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APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

C.R. BARD, INC.,

Plaintiff-Appellant,

v.

ATRIUM MEDICAL CORPORATION,

Defendant-Appellee.

NO. 23-16020

D.C. NO. 2:21-CV-00284-DGC

OPINION

Appeal from the United States District Court
for the District of Arizona

David G. Campbell, District Judge, Presiding

Argued and Submitted July 9, 2024

San Francisco, California

Filed August 23, 2024

Before: Michelle T. Friedland, Salvador Mendoza, Jr.,
and Roopali H. Desai, Circuit Judges.

Per Curiam Opinion

SUMMARY[*]

PATENT LAW

The panel reversed the district court's judgment following a bench trial in favor of Atrium Medical Corporation on C.R. Bard, Inc.'s claim that Atrium breached its contract with Bard by failing to make certain minimum royalty payments due under a licensing agreement.

In *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), the Supreme Court held that patent holders may not contract for royalties on any use of a patented invention that occurs after the patent has expired. Clarifying the proper application of *Brulotte*, the panel held that a court must first use state law tools of contract interpretation to determine the parties' contractual obligations. Then, the court must separately ask whether those contractual obligations are permissible under *Brulotte*. To do so, the court asks only whether the contract provides for royalties on the use of a patented invention that occurs after the expiration of the patent.

Applying *Brulotte* to the parties' agreement, the panel held that the district court erred in concluding that a portion of the parties' agreement violated *Brulotte* in light of the subjective motivations of the parties during the course of their negotiations. The parties' agreement provides for U.S. royalties only through the expiration of the U.S. patent, so it does not constitute patent misuse under *Brulotte*. Accordingly, the panel reversed the district court's entry of judgment for Atrium on Bard's breach of contract claim.

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[*] This summary constitutes no part of the opinion of the court. It has been prepared by court staff for the convenience of the reader.

The panel addressed the remaining issues in a concurrently filed memorandum disposition.

COUNSEL

Brian R. Matsui (argued), Seth W. Lloyd, and Deanne E. Maynard, Morrison & Foerster LLP, Washington, D.C.; Diana L. Kim, Morrison & Foerster LLP, Palo Alto, California; Andrew Federhar and Jessica Gale, Spencer Fane LLP, Phoenix, Arizona; Steven C. Cherny, Quinn Emanuel Urquhart & Sullivan LLP, Boston, Massachusetts; Matthew A. Traupman, Quinn Emanuel Urquhart & Sullivan LLP, New York, New York; for Plaintiff-Appellant.

Christopher McArdle (argued), Wade G. Perrin, and Paul Tanck, Alston & Bird LLP, New York, New York; Charles W. Cox II, Alston & Bird LLP, Los Angeles, California; for Defendant-Appellee.

OPINION

PER CURIAM:

Under the Supreme Court's decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), patent holders may not contract for royalties on any use of a patented invention that occurs after the patent has expired. The Court has declined to overrule *Brulotte*, explaining that the "decision is simplicity itself to apply" and that parties may "find ways around" its prohibition. *Kimble v. Marvel Ent., LLC*, 576 U.S. 446, 453, 459 (2015).

We now clarify the proper application of *Brulotte*. A court must first use the familiar state law tools of contract interpretation to determine the parties' contractual obligations. Factfinding may be required to determine the meaning of any ambiguous terms. Then, the court must separately ask whether those contractual obligations are permissible under *Brulotte*. To do so, the court

asks only whether the contract provides for royalties on the use of a patented invention that occurs after the expiration of that patent. That question of law is a formal inquiry that does not depend on the parties' motivations, the course of their negotiations, or the consideration received by either party in exchange for the inclusion of a particular contractual term.

Here, the district court concluded that a portion of a licensing agreement violated *Brulotte* in light of the subjective motivations of the parties during the course of their negotiations. We conclude that the agreement at issue does not provide for royalties on post-expiration use of a patented invention, so we reverse.[1]

I.

C.R. Bard, Inc. ("Bard"), is a medical device company. Through a subsidiary, it held two patents on a type of vascular graft: one U.S. patent and one Canadian patent. Bard sued Atrium Medical Corporation ("Atrium") for patent infringement, and the two companies settled the suit in 2011 by entering into a licensing agreement. The terms of the agreement provided that Atrium would pay Bard a 15% per-unit royalty on covered U.S. sales until the U.S. patent expired in 2019 and a 15% per-unit royalty on covered Canadian sales until the Canadian patent expired in 2024. The agreement also provided that "in no event will royalties for any calendar quarter of the Term[2]

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[1] We address the other issues presented by this appeal in a concurrently filed memorandum disposition.

[2] The definition of "Term" stated: "This Agreement shall be effective as of the Effective Date and shall remain in full force and effect until the last to expire of all the patents included within the Licensed Patents, unless earlier terminated in accordance with its terms."

be less than" $3.75 million (equivalent to $15 million per year).

Sales of Atrium's "iCast" stent, which occurred only in the United States, were not initially subject to the per-unit royalties. The Food and Drug Administration ("FDA") had approved the iCast stent only for use in a patient's airway. But nearly all iCast sales were for off-label vascular uses. When the parties entered the license agreement, Atrium was preparing to seek FDA approval for vascular iCast uses, which it predicted would dramatically increase sales. The parties' agreement provided that, once such FDA approval was granted, the iCast stent would become subject to the 15% per-unit royalty, and the minimum royalty payments would terminate. The agreement also provided that the minimum royalty payments would terminate if the FDA were to "rescind[] its approval to market or sell" the iCast stent "for any and all indications previously approved."

