

**Keywords:** *stare decisis*, patent expiration, post-expiration royalties, patent licensing

**General:** Patent licenses extending beyond the expiration of a patent are *per se* invalid under 35 U.S.C. § 154(a)(2).

*Kimble et al. v. Marvel Entertainment, LLC.*  
135 S. Ct. 2401 (2015)

## I. Facts

In 1990, Stephen Kimble obtained Patent No. 5,072,856 directed to a device to enable a person to shoot “webs” or “pressurized foam string” from the person’s palm. Mr. Kimble approached Marvel in an attempt to sell or license the patent. After meeting with Kimble, Marvel began marketing the “Web Blaster.” In response to a patent infringement suit, Marvel and Mr. Kimble reached an agreement selling the patent to Marvel for approximately \$500,000 and a 3% royalty on all future sales of the Web Blaster. The agreement stipulated no end date for the royalty payments.

After paying years of royalty payments, Marvel discovered a Supreme Court of the United States case *Brulotte*<sup>1</sup> in which the Supreme Court ruled that a patent holder could not receive royalty payments for sales made after a patent’s expiration. Based on their discovery, Marvel then sought a declaratory judgment in the District Court of Arizona.

The District Court ruled that Marvel should cease royalty payments after the expiration of the patent. The Ninth Circuit affirmed while complaining that it could not overturn the Supreme Court even stating that the *Brulotte* rule was “counterintuitive and its rationale is arguably unconvincing.”<sup>2</sup> Mr. Kimble appealed.

## II. Issue

Did the District Court err in holding that no royalty payments can be enforced after the expiration of the patent?

## III. Discussion

No. Under the principle of *stare decisis*, the majority declined to overturn *Brulotte*. The majority submitted that *Brulotte* was decided on the principle that

<sup>1</sup> *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

<sup>2</sup> 727 F. 3d 856, 857 (2013).

all patents must end when their terms expire and was not based on a determination of anticompetitive policy related to post-expiration royalties.

In the opinion, the majority first discussed *Brulotte*. In *Brulotte*, the Court held that royalty agreements are “unlawful *per se*” to the extent that agreements extended after the “last of the patents incorporated into the machines had expired.”<sup>3</sup> In its analysis, the *Brulotte* Court looked to the then-current version of 35 U.S.C. § 154, which stated that patented inventions “become[s] public property once [the term] expires,” and the Court held that any attempt to limit a licensee’s post-expiration use of the invention “runs counter to the policy and purpose of patent laws.”<sup>4</sup> The *Brulotte* Court also went on to state that enforcing contracts that continue monopolies past an approved patent period conflicts with patent law’s policy of patents entering the public domain upon expiration in which every person can make free use of the formerly patented product.

After summarizing the holding in *Brulotte*, the majority laid out the legal principle of *stare decisis* explaining that courts are hesitant to overrule precedent even when the earlier decision on which the precedent depends is wrongfully decided. Specifically, *stare decisis* requires the Court to follow precedent unless there is special justification to do otherwise over and above the belief that the precedent was wrongly decided.<sup>5</sup> Moreover, the majority noted that decisions interpreting a statute have a “superpowered form of *stare decisis*.”<sup>6</sup> The majority stated that such rulings are superpowered because, unlike constitutional law cases, Congress can overrule these decisions by the Court.

As further reasoning for strengthening *stare decisis* in this case, the majority also pointed to the fact that Congress has repeatedly chosen not to reverse *Brulotte*. Since *Brulotte*, Congress has amended the patent term without overruling *Brulotte* and Congress has explicitly rebuffed amendments incorporating antitrust style analysis.

The court indicated that subject matter of the case provides additional justification for adhering to the precedent of *Brulotte*. Specifically, the majority indicated that the subject matter areas of property and contract rights are particularly subject to *stare decisis*, and *Brulotte* skewed heavily into both areas. Furthermore, with

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<sup>3</sup> *Brulotte*, 379 U.S. at 30, 32.

<sup>4</sup> *Id.* at 31. Current 35 U.S.C. § 154(a)(2) states “Subject to the payment of fees under this title, such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States or, if the application contains a specific reference to an earlier filed application or applications under section 120, 121, 365(c), or 386(c), from the date on which the earliest such application was filed.”

<sup>5</sup> Judge Brandeis stated that it usually “more important that the applicable rule of law be settled than it be settled right.” *Burnet v. Coronado Oil & Gas Co.*, 285 U.S. 393, 406 (1932).

