How Not to Get Snared in Brulotte's Web

Written by Donald R. Ware, Marco J. Quina

June 29, 2015

The Supreme Court's Kimble Decision Reminds Licensors and Licensees to Evaluate Post-Expiration Royalties with Care

On June 22, 2015, the Supreme Court, in *Kimble v. Marvel Entertainment, LLC*, declined to overrule–on *stare decisis* grounds–its decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), in which the Court had held that a patent holder cannot charge royalties for the use of his invention after its patent term has expired. The continuing vitality of *Brulotte* highlights the need for licensors and licensees to attune themselves to the contours of *Brulotte* during license negotiations and to evaluate their rights under preexisting license agreements.

Prior to the decision in *Kimble*, *Brulotte* had long been criticized by appellate courts, commentators, and economists as an anachronistic, misguided doctrine that promoted economically inefficient licensing. Kimble, who claimed that Marvel owed him a royalty for its Spiderman web blaster, brought those criticisms to the Court after a mutually negotiated royalty term was held unenforceable by the Ninth Circuit under *Brulotte*. The Supreme Court, peppering its decision with references to comic book superheroes, did not disagree with those criticisms. But, it declined Kimble's invitation to overrule *Brulotte* because it could find no special justification to depart from *stare decisis*.

Although the Court's decision primarily focuses on the application of *stare decisis*, it contains an important discussion of *Brulotte*'s scope that should not be overlooked by practitioners. The Court emphasized that *Brulotte*'s reach was relatively narrow, and that "parties can often find ways around *Brulotte*." "[A]ll [*Brulotte*] bars," the Court explained, "are royalties for using an invention after it has moved into the public domain." Thus, in evaluating the validity of a royalty provision, "[a] court need only ask whether a licensing arrangement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice."

The Court identified several scenarios in which a license requiring post-expiration royalty payments would nevertheless pass muster:

- A royalty arrangement allowing a licensee to defer payments for pre-expiration use of a patent into the post-expiration period.
- A royalty which requires payments until the expiration of the latest-running licensed patent.
- Post-expiration royalties that are tied to a non-patent right, even if closely related to a patent.
- Arrangements like joint ventures that enable parties to share the risks and rewards of commercializing an invention.

As these scenarios show, whether or not an agreement passes muster under *Brulotte* in practice turns more on the technical structure of the royalty arrangement than its economics. Perhaps the major takeaway from *Kimble* is its reminder to practitioners that *Brulotte* issues must be carefully considered when structuring a royalty arrangement or evaluating a license. Licensors and licensees should make sure that counsel understands *Brulotte*, and its nuances, in negotiating or evaluating their license agreements. In particular, parties should be especially on the lookout for *Brulotte* issues when reviewing agreements that require royalties tied to some period or metric other than patent expiration, such as a term of years or first commercial sale of a licensed product.

The Court having breathed new life into *Brulotte*, the rule will continue to pose a dangerous trap for the unwary. But the risk of a royalty provision's being found to be unenforceable is easily avoidable during license negotiations if parties craft payment terms thoughtfully and think through those issues in advance. If they do not, the licensor may later discover that not even Spiderman can save the day.

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