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## **IP Client Alert: The Supreme Court Reaffirms Ban on Royalty Payments for Expired Patents**

**By Scott A.M. Chambers and Matthew J. Laskoski**

The Supreme Court today reaffirmed a 1964 ruling that a patent owner cannot charge royalties for the use of his invention after its patent term has expired. *Kimble et al. v. Marvel Enterprises Inc.* involved a dispute between Marvel Enterprises, Inc. and an inventor of a Spider-Man toy. As part of the negotiated license agreement, Marvel agreed to pay a 3% royalty on **all** future sales. Because of this, the inventor would receive royalties after expiration of the patent term, but the Court determined this effectively extended the term of the patent, running counter to previous cases by the Supreme Court and so the Court struck the royalty term.

In doing so, the Court reaffirmed its 1964 decision in *Brulotte v. Thys Co.* The Court referenced the doctrine of stare decisis, stating that this doctrine requires the continued use of the *Brulotte* rule. The Court found no persuasive "special justification" to overrule the *Brulotte* rule, particularly since it had been in place for decades without any apparent economic harm to industry. Many economists had called for an end to the *Brulotte* rule, arguing that allowing a longer term for collecting royalties made good economic sense by permitting the patent holder to settle for a lower initial royalty rate. The Court, in a 6-3 opinion, rejected this reasoning. Justice Kagan wrote that "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')."

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Writing for the three dissenters, Justice Alito noted that: "The economics are simple: Extending a royalty term allows the parties to spread the licensing fees over a longer period of time, which naturally has the effect of reducing the fees during the patent term. Restricting royalty payments to the patent term, as *Brulotte* requires, compresses payment into a shorter period of higher fees. The Patent Act does not prefer one approach over the other."

Existing licenses and other agreements linked to patents should be reviewed to ensure compliance with the *Brulotte* rule. Going forward, care should be taken when negotiating and drafting new agreements to make certain there are no ambiguities regarding potential payment of royalties after expiration of one or more underlying patents. If royalties that go beyond the term of the patent are contemplated, it will be necessary to provide sufficient consideration in the agreement, perhaps in the form of providing valuable know-how, ongoing consultation, or trademark use.

The Supreme Court's opinion is available [here](#).

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