*Patents/Supreme Court*

## Mixed Views on Chances High Court Will Nix Bar on Post-Expiration Patent Royalties

Stakeholders expressed a mix of opinions on what will happen to patent license negotiations in the wake of the Supreme Court's upcoming decision in *Kimble v. Marvel Enterprises Inc.*

With a day to reflect on the March 31 oral argument on whether a patentee should be allowed to bargain for royalties from a licensee after patent expiration, some craved the flexibility that would be provided by ending the 50-year-old *Brulotte* rule barring such agreements, while others identified a raft of options already available within the confines of the rule, with no need to change it.

The *Brulotte* rule ''has caused no harm, which is well-established in the Supreme Court's jurisprudence, and which has long been a basic precept of any patent licensing negotiation,'' James D. Crowne, deputy executive director of legal affairs for the American Intellectual Property Law Association, told Bloomberg BNA.

On the other hand, David Tellekson of Fenwick & West LLP, Seattle, said simply, ''Why not give parties the ability to value and structure payments as they see fit?''

The comments from Tellekson and Crowne, along with comments from other stakeholders, were made in e-mail exchanges with Bloomberg BNA April 1.

**Partisan Issue?** Marvel stopped paying royalties for use of a patent on a Spider-Man toy that allows children to shoot foam ''webs'' like the Marvel superhero. The patent had expired, but the agreement between Marvel and inventor Stephen Kimble had no expiration date for royalty payments.

*Brulotte v. Thys Co.*, 379 U.S. 29, 143 U.S.P.Q. 264 (1964) , held that ''a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se.''

The question the high court is considering now is whether to overturn *Brulotte*.

Bloomberg BNA asked the stakeholders why the justices' questions in oral argument appeared to expose a liberal-conservative split, which Tellekson said he noted in court.

''One way to interpret the oral argument is that the 'conservative' justices were on the side of freedom of contract, whereas the 'liberal' justices thought that freedom of contract arguments were insufficient to overcome stare decisis, and that the court should defer to Congress for changes in patent law,'' according to Baldassare Vinti of Proskauer Rose LLP, New York.

Robert G. Kidwell of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo P.C., Washington, agreed in part, seeing comments by Chief Justice John G. Roberts Jr. and Justice Antonin Scalia as showing ''greater faith in the ability of an efficient marketplace to ensure a procompetitive outcome through individualized negotiations.''

But Jeanne M. Gills of Foley & Lardner, Chicago, saw different categories of a split not necessarily indicative of a liberal or conservative view.

''There may be a divide between companies who typically don't practice the patented technology yet spend a lot of time on R&D, such as universities or not-for-profits vs. those entities that typically do practice the patented technology,'' she said.

Relatedly, Kimble's primary argument here is that *Brulotte* represents old economic thought and that modern antitrust law has made it obsolete, while the pro-Marvel briefing in the case casts *Brulotte* as a decision based on patent policy, not antitrust concerns.

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—DAVID TELLEKSON, FENWICK & WEST LLP

Accordingly, one must wonder asked whether Roberts and Scalia had betrayed a different attitude in 2013 when they said, ''A patent carves out an exception to the applicability of antitrust laws,'' in a dissent in *FTC v. Actavis*. But no stakeholder went that far.

''Their comments at oral argument focused more on the question of why we should be attempting to import antitrust–like principles into the patent law,'' Kidwell said. ''If there is an antitrust problem, then why can't the antitrust laws solve it?''

**What Practices Are Prohibited?** But the commenters were more passionate when asked about how the court's decision might affect patent license practices.

The first question was whether the *Brulotte* rule could reasonably be said to have ''suppressed effects'' on license flexibility, using a term proposed by Kimble's counsel. Tellekson focused on the life sciences industry.

''When a drug does not hit the market until only a handful of years left on the patent, the parties negotiating the license may need to have the flexibility of extending the risk to post-expiration royalties,'' he said. ''If *Brulotte* were overturned, these constraints would definitely go away.''

Michael Sandonato of Fitzpatrick, Cella, Harper & Scinto LLP, New York, also noted the situation where patents in a portfolio being licensed expire at different times.

''Do the tentacles of *Brulotte* reach far enough to require that the royalty rate be adjusted downward as patents expire?'' he asked. ''If so, then that would be a more common example of a situation in which *Brulotte* could be viewed as limiting licensing flexibility.''

**Others: Lack of Flexibility Not Persuasive.** But other stakeholders were convinced that 50 years of practice has given negotiators enough room to be as flexible as they liked. Gills had a list—in addition to the one discussed in court of simply deferring payments:

> hybrid licenses where royalties are based on fees for patented vs. non-patented technology (e.g., trade secrets or other confidential information); setting a minimum or maximum royalty obligation (which can serve the purpose of allocating risks/costs of commercial success based on number of products sold or establishing a minimum entry fee for license); limiting the license to a particular geo-



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graphic territory or product scope; having the parties enter a joint venture as suggested by Justice Kagan; doing bulk license where terms ends on the last surviving patent in a group of patents, etc.

She added, ''In practice, I also think that good lawyers have been creative in squeezing more money out of a deal by having licensor charge consulting fees or placing ongoing value on the non-patented technology.''

**And Isn't That Part of the Bargain?** The problem for the life sciences industry's desire for more flexibility, Marvel's counsel said at oral argument, is that it appears to simply reflect the idea that the statutory patent term is not long enough. Most stakeholders agreed.

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—JEANNE M. GILLS, FOLEY & LARDNER

''Congress gave the patentee a 20-year period to capture whatever success he could during that limited monopoly, and if that period isn't long enough than that issue needs to be handled by Congress, which Congress has addressed in the past with respect to certain industries like the pharmaceutical industry with the Hatch Waxman Act, and with respect to many industries with the patent term adjustment laws,'' Gills said.

Again, though, Tellekson protested.

''Adjustments help, but are not nearly enough to fully address the need to spread out royalties after a patent expires,'' he said. ''Drugs still come to market very late in the life of a patent, and a licensor and licensee may decide that to spread risk between the parties, post-expiration royalties are required.''

And Kidwell was somewhere in the middle.

''The question goes to the nature of what an invention is: Does an invention become the inventor's property solely by operation of the Patent Act, or does the inventor have a property interest (even if not exclusive) that survives expiration, separate and apart from the patent act's grant of exclusivity?'' he said. ''If it is the former, then expiration of the patent term would seem to end the inventor's ability to license the invention. If it is the latter, then expiration of the patent would not appear to terminate the inventor' remaining non-exclusive rights in the invention, and therefore to license it.''

BY TONY DUTRA

*A copy of the oral argument transcript is at http://pub.bna.com/ptcj/13720transcript.pdf.*

*Crowne is a member of this journal's advisory board.*

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