Contrary to the parties' expectations, the FDA did not grant approval for vascular iCast uses until 2023, well after the U.S. patent expired in 2019. Because the per-unit royalties never exceeded the quarterly minimum royalty payments, Atrium only ever paid the minimum due under the agreement. Atrium stopped making the minimum royalty payments to Bard when the U.S. patent expired. Atrium then paid only the per-unit royalties on Canadian sales, which were substantially smaller than the minimum royalties, for about two years. As the parties' dispute over the payments unfolded, Atrium ceased paying those per-unit royalties as well.

Bard sued Atrium in 2021. It alleged, as relevant here, that Atrium's failure to make the minimum royalty payments between the expiration of the U.S. patent in 2019 and the FDA's approval of iCast for vascular use in

2023 was a breach of contract. After discovery, the parties filed cross-motions for summary judgment. Atrium asserted that the minimum royalty provision was unenforceable after the expiration of the U.S. patent because it constituted patent misuse under *Brulotte*. The district court concluded that there was a factual dispute as to "the extent to which minimum royalties after August 2019 include[d] payments for use of the [U.S.] patent," precluding summary judgment on Bard's breach-of-contract claim.

The district court held a two-day bench trial. Five witnesses testified, largely about the negotiations between Bard and Atrium that led to their licensing agreement. The district court then issued findings of fact and conclusions of law. The district court found that the "clear and primary purpose of the minimum royalty provision was to compensate Bard for iCast sales" in the United States. In light of that purpose, the district court held that the minimum royalty provision constituted patent misuse after the expiration of the U.S. patent.

Bard timely appealed.

II.

The district court exercised jurisdiction under 28 U.S.C. § 1332. We have appellate jurisdiction under 28 U.S.C. § 1291.[3]

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[3] The claims at issue in this case arise under state law, not federal patent law, so appellate jurisdiction does not lie with the Federal Circuit. See 28 U.S.C. § 1295(a)(1) (providing for exclusive Federal Circuit jurisdiction over appeals in "any civil action arising under . . . any Act of Congress relating to patents"). Atrium's patent-misuse defense does not affect the jurisdictional analysis. *See Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987) (describing the well-pleaded complaint rule).

We review de novo a district court's legal conclusions. *O'Bannon v. Nat'l Collegiate Athletic Ass'n*, 802 F.3d 1049, 1061 (9th Cir. 2015).

III.

We conclude that the minimum royalty provision does not constitute patent misuse under *Brulotte*. We first explain the controlling precedents. We then explain why application of the *Brulotte* rule is a question of law that we review de novo. Finally, we apply *Brulotte* to the parties' agreement.

A.

The Constitution empowers Congress to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. The Patent Act specifies the period after which a patent expires. 35 U.S.C. § 154(a)(2).

In *Brulotte*, the Supreme Court held that patent holders may not contract for royalties on the use of a patented invention that occurs after the patent has expired. 379 U.S. at 32. There, purchasers had each acquired a hop-picking machine in exchange for both a "flat sum" and a seasonal "license for its use." *Id.* at 29. The seasonal license payment was calculated as the greater of either "a minimum royalty of $500 for each hop-picking season or $3.33 1/3 per 200 pounds of dried hops harvested by the machine." *Id.* The licenses referred to twelve patents, seven of which "were incorporated into the machines." *Id.* at 30. "Of those seven all expired on or before 1957. But the licenses . . . continued for terms beyond that date." *Id.* The purchasers "refused to make royalty payments accruing . . . after the expiration of the patents." *Id.*

The Supreme Court held that "any attempted reservation or continuation in the patentee . . . after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws." *Id.* at 31 (quoting *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945)). The agreement was therefore invalid "insofar as it allow[ed] royalties to be collected which accrued after the last of the patents incorporated into the machines had expired." *Id.* The Court reasoned that "there is intrinsic evidence that the agreements were not designed" merely to "spread the payments for the use of the patent" over "a reasonable amount of time." *Id.* at 31 (quotation marks omitted). The Court explained that, because the licenses drew "no line between the term of the patent and the post-expiration period," the "contracts [were] . . . on their face a bald attempt to exact the same terms and conditions for the period after the patents have expired" as for the period before the patents expired. *Id.* at 32.

The Court revisited the *Brulotte* rule in *Kimble v. Marvel Entertainment, LLC*, 576 U.S. 446 (2015). Acknowledging a "broad scholarly consensus" against the economic assumptions made in *Brulotte*, *id.* at 461 (citing judicial and academic criticism), the Court nevertheless concluded that overruling *Brulotte* was not justified as a matter of *stare decisis*, *id.* at 465. The Court in *Kimble* explained in part that *Brulotte* "is simplicity itself to apply": "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." *Id.* at 459.

