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Practice Considerations Post *Kimble v. Marvel*

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The U.S. Supreme Court's recent decision in *Kimble et al. v. Marvel Entertainment, LLC*, rejuvenates a 50-year old rule addressing patent royalties, bringing it to the forefront of patent and licensing practice. On June 22, 2015, the Court upheld the *per se* rule barring a patent licensor's collection of royalties for use of a claimed invention beyond the expiration date of the underlying patent. The Court directly addressed criticisms of its rule, which originated in the 1964 *Brulotte v. Thys Co.* decision, and foreclosed speculation about continued viability of *Brulotte's* bright-line rule in current practice.

The facts of *Kimble* are not particularly compelling, but they present a common issue in patent agreements: how to construct a license or settlement agreement that encompasses patent and non-patent rights beyond the expiration date of the underlying patent. The district court, reading the settlement agreement in *Kimble* as a hybrid license (granting patent and non-patent rights), held that *Brulotte* precluded Kimble from recovering royalties beyond the expiration of the underlying patent. The Ninth Circuit "reluctantly" affirmed the district court, holding that a "licensing agreement encompassing inseparable patent and non-patent rights is unenforceable beyond the expiration date of the underlying patent, unless the agreement provides a discounted rate for the non-patent rights or some other clear indication that the royalty at issue was in no way subject to patent leverage." Echoing its previous criticism, the Ninth Circuit noted that "*Brulotte* 'runs counter to the usual task in a contract case – to interpret the terms agreed upon by the parties,'" and it "renders some aspects of otherwise valid contracts unenforceable [for the unconvincing economic reason] that 'the free market visualized for the post-expiration period would be subject to monopoly influences' if 'a royalty agreement was allowed to project beyond the expiration date of the patent.'"

Breaking from its recent trend of overturning lower courts on patent law issues, the Court affirmed the Ninth Circuit in a 6-3 decision. Relying on the doctrine of *stare decisis*, the Court reasoned that *Kimble* did not provide the "'special justification'—over and above the belief 'that the precedent was wrongly decided'"—needed to overturn *Brulotte*. In fact, because *Brulotte* lies at the intersection of patents (property law) and agreements (contract law), the majority pointed to the need for "superspecial," and not just traditional, justification to overturn *Brulotte*. Kimble failed to summon such justification. Thus, *Brulotte* and its underlying rationale remain valid and provide a guiding principle for patent agreements: upon patent expiration, the claimed invention "passes to the public," and any contract provision limiting the public's free use undermines the limited monopoly granted with a patent.

Had the Court overturned *Brulotte* and replaced its *per se* rule with a more flexible "rule of reason" analysis proposed by Kimble, contracting parties would have had more options for allocating royalties beyond the life of a patent. But, even with the Court's affirmance of the current bright-line rule, creative ways exist to avoid running afoul of *Kimble* and *Brulotte*. For example, agreements can extend payments for pre-expiration patent use into the post-expiration period; multi-patent agreements can extend royalties until the latest-running underlying patent expires; and hybrid agreements granting patent and non-patent rights can utilize a layered royalty plan with a reduced royalty rate upon patent expiration. As noted by the *Kimble* Court, *Brulotte* permits all such arrangements.

Thus, while *Kimble* maintains a bright-line rule for royalties tied to post-expiration use of the underlying patents, *Kimble* permits a number of creative licensing and other business arrangements. To avoid any doubt that *Brulotte's per se* rule does not apply in such arrangements, contracting parties should endeavor to make clear that any post-expiration royalty payment is not for post-expiration use of the claimed technology. The parties can accomplish this by expressly reciting the clarification in the agreement.

The Court's renewed interest in *Brulotte* also reaffirms not only the existence of the rule (the parties in *Kimble* overlooked it during contract formation), but the importance of strategically prosecuting patent applications as well. Patent licenses can bring in significant day-to-day revenue towards the end of their term. *Brulotte* cuts off that revenue stream the day the patent expires. Thus, to maximize patent term and potential licensing revenue, patent-holders should avoid applicant delays when shepherding their applications through the U.S. Patent and Trademark Office.

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