



## ARE Patent Law Alert: Supreme Court Upholds Prior Precedent On Post-Expiration Royalty Payments

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*Kimble v. Marvel Entertainment, LLC*, No. 13-720 (U.S. June 22, 2015)

On June 22, 2015, the Supreme Court of the United States issued a decision in *Kimble v. Marvel Entertainment, LLC*, No. 13-720, slip op. (U.S. June 22, 2015), in which the Court declined to overrule its prior precedent in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which prohibited royalty payments for sales post-patent expiration.

### Factual Background

Petitioner Kimble is the owner of U.S. Patent No. 5,072,856 for a toy that allows children to shoot foam string or “spider webs” out of the palm of their hand. Marvel Entertainment, LLC (“Marvel”) sells the “Web Blaster” which similarly allows Spider-Man fans to shoot foam through a polyester glove, thus mimicking Spider-Man. In an effort to settle a patent infringement litigation brought by Kimble against Marvel, the parties entered into an agreement whereby Marvel would purchase Kimble’s patent for a lump sum and a continuing three percent royalty payment on Marvel’s future sales of the Web Blaster (or similar product). The agreement did not set an end date for the royalty payments.

After a dispute arose regarding Marvel’s royalty obligations under the agreement, Kimble sued Marvel for breach of contract, and after becoming aware of the Supreme Court’s decision in *Brulotte*, Marvel sought a declaratory judgment that it did not owe royalty payments after the Kimble patent expired in 2010. The district court agreed with Marvel, holding that under *Brulotte*, “the royalty provision is unenforceable after the expiration of the Kimble patent.” *Kimble v. Marvel Enters.*, 692 F. Supp. 2d 1156, 1161 (D. Ariz. 2010). The United States Court of Appeals for the Ninth Circuit affirmed “reluctantly,” acknowledging that the application of *Brulotte*, “arguably deprives Kimble of part of the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement.” *Kimble v. Marvel Enters.*, 727 F.3d 856, 866 (9th Cir. 2013). The Supreme Court affirmed.



## Supreme Court Decision

Justice Kagan, writing for the 6-3 majority, held that *stare decisis* required the Court to uphold *Brulotte* which bars license agreements that require royalty payments after a patent expires. The Court held that “[f]inding many reasons for staying the *stare decisis* course and no ‘special justification’ for departing from it, we decline Kimble’s invitation to overrule *Brulotte*.” *Kimble v. Marvel Entertainment, LLC*, No. 13-720, slip. op. at 18 (U.S. June 22, 2015). Specifically, the Court found that the typical reasons for overturning precedent of the Court did not help Kimble. *Id.* at 10.

The Court found that there was no “superspecial justification to warrant reversing *Brulotte*.” *Id.* *Brulotte*’s “statutory and doctrinal underpinnings have not eroded over time,” since the patent law on which *Brulotte* relies has remained the same. *Id.* Similarly, the precedent on which *Brulotte* relies remains good law. *Id.* at 10-11. Secondly, *Brulotte* has not proven unworkable. To the contrary, *Brulotte* is simply applied, merely requiring a court to ask “whether a licensing agreement provides royalties for post-expiration use of a patent.” *Id.* at 11-12. Finally, the Court found that Kimble’s justifications for overturning *Brulotte* were not persuasive. *Id.* at 12. Rather, the proper audience for Kimble’s concerns is Congress not the Court. *Id.* at 16-18.

Interestingly, the Court noted that parties to an agreement can find ways around *Brulotte*. In particular, *Brulotte* allows for royalty payments incurred during the life of the patent to be deferred “into the post-expiration period.” *Id.* at 6. According to the Court, parties to an agreement have even more options “when a licensing agreement covers either multiple patents or additional non-patent rights.” *Id.* For instance, royalties may run until the last to expire patent expires. Or, where a license is tied to both patent rights and non-patent rights, such as a trade secret, other mechanisms can be used. *Id.*

In a dissenting opinion, Justice Alito wrote that *Brulotte* “interferes with the ability of parties to negotiate licensing agreements that reflect the true value of a patent, and it disrupts contractual expectations.” *Kimble v. Marvel Entertainment, LLC*, No. 13-720, slip. op. at 1 (U.S. June 22, 2015) (Alito, J., dissenting).

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