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Federal Circuit Patent Bulletin: *Kimble v. Marvel Entm't, LLC*

June 22, 2015

"[We decline to overrule the Brulotte Rule] that a patent holder cannot charge royalties for the use of his invention after its patent term has expired."

On June 22, 2015, in *Kimble v. Marvel Entm't, LLC*, the Supreme Court of the United States (Kagan,* Scalia, Kennedy, Ginsburg, Breyer, and Sotomayor; Alito, Roberts, and Thomas, dissenting) affirmed the U.S. Court of Appeals for the Ninth Circuit judgment upholding the district court's judgment that Marvel could cease payment of a 3% future royalty of indefinite term to Kimble under a settlement agreement involving U.S. Patent No. 5,072,856, which related to a toy that allows children (and young-at-heart adults) to role-play as a spider person by shooting webs (pressurized foam string) from the palm of the hand, once the '856 patent expired. The Court stated:

Patents endow their holders with certain superpowers, but only for a limited time. In crafting the patent laws, Congress struck a balance between fostering innovation and ensuring public access to discoveries. While a patent lasts, the patentee possesses exclusive rights to the patented article—rights he may sell or license for royalty payments if he so chooses. But a patent typically expires 20 years from the day the application for it was filed. And when the patent expires, the patentee's prerogatives expire too, and the right to make or use the article, free from all restriction, passes to the public. . . .

[C]ontracts to pay royalties for such use continue "the patent monopoly beyond the [patent] period," even though only as to the licensee affected. And in so doing, those agreements conflict with patent law's policy of establishing a "postexpiration . . . public domain" in which every person can make free use of a formerly patented product. The Brulotte rule, like others making contract provisions unenforceable, prevents some parties from entering into deals they desire. As compared to lump-sum fees, royalty plans both draw out payments over time and tie those payments, in each month or year covered, to a product's commercial success. And sometimes, for some parties, the longer the arrangement lasts, the better—not just up to but beyond a patent term's end. A more extended payment period, coupled (as it presumably would be) with a lower rate, may bring the price the patent holder seeks within the range of a cash-strapped licensee. (Anyone who has bought a product on installment can relate.) Or such an extended term may better allocate the risks and rewards associated with commercializing inventions—most notably, when years of development work stand between licensing a patent and bringing a product to market. As to either goal, Brulotte may pose an obstacle.

Yet parties can often find ways around Brulotte, enabling them to achieve those same ends. To start, Brulotte allows a licensee to defer payments for pre-expiration use of a patent into the post-expiration period; all the decision bars are royalties for using an invention after it has moved into the public domain. 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.

Contending that such alternatives are not enough, Kimble asks us to abandon Brulotte in favor of "flexible, case-by-case analysis" of post-expiration royalty clauses "under the rule of reason." Used in antitrust law, the rule of reason requires courts to evaluate a practice's effect on competition by "taking into account a variety of factors, including specific information about the relevant business, its condition before and after the [practice] was imposed, and the [practice's] history, nature, and effect." Of primary importance in this context, Kimble posits, is whether a patent holder has power in the relevant market and so might be able to curtail competition. Resolving that issue, Kimble notes, entails "a full-fledged economic inquiry into the definition of the market, barriers to entry, and the like."

Overruling precedent is never a small matter. . . . What is more, stare decisis carries enhanced force when a decision, like Brulotte, interprets a statute. Then, unlike in a constitutional case, critics of our ruling can take their objections across the street, and Congress can correct any mistake it sees. . . . Indeed, we apply statutory stare decisis even when a decision has announced a "judicially created doctrine" designed to implement a federal statute. All our interpretive decisions, in whatever way reasoned, effectively become part of the statutory scheme, subject (just like the rest) to congressional change. Absent special justification, they are balls tossed into Congress's court, for acceptance or not as that branch elects.

And Congress has spurned multiple opportunities to reverse Brulotte—openings as frequent and clear as this Court ever sees. Brulotte has governed licensing agreements for more than half a century. During that time, Congress has repeatedly amended the patent laws, including the specific provision (35 U. S. C. §154) on which Brulotte rested. Brulotte survived every such change. Indeed, Congress has rebuffed bills that would have replaced Brulotte's per se rule with the same antitrust-style analysis Kimble now urges. Congress's continual reworking of the patent laws—but never of the Brulotte rule—further supports leaving the decision in place.

Nor yet are we done, for the subject matter of Brulotte adds to the case for adhering to precedent. Brulotte lies at the intersection of two areas of law: property (patents) and contracts (licensing agreements). And we have often recognized that in just those contexts—"cases involving property and contract rights"—considerations favoring stare decisis are "at their acme." That is because parties are especially likely to rely on such precedents when ordering their affairs. To be sure, Marvel and Kimble disagree about whether Brulotte has actually generated reliance. Marvel says yes: Some parties, it claims, do not specify an end date for royalties in their licensing agreements, instead relying on Brulotte as a default rule. Overturning Brulotte would thus upset expectations, most so when long-dormant licenses for long-expired patents spring back to life. Not true, says Kimble: Unfair surprise is unlikely, because no "meaningful number of [such] license agreements . . . actually exist."

To be honest, we do not know (nor, we suspect, do Marvel and Kimble). But even uncertainty on this score cuts in Marvel's direction. So long as we see a reasonable possibility that parties have structured their business transactions in light of Brulotte, we have one more reason to let it stand. As against this superpowered form of stare decisis, we would need a superspecial justification to warrant reversing Brulotte. But the kinds of reasons we have most often held sufficient in the past do not help Kimble here. If anything, they reinforce our unwillingness to do what he asks.

First, Brulotte's statutory and doctrinal underpinnings have not eroded over time. When we reverse our statutory interpretations, we most often point to subsequent legal developments—"either the growth of judicial doctrine or further action taken by Congress"—that have removed the basis for a decision. But the core feature of the patent laws on which Brulotte relied remains just the same: Section 154 now, as then, draws a sharp line cutting off patent rights after a set number of years. And this Court has continued to draw from that legislative choice a broad policy favoring unrestricted use of an invention after its patent's expiration. . . .

The decision is simplicity itself to apply. A court need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice. Brulotte's ease of use appears in still sharper relief when compared to Kimble's proposed alternative. [T]rading in Brulotte for the rule of reason would make the law less, not more, workable than it is now. Once again, then, the case for sticking with long-settled precedent grows stronger: Even the most usual reasons for abandoning stare decisis cut the other way here.

Lacking recourse to those traditional justifications for overruling a prior decision, Kimble offers two different ones. He claims first that Brulotte rests on a mistaken view of the competitive effects of post-expiration royalties. He contends next that Brulotte suppresses technological innovation and so harms the nation's economy. [O]ur answers to both are much the same: Kimble's reasoning may give Congress cause to upset Brulotte, but does not warrant this Court's doing so. . . .

"What we can decide, we can undecide. But stare decisis teaches that we should exercise that authority sparingly. Cf. S. Lee and S. Ditko, Amazing Fantasy No. 15: "Spider-Man," p. 13 (1962) ("[I]n this world, with great power there must also come—great responsibility"). Finding many reasons for staying the stare decisis course and no "special justification" for departing from it, we decline Kimble's invitation to overrule Brulotte."