Patent Misuse Issues in the Context of Patent Licensing

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Your Presenters and Moderator

Ilan Feuchtwang, Consulting Fractional GC, Former General Counsel of Synthego

Brian Kacedon, Partner
Finnegan

Victoria Kruse, Director of Corporate Transactions
Caribou Biosciences

Jeffrey Smyth, Partner
Finnegan

What is Patent Misuse?

"The Supreme Court established the basic rule of patent misuse: that the patentee may exploit his patent but may not 'use it to acquire a monopoly not embraced in the patent.'"

"The key inquiry under the patent misuse doctrine is whether by imposing the condition in question, the patentee has ***impermissibly broadened the physical or temporal scope of the patent grant and has done so in a manner that has anticompetitive effects***"

Princo Corp. v. ITC, 616 F.3d 1318 (Fed. Cir. 2010) (*en banc*)

What is Patent Misuse?

- An affirmative defense
  - Can be raised in response to a claim of patent infringement
  - May be a defense to a contract action for payment of royalties
  - Cannot be used offensively as a claim for damages

- If established: Misused patent is unenforceable and/or may be purged from agreement

Statutory Limits on Patent Misuse

- Congress has placed statutory limits on misuse
- 35 U.S.C. § 271(d)(4) and (5) (1988)
  - No patent owner otherwise entitled to relief for infringement . . . of a patent shall be. . .deemed guilty of misuse. . .by reason of his having . . . (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

Types of Patent Misuse – Post-Expiration Royalties

Post-Expiration Royalties

- *Brulotte v. Thys*, 379 U.S. 29 (1964)
  - Per se ban on charging royalties after patent expiration
- *Kimble v. Marvel Entertainment, LLC*, 135 S.Ct. 2401 (2015)
  - Reaffirmed holding of Brulotte
  - Identified possible alternatives:
    - Defer payments for pre-expiration use into the future
    - Royalties may run until the latest running patent in an agreement
      - » But should rate change?
    - Post-expiration royalties allowed for non-patent rights
    - No bar to joint ventures and other arrangements

Types of Patent Misuse – Post-Expiration Royalties

Post-Expiration Royalties

- *C.R. Bard, Inc. v. Atrium Med. Corp.*, 112 F.4th 1182 (9th Cir. 2024)
  - Bard sued Atrium for infringement based on vascular and non-vascular products
  - Parties entered into license and settlement agreement.
  - Bard granted Atrium a license to family of patents. US Patents expired in 2019 but Canadian patent extended until 2023.
  - Atrium agreed to pay a 15% royalty on vascular products and a minimum annual royalty of $15 million until either non-vascular product was approved for vascular use (and would be subject to 15% royalty) or if FDA rescinded all approvals for non-vascular product
  - Atrium stopped paying minimum annual royalty after U.S. patents expired based on *Brulotte*

Types of Patent Misuse – Post-Expiration Royalties

Post-Expiration Royalties

- *C.R. Bard, Inc. v. Atrium Med. Corp.*, 112 F.4th 1182 (9th Cir. 2024)
  - **District Court** held that *Brulotte* rendered unenforceable any obligation to pay minimum annual royalty after US patent expired
  - Minimum annual royalty payment was to compensate for sales of non-vascular product
  - Charging a royalty for US sales of the non-vascular product after expiration of the US patents was patent misuse
  - No evidence that minimum annual royalty after patent expiration was to compensate for pre-expiration sales

Types of Patent Misuse – Post-Expiration Royalties

Post-Expiration Royalties

- *C.R. Bard, Inc. v. Atrium Med. Corp.*, 112 F.4th 1182 (9th Cir. 2024)
  - **Ninth Circuit reversed**
  - Court held that application of *Brulotte* was a **question of law** that did not "turn on the parties' motivations..."
  - Court held that 15% royalty **was enforceable because it only required payment for sales in the U.S. until expiration of the U.S. patents and for sales in Canada until expiration of the Canadian patents.**
  - Court held that minimum annual royalty **was enforceable because it represented a minimum amount due for use of all unexpired patents in all countries.** After expiration of U.S. patents, the minimum annual royalty was for use of Canadian patents only.

Types of Patent Misuse – Post-Expiration Royalties

Post-Expiration Royalties

- *Ares Trading S.A. v. Dyax Corp*., 114 F.4th 123 (3rd Cir. 2024))
  - Dyax owned and had licensed-in patents from CAT relating to phage display
  - Ares entered into collaboration and license agreement with Dyax where Ares received license to Dyax and CAT patents
  - Ares agreed to pay royalties on antibody products discovered with phage display technology for longer of ten years from first commercial sale or the last of CAT patents to expire, and argued it did not owe royalties after CAT patents expired

Types of Patent Misuse – Post-Expiration Royalties

Post-Expiration Royalties

- *Ares Trading S.A. v. Dyax Corp*., 114 F.4th 123 (3rd Cir. 2024))
  - **Court** defined "Brulotte's rule as follows: (i) 'post-expiration use' refers to practicing inventions after their patents expire—acts that would have infringed the patents pre-expiration; (ii) to determine whether a royalty is 'provided for' post-expiration use, courts must determine whether the royalty is calculated based on activity requiring post-expiration use; and (iii) a royalty may be calculated based on activity requiring post-expiration use even if the royalty's value does not vary with that use."
  - Court held **Brulotte did not apply because Ares's royalty obligation is not calculated based on activity requiring postexpiration use of inventions covered by the CAT Patents.**

Types of Patent Misuse – Post-Expiration Royalties

Post-Expiration Royalties

- Hybrid Patent-Know-how License
  - Post-Expiration Royalties
    - *Meehan v. PPG Indus., Inc.,* 802 F.2d 881 (7th Cir. 1986)
      - Agreement unenforceable
    - *Kimble v. Marvel*, 727 F.3d 856 (9th Cir. 2013)
      - Agreement unenforceable unless discounted rate
  - Allocate Royalties -- Patent and Knowhow
    - *Boggild v. Kenner*, 776 F.2d 1315 (6th Cir. 1985)
  - May collect royalties on pending patent applications prior to issuance
    - *Aronson v. Quick Poin*t, 440 U.S. 257 (1979)

Types of Patent Misuse – Tying Arrangements

Improper Tying Arrangements

- Historically, tying was per se patent misuse
  - *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942);
  - *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)

> Patentee "may not condition the right to use his patent on the licensee's agreement to purchase, use or sell, or not to purchase, use or sell, another article of commerce not within the scope of his patent monopoly."
>
> *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969)

Types of Patent Misuse – Tying Arrangements

Improper Tying Arrangements

- Federal Circuit developed a 3 part test for tying in *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986):
  - Are the two items separable or unitary?
  - Is the tied item a staple or non-staple article of commerce?
    - *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980)
  - Is there coercion or conditioning?
- After enactment of 271(d)(5), market power for tying product must be shown to establish misuse

Takeaways for Patent License Agreements

- Take Care When Drafting Royalty Provisions So That Payment Obligations are Clear
- Important to Distinguish Between Patent License and Other Obligations
- Audit Existing Agreements to Determine Whether Royalties Are Still Owed

Questions?

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