Are You Still Paying Those Patent Royalties? Is Your Spider Sense Tingling?

Client Advisories

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On June 22, 2015, Justice Kagan writing for the majority of the United States Supreme Court refused to overrule the fifty year old holding of the Supreme Court in *Brulotte v. Thys* that prevents a patentee from collecting royalties after expiration of the patent even if the license requires post expiration royalties. SPIDER SENSE: Knowing about the ramifications of the continuation of the *Brulotte* rule is of practical, financial importance to companies that are patent licensees or assignees (as Marvel was), as well as to patent holders negotiating patent licensees with an expectation of receiving a stream of royalties unbounded in time.

Appellant Kimble owned US Patent No. 5,072,856 for a "Toy Web-Shooting Glove" shown in the figure below:

When Marvel began selling its hugely successful "Web Blaster" toy (based on a 1962 prototype by inventor Peter Parker[1]), Kimble sued, punishing the comic book juggernaut into a settlement by which Marvel was assigned the '856 Patent in return for a lump sum payment of $500,000 to Kimble and an agreement to pay a 3% royalty to Kimble on all sales going forward.

Later...as Justice Kagan so trenchantly notes--"And then Marvel stumbled across *Brulotte*"--a shocker to be sure, and one that clued Marvel into the gambit of filing for a federal declaratory judgment ordering that Marvel was not required to continue paying royalties, a ruling won by the kingpin publisher at the district court that was affirmed by the circuit court. Facing doom, Kimble filed an appeal on behalf of all enforcers of expired patents, asking the Supreme Court to overrule the old precedent that had been seen as a hobgoblin by many. But the vision of Justice Kagan was not to write the final chapter of *Brulotte*:

"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 - right he may sell or license for royalty payments if he so chooses. See 35 U. S. C. Sec. 154(a)(1). But a patent typically expires 20 years from the day the application for it was filed. See Sec. 154(a)(2). And when the patent expires, the patentee's prerogatives

expire too, and the right to make or use the article, free from all restriction, passed to the public. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U. S. 225, 230 (1964)."

"Stumbling" across a precedent may be more than just embarrassing for any licensing professional; no small thing, a stumble could spell carnage for an income statement and the spewing of venom in the boardroom. But one can avoid the storm of a stumble into the tentacles of a corporate Doctor Octopus. Present licensees should be aware of the expiration dates of some patents on which royalties are being paid, no matter what the license agreement may say. And licensees have to be watchers, to be sentinels, to insure that the licensor has continued to pay maintenance fees on the licensed patent, lest the patent might well have expired earlier than the final expiration date, a tale to astonish the unwary.

As for those currently negotiating patent licenses, Justice Kagan hits the bull's eye with advice to patentees looking for post expiration benefit of patent licenses. Here's just one example:

"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. See 379 U. S., at 31; *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U. S. 100, 136 (1969). 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."

Whether you or your company are a current licensee or a potential licensor, seeking advice on the enforceability of extant licenses or in connection with potential patent licensing terms can be critical, and certainly a "great responsibility" of licensing professionals. For as Justice Kagan wrote in the last panel of *Kimble*:

"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*."[2]

Kimble affirms *Brulette*, the ultimate nullifier of post term royalties.

If you have questions about patent royalties or other patent related issues, please contact a member of Archer's Intellectual Property Group in Haddonfield, N.J., at (856) 795-2121, in Philadelphia, Pa., at (215) 963-3300, in Princeton, N.J., at (609) 580-3700, in Hackensack, N.J., at (201) 342-6000, or in Wilmington, Del., at (302) 777-4350.

1: Peter's groundbreaking work at Midtown High School was apparently not cited as prior art in the prosecution of the '856 Patent. See footnote 2 infra.

2: Interestingly, while the opinion demonstrates an appreciation for the work of Silver Age authors, such as Stan Lee (NB: Steve Ditko was Spidey's superb first penciler; see footnote 3 infra), some consideration might have been given to providing pre-copyright act attribution to Voltaire, as well as the Frenchman's inspiration in Chapter 12, verse 48 of the Gospel of St. Luke, in connection with Uncle Ben's sage advice concerning *stare decisis*.

3: “Stan Lee thought the name up. I did costume, web gimmick on wrist & spider signal.” Steve Ditko, interviewed in Summer 1965 Comic Fan #2.

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