Intellectual Property Alert:

Supreme Court Affirms *Brulotte*, "Green-Lights" Collecting Patent Royalties After Patents Expire

By Charles W. Shifley

June 23, 2015 – In an important decision for patent licensing freedom, on June 22, 2015, the United States Supreme Court cleared the way for spreading patent royalty payments after the expiration of patents, in some simple and other complex ways. In *Kimble v. Marvel*, 576 U.S. (2015), the Court affirmed the decision of *Brulotte v. Thys*, that royalties may not be collected on sales that occur after patents expire. However, it also approved extending "in-term" royalties on patents into post-expiration periods in spite of *Brulotte*.

The Court (split 6-3) specifically stated, for example, that "*Brulotte* leaves open various ways — involving both licensing and other business arrangements — to accomplish payment deferral and risk-spreading alike." In candid language that endorses lawyering around *Brulotte*, the Court said, "parties can … find ways around *Brulotte*, enabling them to achieve the same ends [of payment deferral and risk-spreading]."

The Court continued with a list of approved options: "To start, *Brulotte* allows a licensee to defer payments for pre-expiration use of a patent into the post expiration period." According to the Court, "A licensee could agree, for example, to pay a licensor a sum equal to 10% of sales during the 20-year patent term, but to amortize that amount over 40 years." This would effectively double the 20-year term of patents.

Next on the list, says the Court, "Under *Brulotte*, royalties may run until the latest-running patent covered in the parties' agreement expires." This is significant, as the Court did not reference lowering the royalties as patents expire, while it does with the third item.

"[P]ost-expiration royalties are allowable," says the Court, "so long as tied to a non-patent right — even when closely related to the patent." The Court provides this example: "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)."

The Court finished that "*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."

Patent owners and licensees may now with a firm conviction in the right (1) extend in-term patent royalty payments into post-term periods, (2) extend payments to the expiration of the latest-expiring patent in a group, (3) extend payments to the end of the continued use of trade secrets that are closely related to licensed patents, and (4) use joint ventures and like business arrangements that extend the sharing of risks and rewards of commercialization of inventions after the conclusion of patent terms.

Remarkably, the Court resolved that the economic underpinnings and policy of *Brulotte* were wrong, but retained *Brulotte*. *Stare decisis*, the rule of preservation of the constancy of the law, led to the decision, said the Court. Only Congress should change the law of *Brulotte* for policy reasons.

A three-justice dissent disagreed, characterizing *Brulotte* as perfectly deserving of change. Justice Kagan, leading the majority, concluded that the Court had "carefully guarded" the "cut-off date" of patents, and "respecting *stare decisis* means sticking to some wrong decisions."

Thus, the rule of *Brulotte* remains, and royalties may not be collected for patents that have been expired. But as can be read, the Court has nevertheless "green-lighted" a variety of patent licensing opportunities, both simple and complex, for spreading patent royalty payments after the expiration of patents.

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