



THINK FORWARD

Supreme Court in *Kimble v. Marvel Enterprises, Inc.*, Upholds Rule Barring Contracts for Post Expiration Patent Royalties

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On June 22, 2015, the Supreme Court in *Kimble v. Marvel Enterprises, Inc.* No. 13-720, applied *stare decisis* to uphold its 1964 decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), where the Court previously held that a patent holder cannot charge royalties for the use of the invention after the patent has expired.

Background

In *Kimble*, the parties resolved a dispute over the Kimble patent with a settlement agreement that entitled Petitioner Kimble to a lump sum payment and a 3% running royalty for sales of certain products covered by the agreement. The settlement agreement did not specify an end date for the royalties. A subsequent dispute arose between Kimble and Respondent Marvel Entertainment, LLC as to whether Marvel was required to make royalty payments beyond the expiration of the Kimble patent. Marvel obtained a declaratory judgment that *Brulotte* made the post-expiration royalty provision unenforceable. The Ninth Circuit affirmed, noting that it was “bound to follow *Brulotte*” but complaining that the *Brulotte* rule “is counterintuitive and its rationale is arguably unconvincing.”

Supreme Court Decision

In a 6-3 decision authored by Justice Kagan, the Court applied *stare decisis* to adhere to the rule set in *Brulotte*. According to the majority, Congress has had ample opportunity to overturn *Brulotte* and yet declined to do so. The Court also noted how, “[i]n case after case, the Court has construed [the patent laws] to preclude measures that restrict free access to formerly patented, as well as unpatentable, inventions.” The Court rejected arguments that *Brulotte* is based on incorrect economic analysis and suppresses technological innovation.

Writing for the dissent, Justice Alito (joined by Chief Justice Roberts and Justice Thomas) criticized the majority’s reliance on *stare decisis* and Congressional failure to overrule *Brulotte*.

The Impact of the Decision

While upholding the *Brulotte* rule, the Court gave the following examples for contracting around *Brulotte*:

- “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.”
- “And parties have still more options when a licensing agreement covers either multiple patents or

additional non-patent rights. Under *Brulotte*, royalties may run until the latest-running patent covered in the parties' agreement expires."

- "Too, post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent. That means, for example, that a license involving both a patent and a trade secret can set a 5% royalty during the patent period (as compensation for the two combined) and a 4% royalty afterward (as payment for the trade secret alone)."
- "Finally and most broadly, *Brulotte* poses no bar to business arrangements other than royalties—all kinds of joint ventures, for example—that enable parties to share the risks and rewards of commercializing an invention."

European Counterpart to *Brulotte*

The European Court of Justice is currently considering a similar issue in *Genentech Inc. v Hoechst GmbH*. That case involves a dispute over a 1992 license that requires royalties for use of a European patent revoked in 1999. An international arbitrator ruled that German law requires a licensee to pay royalties even on a patent later found to be invalid. The question before the European Court is whether "the provisions of Article 81 of the Treaty (must) be interpreted as precluding effect being given, where patents are revoked, to a license agreement which requires the licensee to pay royalties for the sole use of the rights attached to the licensed patent?"

If you have any questions or wish to discuss how the Court's decision may impact your company, please feel free to [contact one of our attorneys](#).