Kimble v. Marvel Entertainment, LLC., No. 13-720 (previously described in the December 15, 2014, Docket Report)

Under the Patent Act, a patent typically expires twenty years after its application date. *See* 35 U.S.C. § 154(a)(2).

In *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), the Supreme Court held that a licensing arrangement as to a patent is

per se anticompetitive if it provides royalties to the patentee for periods that extend beyond the patent's expiration

date. *Brulotte* thus rendered agreements for post-expiration royalties unenforceable. In recent years, commentators

and economists have broadly criticized *Brulotte*'s suggestion that post-expiration royalties are always anticompetitive. In *Kimble v. Marvel Entertainment LLC*, the Court granted certiorari to consider whether to overrule *Brulotte*.

By a vote of 6-3, the Court declined to overrule *Brulotte*. In an opinion by Justice Kagan, the Court reasoned that the principle of *stare decisis*—the idea that the Supreme Court should stand by one of its prior holdings absent a compelling reason to overrule it—counseled strongly against revisiting the *Brulotte* rule.

In this case, the Court ruled, *stare decisis* has “enhanced force” for two reasons. First, because *Brulotte* interpreted a statute (the Patent Act), Congress, not the Court, has primary responsibility for correcting any perceived errors in the Court’s statutory interpretation. Because Congress has repeatedly declined to amend the Patent Act to overrule *Brulotte*, the Court should not do so of its own initiative. Second, *Brulotte* involves both property rights and

contract rights, areas where overturning old precedent could upset parties' expectations and lead to unfair surprise.

Here, the Court held, Kimble failed to provide the "superspecial justification" the Court would require to

overrule *Brulotte*. The statutory and doctrinal underpinnings of the *Brulotte* holding have not eroded over time, and the decision has not proved unworkable. And even if *Brulotte* relied on a "misjudgment" about the economics of patent royalties, the onus remains on Congress, not the Court, to correct the error.

Justice Alito filed a dissenting opinion that was joined by Chief Justice Roberts and Justice Thomas. In his view,

Brulotte did not interpret the Patent Act but rather made policy—and bad policy at that. According to the dissent, the

Brulotte rule forces parties to licensing agreements to compress royalty payments into a shorter period of higher

fees, decreasing efficiency and harming innovation—a result inconsistent with the goals of the Patent Act. Based on

his view that *Brulotte*'s error was "obvious" and not grounded in statute, Justice Alito would have overruled the decision.

The Supreme Court's decision in this case is significant because it resolved uncertainty as to whether *Brulotte*'s

bar on post-expiration royalties would persist. But, as the majority addressed at some length, there are alternative mechanisms—including deferred royalty payments, licensing of multiple patents with different terms, and licensing of other, non-termed rights like trade secrets—that may permit parties to structure their transactions in an economically similar fashion, notwithstanding *Brulotte*.

Any questions about this case should be directed to Paul Hughes (+1 202 263 3147) in our Washington office.