MINTZ LEVIN
Mintz Levin Cohn Ferris Glovsky and Popeo PC

Antitrust and Intellectual Property Alert

Kimble and Post-Expiration Royalties: The Next Big Thing, or Much Ado About Nothing?

03.31.2015

BY ROBERT G. KIDWELL AND RICHARD GERVASE

Today, as we previewed here, the US Supreme Court analyzed the question of whether patent holders should be allowed to contract for royalty payments that continue to accrue after the expiration of the subject patent. While some justices, including the Chief Justice, clearly believe that the ability to contract for post-expiration royalties is at least potentially efficiency-enhancing, it is not clear whether a majority of justices believe that this efficiency interest outweighs decades of precedent and justifies potentially opening a whole new avenue of litigation in the coming years.

Fifty years ago, the Supreme Court held in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) that a license agreement requiring royalty payments for use of a patented invention after expiration of the patent term is unlawful *per se*. Today, as Justice Ginsburg made clear from the outset of argument, the question at issue was not whether a patent holder could contract for royalty payments that amortize the value of the patent during its valid term over a period longer than the term of the patent itself. Such payments would be valid today so long as it were clear that the royalties *accrue* during the term of the patent even if they are *payable* after the expiration of the patent. The question at issue, rather, is whether royalties should be allowed to continue to *accrue* after the expiration of the patent term.

The Court held in *Brulotte* that such an arrangement is *per se* unlawful; Kimble has asked the court to overturn that ruling. Justice Kagan, previewing a line of questioning that would continue throughout the argument, asked what basis there was to overcome the Court's strong bias in favor of statutory *stare decisis* besides the shifting view of economists on what is an efficient patent licensing scheme. Framing the *Brulotte* rule as a "rule without a reason," and referencing the numerous briefs filed by *amici* in the case, Kimble argued that small and nonprofit inventors in particular (such as public universities and research hospitals) would benefit from the ability to obtain royalties for periods after the expiration of the patent, and the public would benefit because more inventions would reach the market as a result.

Justice Sotomayor questioned early on the value of that incremental benefit given the current pace of invention and innovation; Justice Kagan similarly questioned whether achieving that incremental benefit justified overturning a long-observed precedent. Justice Kennedy questioned whether it isn't an issue for Congress to address if it is in fact necessary to address at all. Justice Breyer suggested that changing the rules could potentially harm the public by depriving them of the benefit of the invention being freely available in the marketplace after the expiration of the patent term; Chief Justice Roberts quickly obtained clarification that persons other than the licensee would be free to exercise the patent without royalty after its expiration.

Kimble encouraged the court to adopt a "rule of reason" approach of the type found in antitrust law. Justice Sotomayor quickly pounced on the idea by asking: why are we importing antitrust principles into patent law? If there is an antitrust problem, then can't someone simply address the problem under the rule of reason in an antitrust case? Justice Breyer similarly questioned why the court would open up a new avenue of litigation that would have to decide what is "reasonable" in the post-expiration royalty context and how to weigh the various factors. Kimble responded that the rule of reason for use here could be similar to the rule used by the Federal Circuit in patent misuse cases.

On the other side of the argument, counsel for Marvel argued that "this case begins and ends with *stare decisis*." Congress has visited and revisited patent law and the balance of rights and responsibilities thereunder in the

Robert G. Kidwell, *Member*

Richard G. Gervase, Jr., *Member*

RELATED PRACTICES

- Antitrust
- Intellectual Property

RELATED BLOGS

- Global IP Matters

decades since *Brulotte*, and has left the *Brulotte* rule in place as a shield that parties have relied on to cut off royalties at the expiration of the patent term. There is no reason to revisit precedents, Marvel argued, by separating the bundle of rights included in a patent into a right to exclude, which would not extend beyond expiration of the patent term, and the right to royalties, which would.

Appearing on behalf of the United States, Deputy Solicitor General Malcolm Stewart argued that the case is not about antitrust, and it's not about economic efficiency in licensing. It's about a strong Patent Act interest in guaranteeing public access to inventions after expiration of the patent term. Once the patent expires, the invention belongs to the public, and a license that extends beyond the term of the patent infringes on the public's right, not upon (or not only upon) the right of the licensee.

Justice Sotomayor asked whether the United States takes issue with the *amici* from the fields of antitrust and economics who argue that the *Brulotte* rule makes no sense as an economic matter. Mr. Stewart disagreed to the extent that patent holders can already contract for payments after the term of the patent for use during the term of the patent. The rule might not make sound antitrust policy because it might sometime quell efficient behavior, but it's not an antitrust law.

Justice Scalia asked what the economic value of the rule could be; Mr. Stewart replied that the value is in public access to the invention, including royalty-free use of the invention, after the period of exclusivity granted by Congress. Even if a post-expiration license affects only a single licensee, the public has an interest in the licensee's ability to market the invention without the additional cost of a royalty. Small or nonprofit inventors such as some of the *amici* might not be able to use the precise post-expiration licensing terms that they would like, but there will be other ways for them to get their inventions to market.

As is typically the case, it is difficult to predict which way the court will vote based on oral argument. Two of the nine justices (Justices Thomas and Alito) did not speak at all during the argument. There did seem to be skepticism among the justices for overturning the *Brulotte* rule, although skepticism does not necessarily equate with opposition. A decision is expected by the end of June.

Feel free to contact any one of our lawyers if you would like to discuss the implications of this (or any other) case for your business.

4787-0315-NAT-AFR-IP