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Expert Analysis

Revisiting Spider-Man and Patent Licenses: 'Kimble v. Marvel'

By **Rob Maier**

In 2015, the Supreme Court issued its decision in *Kimble v. Marvel Entertainment, LLC*, 576 U.S. 446 (2015), which upheld a prior decision of the court and provided clarity on a question that frequently arises in patent licenses: whether, and to what extent, is it proper to collect royalties for a license term that extends beyond the expiration date of a licensed patent? For in-house counsel and others regularly involved in licensing transactions, the decision is worth revisiting, as it provides helpful, practical guidance in the complex area of patent licensing.

Background: 'Brulotte'

In 1964, the Supreme Court in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), took up the question of whether a patent holder could charge royalties for the use of an invention after the term of the patent in question had expired. The case involved Thys Company, an owner of patents for hop-picking, which sold a machine to farmers for a flat fee and provided a license for use of the machine.

> But just as important as the holding—or perhaps more so for those working daily on patent licensing—was the helpful, practical guidance that the Supreme Court provided as part of its analysis.

The license required a minimum royalty payment for each hop-picking season or a royalty for every 200 pounds of dried hops harvested, whichever was greater. All seven licensed patents expired by 1957—but the licenses continued beyond 1957. The farmers refused to make royalty payments beyond 1957, and the suit by Thys followed, with the lower courts finding in favor of Thys.

The Supreme Court reversed, and held that "patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." 379 U.S. at 32. The court supported their holding by stating that "[t]he right to make, the right to sell, and the right to use 'may be granted or conferred separately

ROB MAIER *is an intellectual property partner in the New York office of Baker Botts, and the head of its intellectual property group in New York.* DEREK LANGDON, *a law clerk at the firm, assisted in the preparation of this article.*

by the patentee…but these rights become court held that a patent holder cannot charge royalties for the use of an invention after its patent term has expired—once the patent is expired, the patented rights move into the public domain, and cannot therefore be the subject of any ongoing royalty payments or other restraint on activity.

Decision in 'Kimble'

Many years later, in the 2015 decision in *Kimble v. Marvel Entertainment*, 576 U.S. 446 (2015), the Supreme Court revisited this issue. Stephen Kimble held a patent for a Spider-Man toy that Marvel Entertainment's corporate predecessor agreed to license, for a lump sum payment and a 3% royalty on future sales. The agreement did not include an end date. Near the expiration of Kimble's 20-year patent term, Marvel sought a declaratory judgement confirming that Marvel could stop paying Kimble royalties.

The district court sided with Marvel, and the U.S. Court of Appeals for the Ninth Circuit affirmed. On appeal, Kimble asked the Supreme Court to reverse the decision and overrule *Brulotte.* Kimble argued that *Brulotte* was wrongly decided because *Brulotte* relied on an assumption that post-expiration royalties are always anticompetitive, and further arguing that *Brulotte* suppresses technological innovation.

The Supreme Court affirmed and upheld the reasoning from *Brulotte*, noting that Congress in the intervening years had spurned multiple opportunities to overturn it, and "[a]s against this superpowered form of stare decisis, we would need a superspecial justification to warrant reversing *Brulotte*." *Kimble* at 458. As the court stated, "[p]atents endow their holders with certain superpowers, but only for a limited time." Id. at 451. "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." Id.

But just as important as the holding—or perhaps more so for those working daily on patent licensing—was the helpful, practical guidance that the Supreme Court provided as part of its analysis. While the Supreme Court made clear that the approach in question was improper, it also provided tangible examples of licensing schemes that parties could employ as "ways around *Brulotte*, enabling them to achieve those same ends." The common thread through all of these licensing schemes is that the royalties cannot be based solely on the use of an expired patent.

The permissible approaches outlined by the Supreme Court include:

(1) Deferred Payments: The law "allows a licensee to defer payments for pre-expiration use of a patent into the post-expiration period … 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." In other words, license agreements could be structured such that payments required beyond the end of the patent term are clearly specified as deferred or amortized payments for use during the patent term.

(2) Portfolio Licenses: "And parties have still more options when a licensing agreement covers…multiple patents.…royalties may run until the latest-running patent covered in the parties' agreement expires." This means that when licensing a full portfolio or significant portfolio of patents, continuing royalties would not be banned even if some licensed patents expire, as long as other licensed patents are not yet expired.

(3) Tied to Non-Patent Rights: "And parties have still more options when a licensing agreement covers…additional non-patent rights.…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)." Id. The key to this type of license agreement is that there typically should be some appreciable change in the royalty payments or structure following the expiration of the patent term, to strengthen the position that the royalty for use of the patent is no longer required for use after the patent term expires. For example, in many agreements, such ongoing royalty requirements may be based not only on patent rights, but also based on "know how." Because the royalty payments in such a scenario are not tied solely and exclusively to the patent rights, this sort of arrangement can be structured to allow for collection of royalties after patent expiration.

(4) Joint Ventures, etc.: "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." While a more complex solution than a naked license, the Supreme Court provided this example of other types of business arrangements that are free from these restrictions on post-patent expiration royalties.

Ultimately, it is somewhat rare, and very helpful, for those practicing in this area to have such concrete and practical guidance from the Supreme Court regarding permissible patent licensing approaches—as a result, the *Kimble* decision is one worth revisiting. These solutions outlined by the Supreme Court can be implemented in a variety of ways to ensure that collection of ongoing royalties after patent expiration does not constitute as misuse and will not lead to future disputes between the parties.