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Limits on Patent Licensing: Post-Expiration Royalties, Reach-Through Royalties, and Misuse Risks

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Patent owners have significant leverage at the negotiating table, but that leverage has limits. In various circumstances, the Supreme Court has held that while a patentee may refuse to license its invention, it may not use a license to improperly expand the scope of the patent monopoly. As the Court observed, the "fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use." *Blonder-Tongue Lab'ys, Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 343–44 (1971) (cleaned up).

Whether a particular licensing provision crosses that line is a fact-intensive inquiry. This article explores several illustrative examples showing how courts analyze these agreements—and why seemingly routine license terms can sometimes create unexpected legal risk.

Post-Expiration Royalties: The *Brulotte* Rule

Brulotte v. Thys Co., 379 U.S. 29 (1964), established limits on post-expiration royalties. Thys sold hop-picking machines and licensed twelve patents to farmers. Brulotte agreed to pay royalties on the use of the machine (i.e., the greater of $500 per season or 3.33^{1}/_{3}$ per 200 pounds of dried hops harvested). The royalties were not temporally limited.

The Court held these royalties unenforceable, reasoning that using patent leverage to project royalty payments beyond the patent's life is analogous to enlarging the monopoly through tying arrangements. The Court concluded that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." *Id.* at 32.

Despite *Brulotte*'s broad language, its facts suggest a somewhat narrower rule. For example, the Court noted that payments were explicitly for post-expiration use, not deferred payments for pre-expiration use. Additionally, the machines were patented articles, distinguishing arrangements involving unpatented goods. And the Court noted that all patents on the machine had expired, distinguishing the circumstances where some of the licensed patents on the machine had not yet expired.

Kimble v. Marvel: Reaffirming Brulotte

In *Kimble v. Marvel Entertainment, LLC*, 576 U.S. 446 (2015), the Court revisited and upheld *Brulotte*. Kimble had sued Marvel for infringing his "Web Blaster" patent—a toy allowing users to shoot foam webs like Spider-

Man. The parties settled, with Marvel acquiring the patent and agreeing to pay a 3% royalty with no end date. Marvel later sought a declaratory judgment that it need not pay post-expiration royalties.

The Court declined to overrule *Brulotte* but provided some additional guidance on how it applies. The Court described *Brulotte* as "simplicity itself to apply," explaining that a "court need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice." *Id.* at 459. And the Court identified circumstances avoiding *Brulotte*:

- Deferred payments: A licensee may defer payments for pre-expiration use of a patent into the post-expiration period.
- Multiple patents: Royalties may run until the latest-running patent covered by the agreement expires.
- Non-patent rights: Post-expiration royalties tied to non-patent rights (e.g., trade secrets) are permissible, such as with a step-down rate (e.g., the rate steps down from 5% to 4% after expiration).
- Business arrangements other than royalties: Joint ventures that enable parties to share the risks and rewards of commercializing an invention are not barred.

Ares v. Dyax: Applying *Brulotte* to Reach-Through Royalties

Ares Trading S.A. v. Dyax Corp., 114 F.4th 123 (3d Cir. 2024), clarified *Brulotte*'s application to reach-through royalties—royalties on unpatented products developed using patented techniques. Under the collaboration agreement, Dyax used patented techniques to identify therapeutic antibodies. Ares agreed to pay royalties on resulting products after patent expiration. Dyax performed all patented research before expiration, and Ares later developed one antibody into a drug.

Wolf Greenfield, on behalf of its client Dyax, convinced the Third Circuit that *Brulotte* was inapplicable to these reach-through royalties. The court clarified that *Brulotte* concerns royalties calculated based on activity requiring post-expiration acts that would have infringed the patents before expiration. *Id.* at 140. Since the patented research occurred entirely during the patent term, and since the royalty-bearing sales would not have practiced the licensed patents, the reach-through royalties were enforceable.

Total-Sales Royalties

Licenses that provide royalties on all sales regardless of whether the sales practice the licensed patents—so called total-sales royalties—are often fine. For example, in *Automatic Radio Manufacturing Co. v. Hazeltine Research*, 339 U.S. 827 (1950), the Court held such arrangements are not per se misuse, reasoning that the licensee paid for the right to use the patents and "cannot complain because it must pay royalties whether it uses Hazeltine patents or not." *Id.* at 834.

However, *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969), established important limits. The Court explained that "conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent does amount to patent misuse." *Id.* at 138. The key distinction is between convenience and coercion: if convenience of the parties explains the total-sales royalty provision, there is no misuse. But a patentee's insistence on total-sales royalties regardless of use constitutes misuse.

Tying Arrangements

Decisions regarding tying arrangements—where a patent owner conditions a license on purchasing unpatented products—were once common. For example, in *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), the patent owner leased canning machines with a license conditioned on buying the patent owner's salt. The Court found this constituted patent misuse, reasoning that the patent owner was restraining competition in unpatented articles and creating a monopoly not granted by the Patent Office. Consequently, the patent owner's suit against a competitor was dismissed.

Following a 1988 amendment to 35 U.S.C. § 271(d), misuse on the basis of tying arrangements now requires a showing that the licensor had "market power." And the Supreme Court extended this requirement to antitrust violations on the basis of tying arrangements in *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006). However, what constitutes "market power" remains a factual inquiry with uncertainty.

Conclusion

These rules remain impediments to patent owners structuring license agreements. And questions remain: What other arrangements avoid *Brulotte* beyond those in *Kimble*'s examples and the reach-through royalties in *Ares*? What circumstances qualify as "convenient" for total sales royalties? When does a patent owner possess sufficient "market power" for a tying arrangement to constitute misuse or antitrust violation? Patent licensors must navigate these uncertainties carefully while licensing their patents.