On June 22, 2015, the Supreme Court issued its decision in *Kimble v. Marvel Entertainment, LLC*, upholding the rule, first announced in *Brulotte v. Thys Co.*, 379 U. S. 29 (1964), that an agreement allowing a patent owner to collect royalty payments after a patent’s expiration is unlawful *per se*.

*Kimble* arose out of a settlement agreement between Stephen Kimble, the inventor of a toy that allows children of all ages to play at being “a spider person” by shooting web-like foam string from the palm of their hands, and Marvel, which makes and markets products featuring Spider-Man, among other comic book characters. After it was sued for infringing Kimble’s patent, and as part of the settlement, Marvel agreed to acquire the patent by paying Kimble a lump-sum amount (of about $500,000), along with a 3% royalty on future sales of toys embodying the patented invention. Neither party was aware of *Brulotte* when they entered into the agreement, which had no sunset provision or expiration date for the royalty payments. The parties had apparently contemplated that the royalty payments would continue for as long as the toys continued to sell.

Marvel eventually became aware of *Brulotte* and sought a declaratory judgment that it could stop its royalty payments at the patent’s expiration in 2010. The district court granted Marvel’s requested relief, holding that *Brulotte* rendered the parties’ agreement unenforceable after the patent’s expiration. Although the Ninth Circuit upheld the district court’s decision, it expressed doubt as to *Brulotte*’s correctness.

The Supreme Court granted certiorari to decide whether *Brulotte* should be overruled. In a 6-3 decision, the Court declined on grounds of *stare decisis*.

Writing for the majority, Justice Kagan started by noting the oft-cited balance — between fostering innovation and granting the public access to inventions and discoveries — that justifies the time-limited patent monopoly: in exchange for disclosing his or her invention to the public, the inventor receives the exclusive right to his or her patented invention for a period typically lasting 20 years from the date of application, after which time the invention passes to the public and is free for all to use. The *Brulotte* rule reinforces this settled balance by prohibiting the collection of royalties once the patented invention passes into the public domain.

Acknowledging that there are many situations in which both parties to a potential patent licensing agreement would benefit from the ability to extend the royalty payments over a longer period of time than the patent term provides, the Court observed that “[a] more extended payment period, coupled (as it presumably would be) with a lower rate, may bring the price the patent holder seeks within the range of a cash-strapped licensee.” Alternatively, “such an extended term may better allocate the risks and rewards associated with commercializing inventions — most notably, when years of development work stand between licensing a patent and bringing a product to market.”

But such reasons, compelling as they may be, do not justify overruling *Brulotte*, the Court said. “Respecting stare decisis means sticking to some wrong decisions.” Implicitly conceding that *Brulotte* may not have been correctly decided, the Court explained that “stare decisis has consequence only to the extent it sustains incorrect decisions; correct judgments have no need for that principle to prop them up. Accordingly, an argument that we got something wrong — even a good argument to that effect — cannot by itself justify scrapping settled precedent.” Something more is needed.

According to the majority, this is particularly true where, as here, the decision sought to be overruled interprets a statute. Because Congress can fix whatever mistakes it believes the Court has made in its interpretation, there is even less reason to disturb statutory precedent than there is to revisit a decision interpreting a constitutional provision. And it bears noting, the Court observed, that in the 50 years the *Brulotte* rule has been in place, Congress never saw fit to change it, despite its active legislative involvement in patent law.

Moreover, respect for precedent is all the more vital when it touches upon widespread settled expectations, as it does in this case, which involves the intersection of property and contracts, the majority said, suggesting that principles of stare decisis weigh more heavily in patent cases than in antitrust cases: “*Brulotte* lies at the intersection of two areas of law: property (patents) and contracts (licensing agreements). And we have often recognized that in just those contexts — ‘cases involving property and contract rights’ — considerations involving *stare decisis* are ‘at their acme,’” it explained. “By contrast with the Sherman Act, the patent laws do not turn over exceptional law-shaping authority to the courts. Accordingly, statutory *stare decisis* — in which this Court interprets and Congress decides whether to amend — retains its usual strong force.”

Against these observations, Kimble had argued that *Brulotte*’s statutory or doctrinal underpinnings have eroded over time. The Court was not persuaded. The basic understanding that the patent grant is a time-limited monopoly given as an incentive to foster innovation continues to animate the interpretation of the patent law. And the *Brulotte* rule is much simpler to apply than the antitrust law’s rule of reason proposed by Kimble, which would require identifying and analyzing post-expiration royalty clauses on a case-by-case basis to determine if they have anticompetitive effects. “[W]hatever its merits may be for deciding antitrust claims, that ‘elaborate inquiry’ produces notoriously high litigation costs and unpredictable results,” the Court explained.
The Court also observed that for those who wish to enter into a different arrangement, there are ways around the *Brulotte* rule (although it acknowledged they may not be ideal):

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. A licensee could agree, for example, to pay the licensor a sum equal to 10% 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 agreement expires. Too, post-expiration royalties are allowable so long as tied to a non-patent right — even when closely related to a patent. That means, for example, that 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). 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.

Ultimately, the Court declined to overrule *Brulotte* not on its merits — indeed, the Court seemed to acknowledge that the 50-year old decision may have been wrongly decided — but on the grounds that the settled expectations at issue favor respecting precedent, and that Congress is best positioned to determine whether innovation and the public interest favor keeping the *Brulotte* rule or adopting a more flexible approach.

Justice Alito, joined by Chief Justice Roberts and Justice Thomas, dissented, arguing that *Brulotte* is a “baseless and damaging precedent” that interferes with parties’ ability to negotiate licenses that reflect business realities:

There are ... good reasons why parties sometimes prefer post-expiration royalties over upfront fees, and why such arrangements have pro-competitive effects. Patent holders and licensees are often unsure whether a patented idea will yield significant economic value, and it often takes years to monetize an innovation. In those circumstances, deferred royalty agreements are economically efficient. They encourage innovators, like universities, hospitals, and other institutions, to invest in research that might not yield marketable products until decades down the line. And they allow producers to hedge their bets and develop more products by spreading licensing fees over longer periods. By prohibiting these arrangements, *Brulotte* erects an obstacle to efficient patent use. In patent law and other areas, we have abandoned per se rules with similarly disruptive effects. The need to avoid *Brulotte* is an economic inefficiency in itself. And the suggested alternatives do not provide the same benefits as post-expiration royalty agreements. The sort of arrangements that *Brulotte* prohibits would allow licensees to spread their costs, while also allowing patent holders to capitalize on slow-developing inventions.

The dissent also took issue with the *Kimble* majority’s view that stare decisis should be given greater weight in patent than in antitrust cases:

This distinction is unwarranted. We have been more willing to reexamine antitrust precedents because they have attributes of common-law decisions. I see no reason why the same approach should not apply where the precedent at issue, while purporting to apply a statute, is actually based on policy concerns. Indeed, we should be even more willing to reconsider such a precedent because the role implicitly assigned to the federal courts under the Sherman [Antitrust] Act has no parallel in Patent Act cases.

It remains to be seen whether Congress will ever take up the Court’s repeated invitation to revisit the *Brulotte* rule, but given that neither of the patent reform Bills currently under consideration in Congress (the Innovation Act in the House and the companion PATENT Act in the Senate) contain such a proviso, a legislative “fix” to *Brulotte* appears unlikely near-term.