

## Publication

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08/01/2018

### Client Alert: Supreme Court Affirms that a Patent Holder Cannot Charge Royalties for Post-Expiration Use of the Invention

More than fifty years ago, the United States Supreme Court held that a patent holder cannot receive royalties for sales made after the patent expires because this arrangement would effectively extend the life of the patent. *Brulotte v. Thys Co.*<sup>1</sup> Commentators and courts alike have criticized the *Brulotte* rule, and many licensors and licensees are unaware that royalty clauses requiring payment for post-expiration use are *per se* illegal. In *Kimble v. Marvel Entertainment, LLC*, the Supreme Court recently reconsidered *Brulotte*, but a majority of the Court relied on *stare decisis* to confirm that decision.<sup>2</sup> In an era when the Supreme Court is regularly complicating patent law, this is a refreshing holding that retains simplicity over perhaps a more economically defensible but complex rule.

Kimble had sued Marvel alleging that Marvel's Spider Man toy infringed Kimble's patent. The parties settled, with Marvel agreeing to pay Kimble a royalty on Marvel's future sales of (allegedly) infringing products. The parties did not establish an end date for the royalty payments, and it was clear that neither party was aware of *Brulotte*. Marvel later learned of the *Brulotte* rule and sought a declaratory judgment confirming that it could stop the royalty payments upon expiration of Kimble's patent. Relying on *Brulotte*, the lower courts begrudgingly approved the declaratory judgment.<sup>3</sup> The Supreme

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Court agreed to review the case to answer a single question: Should it overrule *Brulotte*? The Court spent many pages addressing *stare decisis*, and ultimately relied on that principle in refusing to overrule *Brulotte*, favoring the status quo over a more complicated case-by-case rule.

While *Brulotte* prevents a patent holder from charging royalties for use of a patent after the patent expires, it does not prevent all post-expiration royalty payments. For instance, a patent holder could defer payments for pre-expiration use to the post-expiration period.<sup>4</sup> The critical factor is whether the use of the patented invention occurs during the patent's term or post-expiration, not when the royalty payment for that use is ultimately made. Parties entering into patent license agreements need to consider *Brulotte* and *Kimble* when structuring royalty payments. If post-expiration royalty payments are desired to, for example, amortize the license fee, more creative arrangements will be needed to ensure that the royalty payments are not tied to post-expiration use.