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# Disappearing Patent Royalties, No Superpowers Required

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Today a 6–3 majority of the United States Supreme Court decided that Marvel Entertainment, LLC can stop paying royalties to the inventor of the web–slinging toy it has been selling since shortly after inventor Stephen Kimble pitched it to Toy Biz (which became Marvel Entertainment) in 1990. Kimble sued Marvel for patent infringement in 1997, and the parties settled that lawsuit by sale of Kimble’s patent to Marvel in exchange for an up–front royalty and 3 percent of Marvel’s “net product sales” of the product. The parties did not specify an end date for that 3 percent royalty in the agreement.

Relying on 50–year–old precedent, today’s Supreme Court opinion held that, regardless of the parties’ actual agreement, Kimble cannot collect royalties that accrued after the expiration of the patent. In doing so, the Court let stand the decision in *Broulotte v. Thys Co.*, 379 U. S. 29 (1964), which held that “[a]ny attempt to limit a licensee’s post–expiration use of the invention, ‘whatever the legal device employed, runs counter to the policy and purpose of the patent laws.’” While today’s opinion expressed skepticism regarding the reasoning expressed in the *Broulotte* opinion, the majority of justices held that the benefit of letting precedent stand outweighed the speculative harm that the old case causes contracting parties. Three dissenting justices weighed the harms the other way, believing that the reasoning behind the old case has been “debunked” and citing cases where the bargain struck by parties had been thrown out because they had not been familiar with the *Broulotte* decision.

While the majority left it to Congress to fix the policy problems presented by the decision, they did suggest alternative methods of structuring patent–related agreements that could still pass muster under the *Broulotte* rule. While the discussion may not be binding on lower courts deciding future cases, the majority suggested that parties could (1) “defer payments for pre–expiration use of the patent into the post–expiration period,” (2) in a multi–patent

agreement, allow royalties to “run until the latest-running patent covered in the parties’ agreement expires,” (3) tie “post-expiration royalties ... to a non-patent right—even when closely related to a patent” (such as a trade secret), or even (4) frame the arrangement as something other than a royalty, such as a joint venture.

While the Court made it clear that patent royalties cannot accrue after expiration of a patent, they also made it clear that parties have alternative options that achieve many of the same goals. Whether you are working on a way to have someone else commercialize your technology, bringing in another party’s technology to expand your business, or otherwise looking to leverage innovation in your business, we encourage you to contact counsel who has fully considered today’s opinion.

For more information, please contact [Matt Schantz](#) or any other attorney in Frost Brown Todd’s [Intellectual Property Law and Litigation](#) practice group.

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