

Ares Trading v. Dyax: Further Clarification Regarding the Enforceability of Post-Patent Expiration Royalties

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Topic: Enforceability of post-patent expiration royalties

A key principle of the patent system is that in exchange for fully disclosing to the public how to make and use a claimed invention, upon issuance of the patent the inventor is granted the exclusive right to practice that invention for the term of the patent. Upon expiration of the patent term, the public can freely practice the claimed invention.

Consistent with this principle, the United States Supreme Court's 1964 decision in *Brulotte v. Thys Co.*^[1] held that a patent license agreement requiring a licensee to make royalty payments based upon the use of the invention beyond the expiration date of the underlying patent was unlawful *per se* because it represented an improper attempt to extend the patent monopoly beyond the term of the patent. In 2024, The United States Court of Appeals for the Third Circuit issued a decision in *Ares Trading S.A. v. Dyax Corp.*^[2] further clarifying the enforceability of royalty obligations in patent license agreements that extend beyond expiration of the licensed patents.

The dispute in *Ares Trading* concerned a Collaboration and License Agreement entered into by Ares and Dyax in 2006, and pursuant to which Dyax undertook research to identify antibody fragments that were capable of binding targets provided by Ares. The antibody fragments identified by Dyax using its phage display technology were subsequently used by Ares to develop a commercial product, Bavencio® (avelumab).

In exchange for Dyax's research in furtherance of the collaboration, Ares agreed to pay Dyax royalties based upon the sales of Bavencio®. The terms of the parties' Collaboration and License Agreement further provided that Ares' obligation to pay such royalties would commence upon the first commercial sale of Bavencio® in a country, and continue in such country until the later of the date of expiration of patents licensed to Ares, and the date that is ten years after such first commercial sale.

The first commercial sale of Bavencio® occurred in 2017, and the patents relating to phage display technology that were licensed to Ares expired in 2018. Despite the expiry of such licensed patents, Ares was obligated to continue paying Dyax royalties on sales of Bavencio® until 2027. Citing *Brulotte*, Ares sought to negotiate a reduced royalty with Dyax, which Dyax resisted by arguing that *Brulotte* did not apply, and leading Ares to seek a declaratory judgment that the expiration of the licensed patents rendered its royalty obligation unenforceable.

The District Court held that Ares' royalty obligation was not unenforceable under *Brulotte*, concluding that *Brulotte* prohibits "royalties...for practicing...licensed patents after they have expired," and characterizing Ares' royalty obligation as deferred compensation for Dyax's pre-

expiration research conducted using the licensed patents under the parties' Collaboration and License Agreement.[3]

On appeal, the Third Circuit referenced the Supreme Court's affirmation of *Brulotte* in its *Kimble v. Marvel Entertainment, LLC* [4] decision, 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." [5] The Third Circuit dismissed Ares' contentions and concluded that the royalties owed for Bavencio® sales were not tied to Ares' post-expiration use of the licensed patents. Rather, Ares' royalty obligation was calculated based on the sales of drugs Ares developed from the antibodies that Dyax discovered using its phage display technology. Importantly, the Third Circuit's decision emphasized Ares' own admission that neither the manufacture, nor sale of Bavencio® involved practicing the inventions covered by the licensed patents. The Third Circuit concluded that the royalties were not calculated based on the post-expiration use of the licensed patents, but rather as deferred compensation for the work that Dyax had completed before the patents expired, and as long as the royalties were not tied to the use of the expired patents, they did not violate *Brulotte*.

While *Brulotte* continues to provide important guidance regarding the enforceability of post-patent expiration royalties, the Third Circuit's decision in *Ares Trading S.A. v. Dyax Corp.* provides further clarification that royalty obligations that are not calculated based on activities requiring post-patent expiration use of the corresponding inventions remain enforceable. The decision further underscores the importance of carefully and clearly articulating the activities upon which post-patent expiration royalty obligations are calculated.

If you have questions regarding this topic, please reach out to **Stan Chalvire** or a member of Morse's **Licensing and Commercial Contracts** team.

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[1] *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

[2] *Ares Trading S.A. v. Dyax Corp.*, No. 23-1487 (3d Cir. Sept. 3, 2024).

[3] *Ares Trading S.A. v. Dyax Corp.*, No. 19-cv-02300, 2023 U.S. Dist. LEXIS 40484, at *65 (D. Del. Mar. 10, 2023).

[4] *Kimble v. Marvel Entertainment, LLC*, 576 U.S. 446 (2015).

[5] *Id.* at 459.