The district court agreed with Marvel, holding that *Brulotte* "made the royalty provision ... unenforceable after the expiration of the Kimble patent." Kimble appealed to the Court of Appeals for the Ninth Circuit, but that court affirmed the *Brulotte* rule. Kimble then appealed to the U.S. Supreme Court, requesting that it overrule *Brulotte*.

In its 6-3 opinion, the Supreme Court adhered to its prior decision in *Brulotte*, citing the doctrine of *stare decisis*. Under this doctrine, courts adhere to a principle established by a court with regard to a certain set of facts when future cases present substantially similar facts. The Court indicated that overruling a case requires "special justification" and not just the belief "that the precedent was wrongly decided." The Court noted that a patent typically expires 20 years from its application date under the patent laws (35 U.S.C. § 154(a)(2)); after expiration, the public has the unrestricted right to use the formerly patented invention. The Court further noted that *Brulotte* applied this principle of "free public access to formerly patented inventions" to a patent license agreement when it held that "the post-patent royalty provision was unlawful *per se* … because it continued the patent monopoly beyond the [patent] period."

The Court then found several "good reasons for adhering" to precedent and rejected the justifications Kimble provided for overruling *Brulotte* as insufficient. In particular, the Court indicated that "*stare decisis* carries enhanced force" when a precedent interprets a statute because Congress can reform the statutes. Here, Congress had many opportunities to enact legislation that would reverse *Brulotte*, but it did not. The Court also provided examples of alternatives that parties have post-*Brulotte*: "*Brulotte* leaves parties free to defer payments for pre-expiration use of a patent, tie royalties to non-patent rights, or make non-royalty-based business arrangements." Accordingly, the Court affirmed the Ninth Circuit's appellate decision.

Impact of *Kimble*

Post-*Kimble*, patent licensors (including universities) remain free to negotiate pre-expiration patent royalties, and to pursue alternatives such as taking royalties to non-patent rights. For example, post-*Kimble,* as was the case post-*Brulotte*, parties can pursue alternative arrangements for "hybrid" licenses where both a patent and a non-patent right (*e.g.*, a copyright or a property right in a tangible research product) to an invention are licensed together. In one such hybrid license arrangement, the patent and copyright owner (licensor) would be free to negotiate separate patent and copyright royalty rates for the life of the patent and copyright, respectively. For example, an agreement could provide that, if the patent expires first (and the licensee is thus no longer obligated to pay patent royalties), the licensee's obligation to pay copyright royalties continues for the life of the copyright (which typically has a much longer statutory life). Alternatively, the parties could negotiate a single royalty for the combination of the patent and copyright while both are in force, followed by a lesser royalty (for just the copyright) after the patent expires.