



ANTICIPATE

Patent Misuse and Other Licensing Issues

September 26, 2018

Chris Slavinsky

Patent Misuse Under U.S. Law



- “Patent misuse is an equitable defense to patent infringement.” *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1184 (Fed. Cir. 2005)
- Patent misuse defense “prevent[s] a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right.” *Id.*
- Patent misuse defense bars the use of a “patent’s leverage” to “extend the monopoly of his patent to derive a benefit not attributable to the use of the patent’s teachings, . . .” *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135-36 (1969)

Patent Misuse Under U.S. Law (cont'd)



- A finding of patent misuse can render the patent unenforceable until the improper conduct is purged and any anticompetitive effects have dissipated. *U.S. Gypsum Co. v. Nat'l Gypsum Co.*, 352 U.S. 457 (1957); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493 (1942).
- The patent misuse defense can be asserted by a party that has not been damaged or impacted by the accused conduct. *Morton Salt*, 314 U.S. at 493-94.

Three-Part Test for Misuse



- Determine if patentee's accused "practice is reasonably within the patent grant"
- If not within patent grant, determine "if *per se* patent misuse"
- If not *per se* misuse, "that practice must then be analyzed in accordance with the 'rule of reason'" *Virginia Panel Corp.*, 133 F.3d 860, 869 (Fed. Cir. 1997)

Per Se Patent Misuse



- The Federal Circuit has stated that *per se* methodology is used in cases involving price-fixing, tying arrangements (given market power), and in arrangements requiring post-expiration royalties.

Virginia Panel Corp., 133 F.3d 860, 869 (Fed. Cir. 1997) (“[t]he courts have identified certain specific practices as constituting *per se* patent misuse, including so-called “tying” arrangements and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties”); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700,706 (Fed. Cir. 1992) (“[the present case] is not a price-fixing or tying case, and the *per se* antitrust and misuse violations found in the [cases relied upon by the district court] are not here present”).

Patent Misuse Under the Rule of Reason



- Under the Rule of Reason, “the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect, . . .” *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1197-98 (Fed. Cir. 2005); *Virginia Panel*, 133 F.3d at 869 (quoting *State Oil Co. v. Kahn*, 522 U.S. 3 (1997)).

Patent Term and Royalties



Pre-Issuance

Patent Term

Post-Expiration

License Payment Structure



- Types of Payments
 - Lump sum payments
 - Upfront payments
 - Annual Payments
 - Milestone payments
 - Royalties
 - How is the royalty base determined?
 - Sales of patented product
 - Does royalty base include any non-patented aspects and if so does the patented feature create the demand for what is included in the royalty base?

Payment Term and Patent Expiration



- U.S. Supreme Court recently granted cert. to review its 1964 *Brulotte* decision holding post patent expiration royalties *per se* unlawful (*Kimble v. Marvel*):
 - U.S. Supreme Court: “[A] patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*.” *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).
 - Federal Circuit: “[A]rrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties” are a “*per se* patent misuse.” *Virginia Panel Corp. v. Mac Panel Company*, 133 F.3d 860, 869 (Fed. Cir. 1998)
- Are post-expiration royalties deferred payments for use during patent term?
 - District court decision (not reviewed by the Federal Circuit): “[R]oyalties are collected based on later pharmaceutical sales, but the royalties are being accrued as the invention is practiced during the research phase. Collecting royalties after the expiration of the patent has expired [sic] is not *per se* misuse The problem arises when ‘the post-expiration royalties were not for prior use, but for current use. . . .’” *Bayer v. Housey*, 228 F. Supp. 2d 467, 472-73 (D. Del. 2002)

Misuse Issues and Research Tool Patents



- Potential Issues
 - The research tool patent covers a technology used to develop a product, but does not cover the product the licensee will sell
 - Can the owner of the research tool patent obtain payments based on the sale of products not covered by the licensed patent?
 - Licensor seeks payments on products discovered during the term of the research tool patent, but sold after its expiration
 - Under *Bayer v. Housey*, are the payments properly characterized as “deferred” payments which are a measure of the value of the Licensee’s use of the research tool patent during its term?
 - Will the rationale of *Bayer v. Housey* be accepted by the Federal Circuit and the U.S Supreme Court?

Licensing Multiple Patents With Different Expiration Dates



- Package license requiring royalties to be paid until the last to expire U.S. patent has been upheld where shown to be voluntary and for the convenience of the parties
 - Analyzed under Rule of Reason
 - Does each licensed patent cover the Licensee's activities or are any unnecessary?
 - May be prudent to document and recite in agreement that Licensee had the opportunity to decline a license under any particular patent and that package license was for the convenience of the parties

Pre-Issuance Royalties



- Can a royalty be collected on a pending U.S. patent application before the patent term begins?
- *Aronson v. Quick Point*, 440 U.S. 257 (1979): Supreme Court upheld royalty agreement for 5% of selling price which stepped down to 2.5% if a patent does not issue in 5 years.
 - 2.5% royalty for indefinite period; as long as licensee sells product
 - 5% pre-issuance royalty indicates that licensee “placed a significant value on exploiting the basic novelty of the device, even if no patent issued.” (440 U.S. at 261)
 - If patent had issued, licensor would have received 5% royalty only for life of the patent (440 U.S. at 263)
 - “This case does not require us to draw the line between what constitutes abuse of a pending application and what does not.” (440 U.S. at 265)

Licensing of Patent Applications



Pre-publication

Post-publication / Pre-issuance

- For pre-publication period, royalties should be attributable to know-how/trade secrets; license should provide for step-up for issued patent
- Possible basis for patent royalties for post publication/pre-issuance period is the “Provisional Rights” remedy of 35 U.S.C. § 154(d):
 - Provides for a “reasonable royalty” for use of claimed invention after publication if:
 - the patent issues;
 - there was actual notice of the published patent application; and
 - invention claimed in issued patent is “substantially identical to the invention claimed in the published application.”
 - However, potential issues if these conditions are not met

Hybrid Licenses



Trade secrets

Patent term

Hybrid Patent/Know-How Licenses



- Some U.S. cases suggest that royalties that can be allocated to licensed know-how may continue beyond patent expiration. *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1372 n.12, 1373 (11th Cir. 1983)
 - Determine if there is a basis for allocating separate royalties for use of the patented technology and for know-how
 - » Analyze whether there is identifiable and valuable know-how being licensed
 - Determine whether any post-patent expiration royalties can be allocated to know-how and whether license can specify a “step down” in royalty rate after patent expiration.