

Caught in the web of a patent royalty agreement



Scott M. Slaby | Saturday, January 3, 2015

The U.S. Supreme Court recently granted certiorari to address whether a licensee may be obligated to pay royalties after a patent expires.

Under the Supreme Court's decision in *Brulotte v. Thys Co.*, a license agreement is unenforceable where it requires royalty payments to be made beyond the expiration date of an underlying patent. (379 U.S. 29 (1964).) In *Kimble v. Marvel Enterprises Inc.*, the Supreme Court has decided to revisit the issue and address whether it should overrule *Brulotte*.

Kimble owned a patent for a glove that shot foam string from the palm, a la Spider-Man from the Marvel Comics. Kimble had met with Marvel to discuss his patent, and Marvel agreed that it would pay Kimble if it used his ideas. Marvel told Kimble it was not interested in the idea, but later began selling a similar glove called the "Web Blaster." Kimble sued Marvel, and the parties eventually settled with Marvel buying Kimble's patents and agreeing to pay Kimble a royalty on sales after a certain date. The relationship fell apart; Kimble sued Marvel for breach of contract; and Marvel counterclaimed seeking a declaration that it was not obligated to pay for sales after the patent expired.

Kimble argued that the agreement involved both patent and non-patent rights and that while the royalty for the patent rights ends with the patent, the royalty does not end for the non-patent rights. The district court disagreed, and the U.S. Court of Appeals for the Ninth Circuit affirmed that decision. While the courts found the agreement to be a hybrid involving both patent and non-patent rights, the courts found that *Brulotte* applied because there was no clear separation between the royalty for the patent and the non-patent rights. Specifically, there was only one royalty rate, and there was no discounted rate for the non-patent rights or after the patent expired. There was nothing else to indicate that the non-patent royalty

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was not based on Kimble's leverage from the patent.

So, the Supreme Court will review the standard that applies to evaluating royalties that extend beyond the expiration of a patent. While, businesses should keep an eye on what the Supreme Court does, the rulings in the *Kimble* cases provide a reminder to be careful when crafting royalty agreements and delineating patent and non-patent based royalties, especially where royalty payments are to be made after a patent involved in the agreement expires.



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