



## GETTING THE MOST OUT OF A PATENT: LAW ON POST EXPIRATION ROYALTIES

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When negotiating a licensing agreement, an important aspect to address is the duration of the agreement; both parties have an interest in knowing precisely when their business arrangement begins and when it ends. In a patent license, licensors may want to collect royalties for the longest period possible in order to get the most out of their patent. Unfortunately for the licensor, the monopoly granted by a patent is limited in time.

However, although the duration of a patent is limited by the government, a licensor and licensee have contractual liberty to define the duration of their licensing agreement in many different ways. Whether intentional or not, the duration negotiated by the parties can potentially extend beyond the life of a patent. In the US, such practice is forbidden, and the licensor cannot collect royalties for exploitation occurring after the expiration or invalidity of a patent. In Canada, however, these types of agreements are allowed. The licensor can effectively continue to benefit from an expired or invalid patent until the licensing agreement comes to an end.

### U.S. Law

In the US, it has long been established that an agreement for royalty payments covering the exploitation of a patent after it has expired is unlawful. Though this was made clear in the 1964 US Supreme Court decision *Brulotte v Thys Co* [379 US 29 (1964), <<https://supreme.justia.com/cases/federal/us/379/29/case.html>>] (*Brulotte*), a more recent decision *Kimble v Marvel Entertainment LLC* [135 S. Ct. 2401 (2015), <[http://www.supremecourt.gov/opinions/14pdf/13-720\\_jiel.pdf](http://www.supremecourt.gov/opinions/14pdf/13-720_jiel.pdf)>] highlights the importance of having a good knowledge of intellectual property law when negotiating a patent license. Oddly enough, both parties in *Kimble* admitted to not having knowledge of the *Brulotte* decision when entering into their licensing agreement. The license was therefore negotiated under the impression that Marvel would continue to pay royalties until sales of the licensed articles ceased, with no specific end date for

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royalty payments, and no stipulations relating to the expiration or invalidity of the patent. As a result, the term of the license ended up outliving the patent.

The court followed the Brulotte decision and held that Kimble could not collect royalties for sales which occurred during the post-expiration period. Although acknowledging that the Brulotte rule may prevent parties from entering deals they desire, the court noted that parties can find ways around Brulotte while achieving the same ends. For example, the parties can: (1) defer payments for pre-expiration use of a patent into the post-expiration period, (2) require payment of royalties for multiple patents until the last of those patents expires, (3) tie royalties to non-patent rights, or (4) make business arrangements other than royalties to share risks and rewards.

## Canadian Law

In Canada, the rules are very different; a licensor can receive royalties for the exploitation of a patent even after the patent has expired. The language of the licensing agreement is the controlling factor. If the agreement provides for a term which is not tied to the validity of a patent, the license will remain in force even if the patent expires or is otherwise invalidated. Absent any express provision, however, there is a presumption that the license continues until the expiration of the patent, but not [*Culzean Inventions Ltd. v. Midwestern Broom Company Ltd., Midwestern Marketing Canada Ltd.*, 1984 CanLII 2276 (SK QB; 1984-01-13), <<http://www.canlii.org/en/sk/skqb/doc/1984/1984canlii2276/1984canlii2276.html>>].

In the 1941 case *Coyle v Sproule* [1941 CanLII 69 (ON SC; 1941-05-07), <<http://www.canlii.org/en/on/onsc/doc/1941/1941canlii69/1941canlii69.html>>] (Coyle), the Ontario High Court reiterated a principle established several years prior in *Duryea v. Kaufman* [(1910), 21 OLR 161] in that it is the licensing agreement which governs the payment of royalties. The validity of a patent is therefore immaterial to an obligation to pay royalties, unless the licensing agreement includes an express or implied warranty of the validity of the patent, or unless there is fraud. This principle was further applied in the 1943 case *Trubenizing Process Corp v John Forsyth Ltd* [1943 CanLII 10 (SCC; 1943-06-09), <<http://www.canlii.org/en/ca/scc/doc/1943/1943canlii10/1943canlii10.html>>], where it was held that the obligation to pay royalties arises from the license. Unless otherwise provided, the payment of royalties is “an independent covenant unconnected with the validity of the patent covered by the license.” Moreover, it has also been held that attacking the validity of a patent is not a permissible defence for a licensee in an infringement action. In *Coyle*, the court did not allow a licensee to argue the invalidity of a patent to justify the non-payment of royalties. According to the court, when entering into the licensing agreement, the licensee acknowledged that the patent in question was valid. The licensee was therefore estopped from arguing the contrary during the term of the licensing agreement.

In the more recent 1984 case *Culzean Inventions Ltd. v. Midwestern Broom Company Ltd. (Culzean)*, the court stated that absent any express provision on the subject, there is a presumption that a license continues until the expiration of the original term of a patent, but not beyond. However, an express stipulation as to the duration of the license controls. In *Culzean*, the licensing agreement in question provided that it would remain in force until March 31, 1980, i.e. five years after the March 25, 1975 expiration of the patent. The licensing agreement therefore expressly provided for a term which was not tied to the expiration of the patent. Since there was no evidence that the license was contrary to public interest, the court held that the license was valid and remained in effect even after the patent expired.

## Conclusion

It is clear that the law governing patent licenses is quite different in the US and Canada. To avoid any surprises, it is important that both licensor and licensee agree on which jurisdiction governs their agreement. In Canada, the parties will have more liberty in negotiating the duration of their agreement. Although the parties can agree on royalty payments covering use after the expiration of a patent, caution should be exercised when doing so. The court demonstrated in *Culzean* that it could potentially invoke equitable principles to hold such clauses unenforceable if they are contrary to the public interest, for example by being unreasonable, unconscionable or in restraint of free trade.