

Third Circuit Clarifies the Enforceability of Post-Patent Expiration Royalties Under *Brulotte*

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In a precedential decision published on September 3, 2024, the United States Court of Appeals for the Third Circuit addressed the enforceability of royalty obligations in patent licensing agreements that extend beyond the expiration of licensed patents. *Ares Trading S.A. v. Dyax Corp.*, No. 23-1487 (3d Cir. Sept. 3, 2024). Analyzing the specific license agreement at issue in the case through the lens of the Supreme Court's decisions in *Brulotte v. Thys Co.* (1964) and *Kimble v. Marvel Ent., LLC* (2015), the Third Circuit held that royalties which are not calculated based on activities requiring use of inventions covered by patents after their expiration are not unenforceable under *Brulotte*.

The core of the dispute between Ares Trading S.A. ("Ares") and Dyax Corporation ("Dyax") revolved around royalty payments for the sales of Ares' cancer drug, Bavencio® (avelumab). Under the terms of the parties' 2006 collaboration and license agreement ("CLA"), Dyax performed "phage display" research for Ares. Phage display is a process used in the development of antibody therapeutics. Using licenses it obtained to third-party phage display patents, including patents owned by Cambridge Antibody Technology (the "CAT Patents"), Dyax identified an antibody fragment that binds to a target molecule called PD-L1, which prevents the immune system from attacking cells to which it is attached. Ares then used that antibody fragment to develop and ultimately commercialize Bavencio. Under the CLA, Ares also received licenses to the CAT Patents as well as other phage display patents.

The duration of Ares' royalty obligations to Dyax pursuant to the terms of the CLA mirrored the duration of Dyax's upstream royalty obligations to CAT, both of which were based on sales of Bavencio. Specifically, the CLA set the royalty term as follows:

"...on a country-by-country and Product-by-Product basis for a period commencing with the First Commercial Sale in the relevant country and ending ten (10) years after First Commercial Sale; provided, however, in the event that such ten (10) year period for a Product in a particular country ends prior to the expiration of the last CAT Valid Claim in such country, then royalties shall be payable in such country until the expiration of last CAT Valid Claim."

Thus, the sale of Bavencio obligated Ares to pay royalties to Dyax, and (under the terms of a 2003 license agreement between Dyax and CAT), Dyax owed CAT a portion of the royalties Dyax received from Ares. The CAT Patents expired in 2018, but the first sales of Bavencio occurred in 2017. Therefore, royalty obligations on the sales of Bavencio extend until 2027, well beyond the expiration of the CAT Patents.

After unsuccessfully negotiating for a reduction of its royalty obligations, Ares sued Dyax for a declaratory judgment that, under *Brulotte*, the expiration of the CAT Patents rendered its continuing royalty obligations to Dyax unenforceable. In its *Brulotte* decision, re-articulated more recently in *Kimble*, the Supreme Court explained that patent law promotes the federal policy favoring limited patent duration. Patent owners are awarded exclusivity to their inventions during the active life of the patent; however, upon the patent's expiration, that

exclusivity is extinguished. Thus, patent royalty obligations that extend beyond the lifespan of the patent are unenforceable.

Ares argued that its royalty obligation was “conditioned on its licensing of the CAT Patents” because the use of CAT’s phage display technology led to the development of Bavencio. Ares contended that *Brulotte*’s proscription applies “when a royalty obligation that is exchanged for a patent license survives undiminished into the post-expiration period.” The district court concluded that Ares’ royalty obligation was not unenforceable under *Brulotte*, characterizing those royalties as deferred compensation for Dyax’s pre-expiration research involving phage display. Alternatively, the district court held that that *Brulotte* did not apply because one of the patents licensed to Ares under the CLA would not expire until 2028.

On appeal, the Third Circuit quoted *Kimble*’s encapsulation of *Brulotte*’s rule: “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.” The court rejected Ares’ arguments, reasoning that the sales of Bavencio for which Ares owed royalties did not require the post-expiration use of the CAT Patents. Critically, the Third Circuit noted Ares’ admission that the manufacture and sale of Bavencio did not practice the subject matter claimed in the CAT Patents. Therefore, because Ares’ royalty payments did not depend on using the CAT Patents, those royalties did not impermissibly extend the lifespan of the CAT Patents beyond their expiration.

The Third Circuit’s decision clarifies under what circumstances a licensing royalty obligation violates *Brulotte*. In short, if royalty payments are based on activities that require the use of a patented invention, that royalty obligation is only enforceable up until the expiration of the relevant patent. If the post-expiration royalty obligation, however, is not based on the use of the patented invention, *Brulotte* does not apply. *Ares v. Dyax* serves as a further reminder to companies and practitioners that *Brulotte* issues must be carefully considered when evaluating patent licenses and structuring royalty arrangements.