



DATE DOWNLOADED: Sun Sep 6 16:33:33 2020

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Citations:

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Brittany Curtis, *Kimble v. Marvel Entertainment LLC* 135 S. Ct. 2401 (2015), 20 INTEL. PROP. L. BULL. 47 (2015).

ALWD 6th ed.

Curtis, B. ., *Kimble v. marvel entertainment llc* 135 s. ct. 2401 (2015), 20(1) Intell. Prop. L. Bull. 47 (2015).

APA 7th ed.

Curtis, B. (2015). *Kimble v. marvel entertainment llc* 135 s. ct. 2401 (2015). *Intellectual Property Law Bulletin*, 20(1), 47-50.

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Curtis, Brittany. "*Kimble v. Marvel Entertainment LLC* 135 S. Ct. 2401 (2015)." *Intellectual Property Law Bulletin*, vol. 20, no. 1, Fall 2015, p. 47-50. HeinOnline.

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Brittany Curtis, '*Kimble v. Marvel Entertainment LLC* 135 S. Ct. 2401 (2015)' (2015) 20 *Intell Prop L Bull* 47

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Kimble v. Marvel Entertainment, LLC

135 S. Ct. 2401 (2015)

BRITTANY CURTIS*

BACKGROUND

Plaintiff Stephen Kimble obtained a patent for a toy that allowed a child or an adult to shoot pressurized foam string from their hand. Defendant Marvel Entertainment created and sold products featuring various superheroes including Spiderman. Kimble tried to sell his patent to Marvel. After the meeting, Marvel began marketing a “Web Blaster” toy, the features of which were covered by Kimble’s patent. Kimble sued Marvel in 1997 primarily alleging patent infringement. The parties settled and within their settlement agreement, Marvel agreed to purchase Kimble’s patent for a sum of about \$500,000 with a three percent royalty on future sales of that product or any other similar Marvel product. No end date was set for the royalties, presumably to continue “for as long as kids want to imitate Spider-man (by doing whatever a spider can).”¹

Towards the end of the twenty-year patent term, Marvel discovered the case of *Brulotte*,² and realized its holding caused the dispute at issue here. The Court held in *Brulotte* that once a patent expires, a patentee can no longer receive royalty payments, no matter what the agreement was in place. When the parties negotiated the settlement, neither side was aware of the *Brulotte* holding.

PROCEDURAL HISTORY

Marvel sought a declaratory judgment in federal district court to confirm that they could cease royalty payments to Kimble upon the expiration of the patent in 2010. The district court found for Marvel and held that the holding in *Brulotte* made the royalty provision unenforceable after the patent’s expiration. The Ninth Circuit Court of Appeals was unconvinced by the *Brulotte* holding, however it affirmed the district court’s holding.

ISSUE

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1 Kimble v. Marvel Entm’t, LLC, 135 S. Ct. 2401 (2015).

2 *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

The United States Supreme Court addressed one primary issue: whether the holding of *Brulotte* should be overruled.

DECISION

The Supreme Court declined to overrule the holding in *Brulotte* following the principle of *stare decisis*.

REASONING

First, the Court considered patent law, generally. Patent holders are endowed with certain superpowers (limited monopolistic rights), but only for the length of the patent term. Once the term of the patent is up, the patent becomes part of the public domain. Considering past patent decisions, the Court held that any agreements that limit the use of expired or invalid patents are unenforceable. The Court held that such contracts undermine patent law.

The agreement discussed in *Brulotte* is a primary example of the type of agreement the United States Supreme Court has deemed unenforceable. In *Brulotte*, an inventor of a farming machine licensed his patent to farmers in exchange for royalty payments, which continued after the patent expired. The Court held that the agreement was unenforceable for providing royalty payments after the expiration of the patent. Since a patent becomes part of the public domain after the expiration date, any agreement to limit the access by the public is not enforceable.

The Court acknowledged the benefit of entering into longer deals with drawn out payment plans. A lower rate could be utilized and the risks and rewards would be allocated in a more beneficent manner over time. However, the Court found that there are other ways to get around the limiting effect of the *Brulotte* holding. For example, a party could defer payments until after the patent expired. If the parties created an agreement that covered multiple patents or even non-patent rights, royalties are still permitted to continue until the last remaining right expired.