The Court in *Kimble* also emphasized the limits of the *Brulotte* rule, noting that "parties can often find ways around *Brulotte*." *Id.* at 453. Parties may, for example, "defer payments for pre-expiration use of a patent into

the post-expiration period," because "all the decision bars are royalties for using an invention after it has moved into the public domain." *Id.* at 453-54. For instance, parties may agree to royalties "equal to 10% of sales during the 20-year patent term," paid over 40 years. *Id.* at 454. "[P]arties have still more options when a licensing agreement covers either multiple patents or additional non-patent rights. Under *Brulotte*, royalties may run until the latest-running patent covered in the parties' agreement expires." *Id.* And parties may agree to continuing royalties on non-patent rights that are "closely related to a patent," such as "a license involving both a patent and a trade secret" that sets "a 5% royalty during the patent period (as compensation for the two combined) and a 4% royalty afterward (as payment for the trade secret alone)." *Id.*

We have applied *Brulotte* in two published opinions.[4]

The first decision, *Zila, Inc. v. Tinnell*, 502 F.3d 1014 (9th Cir. 2007), concerned a licensing agreement for a herpes treatment. After applying for a patent, an inventor transferred his intellectual property to Zila in exchange for stock and a 5% perpetual royalty. *Id.* at 1017. Zila then secured several U.S. patents and one Canadian patent. *Id.* Zila ultimately stopped paying royalties to the inventor, invoking the *Brulotte* rule. *Id.* at 1018.

We noted the "unconvincing" economic basis of *Brulotte* and stated that "our task is not to expand *Brulotte*'s holding." *Id.* at 1019-20. We first held that *Brulotte* had no effect on Zila's obligation to pay royalties

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[4] We cited *Brulotte* in an additional opinion, issued mere weeks after *Brulotte* was decided, but we simply noted that it was not applicable. *Atlas-Pac. Eng'g Co. v. Geo. W. Ashlock Co.*, 339 F.2d 288, 289 n.1 (9th Cir. 1964).

for use of the Canadian patent because *Brulotte* does not "extend its royalty canceling powers to contracts for foreign patents." *Id.* at 1023. We then held that *Brulotte* prohibited U.S. royalties after the expiration of the final U.S. patent, and we remanded for the district court to resolve a factual dispute related to whether the final U.S. patent had already expired. *Id.* at 1025-27.

We again applied *Brulotte* in *Kimble v. Marvel Enterprises Inc.*, 727 F.3d 856 (9th Cir. 2013), *aff'd sub nom. Kimble*, 576 U.S. at 465.[5] We considered a licensing agreement for a toy that allowed a user to "mimic[ ] Spider-Man's web-shooting abilities with foam string." *Id.* at 857-58. Kimble, the patent-holder, settled an infringement and breach of contract lawsuit with Marvel, which had been selling a "Web Blaster." *Id.* at 858. The terms of the settlement agreement provided that Marvel would purchase the patent from Kimble in exchange for a lump sum and an ongoing royalty of 3% on both "product sales that would infringe the Patent . . . as well as sales of the Web Blaster product." *Id.* at 858-59.

We stated that, under *Brulotte*, royalties on sales of a product that embodies both a patented invention and a nonpatent right (such as a trade secret) must "provide[ ] a discount for the non-patent rights from the patent-protected rate" after the patent expires. *Id.* at 863.

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[5] In reviewing our court's judgment in *Kimble*, the Supreme Court considered only whether to overrule *Brulotte*. 576 U.S. at 449. The Supreme Court declined to do so and therefore affirmed our court's judgment. *Id.* at 465. Our opinion in *Kimble* remains binding circuit precedent because the judgment was left undisturbed and because the Supreme Court's decision was in no way irreconcilable with our analysis. *See Miller v. Gammie*, 335 F.3d 889, 900 (9th Cir. 2003) (en banc) (holding that circuit precedent remains binding unless it is "clearly irreconcilable" with an intervening Supreme Court decision).

"This is because—in the absence of a discount or other clear indication that the license was in no way subject to patent leverage—we presume that the post-expiration royalty payments are for the then-current patent use, which is an improper extension of the patent monopoly under *Brulotte*." *Id.* at 863-64.

We concluded that the agreement's post-expiration royalties were barred by *Brulotte*. We noted that the 3% royalty did not decrease upon expiration of the patent and applied to "both patent and Web Blaster rights, with no discount or other clear indication that the Web Blaster royalties were not subject to patent leverage." *Id.* at 864. We rejected the idea that there were two separate royalties, one for patent rights and one for the Web Blaster product, explaining that the parties' agreement referred both to patent rights and to the Web Blaster product only because litigation over whether the product actually infringed the patent was ongoing at the time of the settlement. *Id.* We concluded that "the rights were intertwined and [could not] be separated in any principled manner." *Id.* We therefore rejected the argument that the case fell outside *Brulotte* because it concerned a "'hybrid' *agreement*, that coincidentally included both patent and non-patent rights, as opposed to a 'hybrid' *product*, consisting of both patented and nonpatented ideas." *Id.* at 865. We noted that "a discounted [post-expiration] rate may not be necessary to avoid *Brulotte* in every case," but we held that "in the absence of a discounted rate, there must be some other clear indication" that the royalty was not for use of the patent after its expiration. *Id.*

B.

In this case, the district court made factual findings about why the parties included the minimum royalty pro-

vision in their licensing agreement. Those factual findings do not control our review, however, because the application of the *Brulotte* rule is a question of law that depends on the terms of the contract at issue. The *Brulotte* inquiry does not turn on the parties' motivations, the course of their negotiations, or the consideration received by either party in exchange for the inclusion of a particular contractual term. Of course, what the parties' obligations are when a contractual provision is ambiguous can be a factual question that turns on what the parties intended the contract to require. But once a factfinder has answered that question, whether the contract's requirements constitute patent misuse under *Brulotte* is a question of law. Here, there is no dispute about what the parties' licensing agreement requires. There is only a dispute about whether those requirements constitute patent misuse under *Brulotte*. We review that question of law de novo.