<sup>6</sup> Pg. 10.

respect to contract rights, the majority also looked to predictability of outcomes of contract interpretation, finding that some parties may contract with an understanding that the royalties cease at patent expiration (even though the Marvel and Mr. Kimble did not know such a rule to exist when entering into the contract).<sup>7</sup>

The majority then turned to common justifications used to overcome *stare decisis*: 1) statutory and doctrinal underpinning erosion of a basis for the earlier ruling and 2) the earlier ruling has become unworkable. First, the majority emphasized that no underpinning of *Brulotte* has been changed to remove the basis for the decision. Instead, the majority pointed to the updated version of 35 U.S.C. § 154 as still having a sharp line cutting off patent rights after a set number of years, even if the number has changed. The majority further pointed to a web of cases that would be threatened by an overturning of *Brulotte*.

Regarding the second common justification for overcoming *stare decisis*, the majority contested that a case-by-case antitrust-type analysis, as recommended by the petitioner, would be less workable than the bright line rule of *Brulotte* because antitrust-type analysis would increase litigation costs while reducing predictability.

Kimble asserted two alternative justifications beyond the common justifications: 1) *Brulotte* rests on a mistaken view of competitive effects of post-expiration royalties and 2) *Brulotte* suppresses technological innovation and harms the nation economy.

Regarding the first alternative, the majority noted that Kimble was correct that a broad consensus of scholars appear to agree that post-expiration royalties actually increase competition. However, the majority posits that *Brulotte* was not decided by relying on a notion of post-expiration royalties as being anticompetitive and, even if it was, patent law does not turn over exceptional law-shaping authority to the Court as antitrust law does. The majority then reasserts that Congress is the correct place to address the decision in *Brulotte* stating that “[f]or the choice of what patent policy should be lies first and foremost with Congress” and suggests that if Kimble thinks that unrestricted access to formerly patented inventions leaves too little room for pro-competitive post-expiration royalties, “then Congress, not this Court, is his proper audience.”

Regarding the second alternative, Kimble asserted that a longer payment period allows for lower costs and a more precise allocation of risk. Kimble argued that without such options, many licensing agreements would be prevented from ever occurring. In response, the majority stated that alternative fee structures are available. For instance, the majority noted that payments may be for the patent period but be amortized to any duration, royalties may run to the last patent to expire for the covered devices, post-expiration royalties may be tied to non-patent rights (e.g., trade secrets), and alternative business arrangements (e.g., joint

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<sup>7</sup> Marvel argued that this reliance was standard but provided no support for such claims.

ventures) may be made. Furthermore, the majority again argued that Congress is the proper forum for policy decisions related to suppressing innovation and economic harm.

#### IV. Dissent

The dissent emphasized that 35 U.S.C. § 154 does not explicitly state anything regarding post-expiration royalty payments. Instead, 35 U.S.C. § 154 merely states that the patent expires after 20 years. Moreover, the dissent points to language in *Brulotte* submitting that post-expiration royalties would “subject the free market visualized for the post-expiration period ... to monopoly influences that have no proper place there,”<sup>8</sup> as evidence by *Brulotte* being based on policy rather than statutory interpretation. Indeed, the dissent argues that the *Brulotte* Court never made a serious attempt to interpret the Patent Act and that nothing in the Patent Act forbids post-expiration royalties. Instead, the dissent argues that *Brulotte* was based on policymaking. Moreover, the dissent argues that the policy supporting *Brulotte* is one that is difficult to defend as a misperception of the purpose and effect of post-expiration royalties as an anticompetitive-type arrangement. Furthermore, the dissent argues that this policy decision has cutoff a desirable type of agreement that shifts risk and costs as intended by the contracting parties.

The dissent also contends that no “super-duper” protection exists for decisions that do not actually interpret a statute (even while purporting to apply a statute while basing decisions on policy). The dissent emphatically disapproves of the majority’s rationale:

Our traditional approach to *stare decisis* does not require us to retain *Brulotte*’s per se rule. *Brulotte*’s holding had no basis in the law. Its reasoning has been thoroughly disproved. It poses economic barriers that stifle innovation. And it unsettles contractual expectations.

The dissent also argues that the majority has placed too much weight on Congressional inactivity stating that numerous decisions have warned against such reliance due to the inherent difficulty in passing new laws.

#### V. Conclusion

Post-expiration royalties are currently *per se* unenforceable unless Congress overrules *Brulotte*. More specific to prosecution concerns, the majority’s understanding and use of *stare decisis* in this case likely prohibits any overturning of the Supreme Court interpretation of 35 U.S.C. § 101 in *Alice* absent Congressional involvement.

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<sup>8</sup> *Brulotte*, 379 U.S. at 32-33.