AUGUST 2015

DEVOTED TO LEADERS IN THE INTELLECTUAL PROPERTY AND ENTERTAINMENT COMMUNITY

VOLUME 35 • NUMBER 7

THE Licensing Journal

Edited by Gregory J. Battersby and Charles W. Grimes

Wolters Kluwer

Patent Licensing

Isaac A. Hubner,
Lana Gladstein, and Jim Hall

Kimble v. Marvel Enterprises: A Reminder to Think Carefully and Broadly When Drafting Patent Licenses

In *Kimble v. Marvel Enterprises, Inc*. [576 U.S. __ (2015)], the Supreme Court relied on stare decisis, declining to overrule its 1964 *Brulotte v. Thys Co*. decision and holding that a patent owner cannot charge royalties for the use of an invention after the patent expires. Justice Kagan's June 22, 2015, opinion affirmed the appellate court's decision and maintains the status quo for patent licensing practice. As before, licensors should steer clear of Brulotte's ban on post expiration royalties. However, the parties can use other intellectual property that is likely to live well beyond an underlying patent (*e.g.*, trademark, trade secret) and other financial tools (*e.g.*, amortization, partnering) to reach a competitive, mutually beneficial, and enforceable license agreement that exists beyond the life of the underlying patent.

Supreme Court Emphasizes Patent Limits

In reaching its decision in *Kimble*, the Supreme Court continued its current trend in emphasizing the limits on patent rights and the public's interest in corresponding discoveries:

> 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—rights he may sell or license for royalty payments if he so chooses. *See* 35 U.S.C. § 154(a)(1). But a patent typically expires 20 years from the day the application for it was filed. See 35 U.S.C. § 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, passes to the public. [*See Sears, Roebuck & Co. v. Stiffel Co.,* 376 U. S. 225, 230 (1964).]
>
> This Court has carefully guarded that cut-off date, just as it has the patent laws' subject-matter limits: In case after case, the Court has construed those laws to preclude measures that restrict free access to *formerly patented*, as well as unpatentable, inventions. [*Kimble*, Slip Op. at 3–4 (emphasis added).]

While the Supreme Court acknowledged that Brulotte prevents parties from entering into certain competitive and beneficial agreements, the Court also pointed out that careful license drafting can avoid Brulotte:

> … 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. 29, 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 percent 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. And parties have still more options when a licensing agreement covers either multiple patents or additional non-patent rights. Under *Brulotte*, royalties may run until the latest-running patent covered in the parties' agreement expires. *See* 379 U.S. at 30. Too, post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent. *See, e.g.*, 3 Milgrim on Licensing § 18.07, at 18–16 to 18–17. That means, for example, that a license involving both a patent and a trade secret can set a 5 percent royalty during the patent period (as compensation for the two combined) and a 4 percent royalty afterward (as payment for the trade secret alone). 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. [*Id*. at 6.]

Thus, *Kimble* is a reminder to think carefully and broadly when drafting patent licenses. As before, licensors must steer clear of *Brulotte's* ban on post expiration royalties. However, the parties can use other intellectual property that is likely to live well beyond an underlying patent (*e.g.,* trademark, trade secret) and other financial tools (*e.g.,* amortization, partnering) to reach a competitive, mutually beneficial, and enforceable license agreement that exists beyond the life of the underlying patent.

Isaac A. Hubner, PhD, is a patent attorney in the Intellectual Property department at Nutter, McClennen & Fish LLP, and focuses his practice on the biotechnology, pharmaceutical, and chemical industries, representing clients before the US Patent Office and in related strategic and business matters.

Lana Gladstein is a partner in the Intellectual Property department at Nutter, McClennen & Fish LLP, and focuses on strategic alliances, patent litigation, and contested proceedings before the Patent Trial and Appeal Board.

Jim Hall is a partner in the Litigation and Intellectual Property departments at Nutter, McClennen & Fish LLP, and handles all phases of patent and complex business litigation and licensing from prelitigation strategy through appeals.

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