Our conclusion that the *Brulotte* inquiry is a question of law is consistent with every controlling precedent. In *Brulotte* itself, the Supreme Court analyzed the "provisions of the license agreements" at issue and held that the terms were improper "on their face." 379 U.S. at 31-32. The Court did not inquire into the parties' negotiations. Consistent with that analysis, the Court later explained that "[a] court need only ask whether a licensing agreement provides royalties for post-expiration use of a patent." *Kimble*, 576 U.S. at 459.

We have likewise treated the application of *Brulotte* as a question of law turning on the terms of a licensing agreement. In *Zila*, we applied *Brulotte* based on the terms of the contract at issue. 502 F.3d at 1022-27. We did so again in the *Kimble* decision that was reviewed by the Supreme Court. *See* 727 F.3d at 864-66. To be sure,

in *Kimble* we noted a few extrinsic facts to provide context for our analysis. For example, we noted that "[a]t the time the parties negotiated the agreement, the patent infringement claim was not definitively resolved." *Id.* at 864. We used that fact to determine that the parties' agreement was not referring to two distinct rights when it referred to patent rights and rights to the "Web Blaster" product. *Id.* But our *Brulotte* analysis turned on the requirements actually imposed by the agreement, not the back-and-forth of the negotiations through which the parties agreed to those terms. *See id.* at 864-66 (observing that the parties' agreement provided for post-expiration royalties and lacked "any clear indication that the Web Blaster royalties were not subject to patent leverage").

Other circuits likewise apply the *Brulotte* rule by looking at the terms of the agreement at issue. *See, e.g.*, *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 886 (7th Cir. 1986) ("The terms of the contract must be examined."); *Boggild v. Kenner Prods.*, 853 F.2d 465, 469 (6th Cir. 1988) (declining to remand for an inquiry into the parties' bargaining history);[6] *Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1373 (11th Cir. 1983) (concluding that an agreement violated *Brulotte* because of "two provisions in the agreement"). We know of no published decision by any Court of Appeals that treats the application of *Brulotte* as a factual question turning on the parties' motivations during negotiations.

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[6] One concurring judge explained *Boggild* as holding that the application of *Brulotte* depends on "the terms of the license and that other evidence of the motivation of the parties with respect to leverage is irrelevant." *Boggild*, 853 F.2d at 470 (Brown, J., concurring).

Treating the application of *Brulotte* as a factual inquiry into the parties' motivations would run afoul of the Supreme Court's statement that parties may "find ways around *Brulotte*." *Kimble*, 576 U.S. at 453. Parties seeking to find a way around *Brulotte* may evince motivations that are in some sense contrary to *Brulotte*, even if the unambiguous terms of the agreement themselves are permissible. Indeed, as this case illustrates, the parties themselves often cannot cleanly or consistently identify their motivations for entering into an agreement, and each party may value a given provision differently. By contrast, looking only at the terms of the agreement is consistent with both the Supreme Court's statement that *Brulotte* is "simplicity itself to apply," *id.* at 459, and our statement that "our task is not to expand *Brulotte*'s holding beyond its terms," *Zila*, 502 F.3d at 1020.

C.

Having concluded that the *Brulotte* rule is a question of law that we review de novo, we now turn to its application in this case. We "need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice." *Kimble*, 576 U.S. at 459. We emphasize that the parties do not dispute what the terms of their contract require—only whether those requirements are permissible under *Brulotte*.

The licensing agreement terms unambiguously require a 15% per-unit royalty on U.S. sales until the expiration of the U.S. patent and a 15% per-unit royalty on Canadian sales until the expiration of the Canadian patent, which does not violate *Brulotte*. The agreement states that Atrium will pay "a royalty of fifteen percent (15%) of the Net Sales of all Licensed Products sold during the Term." "Licensed Products" refers to covered

products "that are made, used, offered for sale and/or imported or sold in a country where one or more claims of the Licensed Patents are issued and outstanding." And "Licensed Patents" refers to Bard's U.S. patent, as well as "all other patents . . . issued anywhere in the world that rely on the [U.S.] patent for priority." The "Licensed Patents," then, encompass the U.S. and Canadian patents. The per-unit royalty provision plainly complies with *Brulotte* because it simply provides royalties on each respective patent only until that patent expires.

Next, the minimum royalty provision establishes a minimum amount due for the use of all unexpired patents in their respective countries. The minimum royalty provision states "in no event will royalties for any calendar quarter of the Term be less than" $3.75 million ($15 million per year). The agreement provides that the minimum royalty provision would terminate only if the FDA approved iCast for vascular use or rescinded approval for any use. Otherwise, the agreement—and thus the minimum royalty provision—was to remain in effect "until the last to expire of all of the patents included within the Licensed Patents." The last "Licensed Patent" to expire was the Canadian patent in 2024. Thus, absent another condition triggering the end of the minimum payment provision, Atrium was required to pay Bard at least $3.75 million per quarter until the expiration of the Canadian patent.