Kimble implored the Court to discard the *Brulotte* rule and instead employ a case-by-case analysis under the antitrust law rule of reason analysis. The Court addressed this proposal later in the opinion.

The principle of *stare decisis* was raised. Invoking this doctrine promotes consistent development of the law, reliance on judicial decisions, and minimizes the incentive to challenge settled precedent. To reverse a decision under this doctrine requires a special justification—something more than the belief that the precedent is wrong. Also, the Court held that parties critical of the Court's ruling, can make their objections known to Congress. In the case of *Brulotte*, Congress rejected multiple opportunities to reverse the Court's holding for over fifty years. As various aspects of patent law have developed, the *Brulotte* holding remained settled. The Court mentioned that Congress discarded bills that would have replaced the *Brulotte* holding with the rule of reason analysis, as suggested by the

plaintiff.

Additionally the Court found that the *Brulotte* holding significantly affects both contract and property law. When cases such as these arise, an even more critical analysis takes place because many parties rely on the precedents of these cases.

Additionally, the Court discussed that the reasons often employed to reverse a decision do not apply here. One reason was that the doctrine underpinning the case eroded over time, however, the patent laws in which *Brulotte* rely remained the same. In fact, the Court continued to favor a policy that does not restrict the use of a patent after its expiration. A second reason considered was whether the test within *Brulotte* proved unworkable. Here, a court simply needs to ask whether the agreement extends beyond the patent's expiration date. If so, the agreement is null and void. This test provides a more simplistic analysis than the test suggested by the plaintiff.

Finally, the Court considered two reasons posited by the plaintiffs to overrule *Brulotte*. The first was that the *Brulotte* holding mistakenly found anticompetitive effects in a post-expiration royalty rule. The second reason was that *Brulotte* suppresses innovation and has a negative economic effect.

With regards to the first reason, the Court agreed with the plaintiff that the post-expiration agreements inhibit competition. Despite this, the Court posited two questions. First, did the economic mistake made in *Brulotte* overcome *stare decisis*? Second, was the holding founded on competitive effects? The Court stated that if this was an antitrust case, the Court might answer affirmatively to both questions as the plaintiff desired. However, the court ruled that *Brulotte* was a patent case and therefore Congress is the proper entity to fix the *Brulotte* ruling. Congress primarily created patent law and Congress is the governmental body that can fix any mistakes in the law. Even though the *Brulotte* Court had enough information to find post-patent royalties to be anticompetitive, this claim is not enough to overcome *stare decisis*.

Addressing the plaintiff's second argument, the Court found that not enough information was provided to determine whether preventing post-expiration royalties is anticompetitive. As aforementioned, other methods exist to spread the risk and defer payment. While these options may not be ideal, they still suffice.

In conclusion, the Court found that *stare decisis* should be utilized sparingly. No significant reasons have been posited to justify departing from *Brulotte*. Quoting Spider-Man, "in this world, with great power there must also come—great responsibility."³ The judgment of the Court of Appeal was affirmed.

Justice Alito, joined by two other Justices, dissented from the majority opinion. The dissent argued that the majority's reaffirmation of the *Brulotte* holding based on *stare decisis* was a baseless decision. The

3 *Id.* at 2414.

dissenters stated that over the last fifty years, the *Brulotte* reasoning was refuted. Justice Alito also articulated the same point the plaintiff made regarding the spreading of licensing fees over time, rather than only during the patent term. He did not find the majority's options to get around the holding persuasive.

Justice Alito argued that in this case, neither party was aware of the holding in *Brulotte* when they were making their agreement. The idea that other parties are taking that holding into consideration when forming an agreement is fanciful. The only virtue of the *Brulotte* opinion that remains is that the Supreme Court decided it. Departing from this holding would not upset precedent, according to the dissent.

Justice Alito addressed the statement of the majority indicating that had *Brulotte* been an antitrust case, they might have utilized *stare decisis*. In fact, the case could be seen as an antitrust case masqueraded as a patent case. The major issue within the case was preventing one party from having a monopoly, the dissent argued.

Lastly, the dissent felt the majority "place[d] too much weight on Congress' failure to overturn *Brulotte*."⁴ A failure to act does not necessarily mean approval. Had the majority properly understood the doctrine of *stare decisis*, the holding in *Brulotte* would have been overruled.

4 *Id.* at 2418.