We conclude that the minimum royalty provision also complies with *Brulotte*. After the expiration of the U.S. patent, the agreement provides for minimum royalties only on Canadian sales, not U.S. sales. The provision therefore does not provide for royalties on "post-expiration use" of the U.S. patent. From 2011 to August 2019, the minimum royalty provision applied to use of

both the U.S. patent in the United States and the Canadian patent in Canada. Beginning in August 2019, when the U.S. patent expired, the minimum royalties applied only to use of the Canadian patent in Canada. Atrium was obligated to pay a 15% royalty, and no less than $3.75 million per quarter, on its covered Canadian sales. Atrium's post-expiration U.S. sales were completely irrelevant. Even if they had increased a thousand-fold, it would not have affected the payments Atrium owed to Bard. The agreement therefore does not "provide[ ] royalties for post-expiration use" of the U.S. patent. *Kimble*, 576 U.S. at 459. *Brulotte* concerns only whether royalties are "by their terms for use during" the post-expiration period. 379 U.S. at 31. It does not prohibit royalties that are, by their terms, royalties for something other than use of the expired U.S. patent.[7]

Atrium argues that the presence of U.S.-focused conditions in the licensing agreement demonstrates that the minimum royalties are royalties on U.S. sales. The agreement contains two termination triggers for the minimum royalties, providing that they shall cease if the FDA grants approval for vascular use of the iCast stent or if the FDA rescinds all previously approved iCast uses.

Although those provisions certainly concern the U.S. market, they do not affect the character of the royalties provided for in the agreement. The fact that Atrium sells the iCast stent only in the United States is wholly within Atrium's control. Had Atrium started selling it in Canada, Atrium would have had to pay per-unit royalties for

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[7] We note that, even absent ongoing post-expiration sales in another country, parties may contract for flat post-expiration payments that are not a royalty for ongoing use. *See Kimble*, 576 U.S. at 453-54.

those sales under the Canadian patent once the FDA approved it for vascular use. And although the FDA is a U.S. regulator, conditioning payments on possible FDA actions simply serves to allocate risk between the parties. The minimum royalty payments incentivized Atrium to seek prompt FDA approval of vascular iCast uses, from which Bard stood to benefit. On the other hand, had the FDA rescinded "its approval to market or sell" iCast for "any and all" uses, such an unexpected and drastic event would no doubt have had significant consequences for Atrium's finances, so that provision guarded against a disastrous outcome for Atrium. Neither of those provisions dictates whether the minimum royalties are royalties on U.S. sales.

Atrium also implies that the minimum royalty payments at issue are not Canadian royalties—and are therefore prohibited U.S. royalties—because they are far greater than the 15% per-unit royalty on Atrium's Canadian sales. We reject that argument. A minimum royalty provision has effect only if it may require payments greater than the per-unit royalty. And *Brulotte* establishes a per se rule, so we have no occasion to decide whether the size of a royalty is reasonable. *See Kimble*, 576 U.S. at 459 (declining to replace *Brulotte*'s per se rule with a reasonableness analysis). Whether $3.75 million per quarter is a reasonable royalty for Atrium's Canadian sales does not affect whether such payments *are* Canadian royalties.

Finally, Atrium suggests that the minimum royalty provision violates *Brulotte* because the amount of the minimum royalties is not discounted upon expiration of the U.S. patent. We disagree. That argument stems from the rule concerning post-expiration royalties on U.S. sales of products that implicate both a patent and a

non-patent right. If such post-expiration royalties reflect a discount compared to the pre-expiration royalties, that discount indicates that the portion of the royalty attributable to the patent right has properly ended upon the patent's expiration. That rule is not applicable here because the royalties at issue are not royalties on sales reflecting "inseparable patent and nonpatent rights." *Kimble*, 727 F.3d at 857.

The parties' agreement provides for U.S. royalties only through the expiration of the U.S. patent, so it does not constitute patent misuse under *Brulotte*.

IV.

For the foregoing reasons, we reverse the district court's entry of judgment for Atrium on Bard's breach of contract claim.

APPENDIX B

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

C.R. BARD, INC.,

Plaintiff-Appellant,

v.

ATRIUM MEDICAL CORPORATION,

Defendant-Appellee.

NO. 23-16020

D.C. NO. 2:21-CV-00284-DGC

MEMORANDUM[*]

Appeal from the United States District Court
for the District of Arizona

David G. Campbell, District Judge, Presiding

Argued and Submitted July 9, 2024
San Francisco, California

Filed August 23, 2024

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[*] This disposition is not appropriate for publication and is not precedent except as provided by Ninth Circuit Rule 36-3.

Before: FRIEDLAND, MENDOZA, and DESAI, Circuit Judges.

In a concurrently filed opinion, we resolve the patent-misuse question presented by this appeal. In this memorandum disposition, we address the remaining issues.

1. Because we hold that the parties' agreement does not constitute patent misuse, we need not evaluate Bard's quantum-meruit argument.

2. Atrium contends that the parties' agreement terminated in 2019 because it does not include the Canadian patent, which is owned by Bard Peripheral Vascular, Inc. ("BPV"), a wholly owned subsidiary of Bard. We reject that argument.

The License Agreement is governed by Delaware law. Under Delaware law, "a contract's construction should be that which would be understood by an objective, reasonable third party." *Salamone v. Gorman*, 106 A.3d 354, 367-68 (Del. 2014) (quoting *Osborn ex rel. Osborn v. Kemp*, 991 A.2d 1153, 1159 (Del. 2010)). "Other documents or agreements can be incorporated by reference" into an agreement. *Town of Cheswold v. Cent. Del. Bus. Park*, 188 A.3d 810, 818 (Del. 2018).

Section 7.2(d) of the License Agreement provides that it "shall automatically terminate" if a court judgment "sets forth a determination of invalidity or unenforceability of all claims of the Patent then outstanding that were asserted by Licensor against Licensee in that certain Complaint for Patent Infringement filed with U.S. District Court for the District of Arizona, Case No. 2:10-cv-01694-DGC." That infringement complaint is thus incorporated by reference into the License Agreement because that complaint is necessary to understand the

terms of the Agreement. Without looking at that complaint, an "objective, reasonable third party" would not understand the terms of the Agreement because she would not know what sort of court ruling would trigger section 7.2(d). *Salamone*, 106 A.3d at 367-68. The infringement complaint is therefore intrinsic evidence of the meaning of the parties' agreement, so it can and must be considered in construing the terms of the agreement—whether or not there is any ambiguity in the text of the License Agreement itself.

Once the infringement complaint is properly considered in construing the License Agreement, it is clear that the parties intended the word "Licensor" to include BPV. The text of the License Agreement describes the infringement complaint as including claims "asserted by Licensor." And the infringement complaint includes only claims by BPV. Considering section 7.2(d) of the License Agreement and the infringement complaint together, then, it is apparent that section 7.2(d) of the License Agreement uses "Licensor" to mean BPV as well as Bard. The "patents of the Licensor" covered by the parties' agreement therefore include the Canadian patent.

AFFIRMED IN PART AND REVERSED IN PART.

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA

C. R. BARD, INC.,

Plaintiff/Counterdefendant,

v.

ATRIUM MEDICAL CORPORATION,

Defendant/Counterclaimant.

NO. CV-21-00284-PHX-DGC

ORDER AND JUDGMENT

This order sets forth the Court's findings of fact and conclusions of law following a two-day bench trial on June 22-23, 2023. *See* Fed. R. Civ. P. 52(a)(1). The Court holds that the License Agreement's extension of minimum royalty payments beyond August 20, 2019 constitutes patent misuse. Thus, in addition to the judgments already entered on the parties' cross-motions for summary judgment (Doc. 143), the Court will enter judgment in favor of Defendant Atrium Medical Corporation ("Atrium") on claims by Plaintiff C. R. Bard, Inc. ("Bard") seeking to collect the minimum royalties due since that date.

I. BACKGROUND

Bard is a New Jersey corporation that makes medical devices. Doc. 53 ¶1.[1] Bard's subsidiary, Bard Peripheral

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[1] Citations are to numbered paragraphs in the documents or numbers attached to the top of pages by the Court's electronic filing sys-

Vascular, Inc. ("BPV"), owns two patents for expanded polytetrafluoroethylene ("ePTFE") vascular grafts – U.S. Patent 6,435,135 ("135 Patent") and Canadian Patent 1,341,519 ("Canadian Patent"). Docs. 130 ¶¶3-6, 137 ¶¶93-96.

In August 2010, BPV sued Atrium for infringement of the 135 Patent ("the Lawsuit"). Doc. 137 ¶97; *see BPV v. Atrium*, No. 2:10-cv-01694-DGC (D. Ariz. 2010). In March 2011, Bard and Atrium settled the Lawsuit by entering into a License Agreement and a Settlement Agreement which were made effective as of January 1, 2011 (collectively, "the Agreements"). Exs. 1-2.[2] Under the Agreements, the Lawsuit was dismissed and Atrium was released from liability for any pre-2011 infringing sales. Ex. 2 §2.

The License Agreement granted Atrium a non-exclusive license to use the 135 Patent and "all other patents of Licensor" that rely on the 135 Patent for priority ("Licensed Patents"). Ex. 1 §§1.15, 2.1. The License Agreement contains two significant provisions relating to royalties: a 15% royalty on certain products in §3.1 and a minimum annual royalty of $15 million in §3.2. Ex. 1. These will be discussed in more detail below.

After the 135 Patent expired in August 2019, Atrium stopped paying the annual minimum royalty and paid only 15% of its net Canadian sales, a relatively small

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tem. The Court will cite to some portions of the record in this order, but not to all evidence supporting its findings.

[2] This order cites exhibits that were admitted in evidence for purposes of the bench trial. *See* Doc. 174. These exhibits are identified in Doc. 169. Rather than adopt the parties' exhibit designations (JTX, PTX, and DTX), the Court will cite exhibits as "Ex." followed by the specific exhibit number.

amount. Doc. 42 ¶25. Bard brought this case to recover minimum royalty payments.

Bard asserts breach of contract claims based on Atrium's failure to make minimum royalty payments under the License and Settlement Agreements. Doc. 53 ¶¶51-55, 77-84 (Counts I and IV).[3] Bard also seeks a declaratory judgment that the minimum royalties provision is enforceable, and an order requiring specific performance of the Agreements. *Id.* ¶¶94-106 (Counts VI and VII). In the alternative, Bard seeks relief under the equitable theories of promissory estoppel and quantum meruit. *Id.* ¶¶107-11, 115-19 (Counts VIII and XII).[4]

Atrium moved for summary judgment on Bard's claim that Atrium breached the License Agreement by failing to make minimum royalty payments after the '135 Patent expired. Doc. 121 at 8. Atrium argued that the License Agreement and its royalty obligations terminated when the '135 Patent expired because the Canadian Patent is not a Licensed Patent that would trigger ongoing royalty obligations. *Id.* at 6-14. Specifically, Atrium argued that Bard is the sole "Licensor" under the Agreement's plain language, the Canadian Patent is not a patent "of Licensor" because it is owned by BPV, not Bard, and the Canadian Patent therefore is not a Licensed Patent under the Agreement. *Id.*

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[3] The Settlement Agreement references the License Agreement and states that the Agreements together "constitute[ ] the entire understanding and agreement between the Parties" (Ex. 2 §13), but the Settlement Agreement does not expressly require Atrium to make royalty payments.

[4] Bard has dismissed its breach of contract claims based on Atrium's filing for reexamination of the Canadian Patent (Counts II, III, and V). Docs. 152, 154.

Applying Delaware law, which governs the claims in this case, the Court found the language of the Agreements to be ambiguous as to whether BPV was a party. Doc. 143 at 5-7. Based on undisputed extrinsic evidence, however, the Court determined that the only reasonable interpretation of the Agreements includes BPV as a party. *Id.* at 7-13. The Court accordingly denied Atrium's motion based on the argument that the Canadian Patent is not a Licensed Patent under the Agreements. *Id.* at 15.

Atrium also sought summary judgment on its the patent misuse defense (Doc. 42 ¶120), arguing that the minimum royalty payments impermissibly include royalties for sales of Licensed Products in the United States after the 135 Patent expired. Doc. 121 at 14-22. The Court denied summary judgment in this regard, finding that the License Agreement's royalty provisions are ambiguous and that extrinsic evidence raises issues of fact that must be resolved at trial. Doc. 143 at 20.

Bard moved for summary judgment on its contract claims alleging that Atrium has breached the minimum royalties provision. Doc. 132 at 5. While the factual issues on the patent misuse defense prevented summary judgment on these claims, the Court did grant Bard's motion to the extent it argued that BPV was a party to the Agreements. Doc. 143 at 20.[5]

Bard also sought summary judgment on Atrium's counterclaims for breach of contract, unjust enrichment, fraudulent inducement, and negligent misrepresentation.

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[5] Atrium's footnote request for summary judgment on Bard's promissory estoppel and quantum meruit claims (Doc. 121 at 13 nn. 5-6) was denied because Atrium relied on non-applicable Arizona law. Doc. 143 at 15-16.

Doc. 132 at 11-15; *see* Doc. 57 ¶¶89-124. Each counterclaim is premised on the contention that BPV is not a party to the Agreements and Atrium therefore never received a license to the 135 and Canadian Patents. *See id.* Because the Court found that the Agreements include BPV, it granted summary judgment in favor of Bard on Atrium's counterclaims. Doc. 143 at 20-21.

After the Court's summary judgment rulings, the parties proposed a bench trial on Atrium's patent misuse defense and Bard's claims for breach of contract, declaratory judgment, specific performance, promissory estoppel, and quantum meruit. Doc. 145 at 2. As noted, the bench trial was held on June 22-23, 2023. *See* Docs. 177-78.

II. INITIAL FINDINGS OF FACT.

A. Atrium Products.

When Bard sued Atrium in 2010, Atrium was selling various ePTFE products that had received FDA approval for vascular uses. These consisted of various vascular grafts and related products that were accused by Bard of infringing the 135 Patent and that ultimately were listed in Exhibit A to the License Agreement. Ex. 1 at 16. They will be referred to in this order as "Vascular Products." Chad Carlton, Atrium's president, testified at trial that Vascular Products constituted about $6 million of Atrium's $55 million in annual U.S. sales in 2010 – about 11% of U.S. sales. Doc. 186 at 57.

A much larger share of Atrium's U.S. sales at the time of the Lawsuit – nearly 90% – was attributable Atrium's iCast product. iCast consisted of a metal stent coated with ePTFE. Atrium sold it only in the U.S. Although iCast had been cleared by the FDA only for tracheobronchial uses, it frequently was used off-label by doctors for vascular purposes. In fact, about 99% of Atrium's iCast sales were for off-label uses. Docs. 162 at 6, 186 at 119.

Bard believed that iCast infringed the 135 Patent. It was included in the parties' settlement and was listed as a "Non-Vascular Product" in Exhibit B to the License Agreement. Ex. 1 at 17.

B. The Parties' Motivations in the 2011 Settlement.

Bard and Atrium both had strong motivations to settle the Lawsuit. Bard recently had obtained an enormous judgment against W.L. Gore for infringement of the 135 Patent. The judgment included court-ordered royalties that would pay hundreds of millions of dollars to Bard. Although Bard wanted to end Atrium's alleged infringement of the 135 Patent, it did not want to relitigate the validity of the patent or the question of infringement by ePTFE products like Gore's and Atrium's. Such litigation would risk a judgment inconsistent with the Gore result and might jeopardize the substantial cash stream Bard was receiving from Gore. Charles Krauss, an in-house attorney and Bard's lead negotiator in the settlement talks, provided this testimony at trial:

> To give you some context, Gore was the 800-pound gorilla in the room. There was so much value attached to what Gore was selling and then there's a huge drop off when we got to what Atrium was selling. We didn't want to do anything that was going to jeopardize the validity of the patent and disrupt our potential cash pipeline from the Gore royalties by this agreement. That was always in the back of our mind.

Doc. 187 at 203.

Even so, Bard insisted on receiving royalties for Atrium products it viewed as infringing the 135 Patent. Bard's interest in royalties focused primarily on iCast,

not only because iCast was Atrium's best-selling product but also because Atrium was seeking FDA approval for vascular uses of iCast, an approval that would result in significantly higher iCast sales in the future. In describing Bard's objective in the settlement negotiations with Atrium, Krauss testified: "It's always the iCast. Everything is iCast that we're focused on." *Id.* at 220. Even with Bard's powerful motivation to settle the case against Atrium and not jeopardize the Gore judgment, Krauss testified that there would have been no deal if payments for iCast sales were not included. *Id.*

Atrium was also motivated to settle. It recognized not only that Bard had obtained an enormous judgment against Gore for selling similar products, but also that defending against Bard's infringement claims would be costly and distracting. Atrium was also trying to sell itself in 2010-2011 and knew that a pending substantial lawsuit could discourage potential buyers.

C. The Settlement Negotiations.

Bard filed the Lawsuit against Atrium on August 10, 2010. The parties commenced settlement discussions before any significant litigation activity occurred. The primary negotiators were attorneys Bill Scofield for Atrium and Charles Krauss for Bard.

The parties exchanged settlement proposals between November 2010 and January 2011, with an agreement on basic terms finally being reached on January 20, 2011. Documentation of the settlement took until late March. The Agreements were made effective as of January 1, 2011, and the Lawsuit was dismissed on March 30, 2011.

D. Section 3.1 – 15% Royalty on Licensed Products.

Two royalty provisions are particularly relevant to the parties' dispute. The first, in § 3.1 of the License Agreement, provides that Atrium will pay Bard 15% of the net sales of all "Licensed Products" as defined in the Agreement. Ex. 1 § 3.1. Licensed Products included Atrium's Vascular Products. The obligation to pay Bard a 15% royalty would end for products sold in the U.S. when the 135 Patent expired on August 20, 2019. *Id.* § 1.16.

This end-date is fixed by the last phrase in the definition of Licensed Products, which states that Licensed Products are those "made, used, offered for sale and/or imported or sold in a country where one or more claims of the Licensed Patents are issued and outstanding." *Id.* The 135 Patent was a U.S. patent. Once it expired on August 20, 2019, there would be no Bard patent "issued and outstanding" for the U.S. and Atrium products sold in the U.S. would no longer be Licensed Products subject to the 15% royalty in § 3.1. *Id.* §§ 1.16, 3.1.

The Court incorrectly construed § 1.16 in its summary judgment order, concluding that it did not apply to all categories of Licensed Products. Doc. 143 at 19-20. At trial, the Court received evidence that Atrium proposed the geographic limitation and specifically suggested that it apply to all Licensed Products. Ex. 34; Doc. 187 at 243, 264-65. Bard accepted Atrium's proposal and incorporated the limitation into the definition of Licensed Products, with slightly different wording.[6] Thus, all Licensed

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[6] Scofield proposed adding the following sentence to what is now § 1.16: "As used herein, the term Licensed Products means the above-listed products that are made, used, offered for sale, and/or imported or sold in a country where one or more claims of the Li-

Products identified in § 1.16 are subject to the geographical limitation quoted above.[7]

E. Section 3.2 – Minimum Royalties.

The second relevant royalty provision is found in § 3.2 of the License Agreement and requires Atrium to pay Bard a minimum royalty of $3.75 million per quarter ($15 million per year). Ex. 1 § 3.2. This minimum royalty included the 15% due on net sales of Licensed Products covered by § 3.1. *Id.* This fact is made clear by § 3.3, which requires Atrium to provide a regular royalty statement "setting forth all amounts due pursuant to [§]3.1." *Id.* § 3.3. In the event the amounts in the statement are less than the minimum royalty specified in § 3.2, Atrium "must also include payment to [Bard] of such amount as is required to satisfy [Atrium's] minimum royalty obligation[.]" *Id.*

Section 3.2 stated that the minimum royalty obligation would end if either of two events occurred. The first was if the FDA cleared Atrium's iCast product for vascular

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censed Patents are issued and outstanding." Ex. 34. Bard accepted this proposal, but revised the sentence slightly by making it a final clause of § 1.16 which reads: "in each case, that are made, used, offered for sale, and/or imported or sold in a country where one or more claims of the Licensed Patents are issued and outstanding." Exs. 35, 36. Testimony at trial confirmed that the intent was for this geographical limitation to apply to all Licensed Products identified in § 1.16. Doc. 187 at 243; Doc. 188 at 264-65, 304-06.

[7] The Court's error did not result in incorrect denial of Bard's motion for summary judgment on its breach of contract claims. The fact that Licensed Products ended on August 20, 2019 does not mean that no royalties were paid after that date, as Bard had argued. The minimum royalties discussed below continued to be required by the License Agreement. The Court thus would have denied Bard's motion for summary judgment on its breach of contract claim even if the Court had correctly construed the geographical limitation in § 1.16.

uses. *Id.* §3.2(a). In that event, the minimum royalty provision would end, iCast would become a Licensed Product under §1.16, and Atrium would owe a 15% royalty on iCast sales until expiration of the 135 Patent in 2019. *Id.* Evidence at trial established that Atrium fully expected to receive FDA clearance of iCast for vascular uses within a year or two of the Agreements, and communicated this expectation to Bard.

Minimum royalties would also end if the FDA rescinded its approval of iCast for all purposes, including the tracheobronchial uses for which iCast was authorized at the time of the Agreements. *Id.* §3.2(b). Because the minimum royalty provision was intended to compensate Bard for sales of iCast products, Atrium did not want the royalty to continue if it was forced to terminate those sales.

If neither of these contingencies occurred, the minimum royalty due under §3.2 would remain in effect until the License Agreement terminated. Under its terms, the License Agreement would terminate when the last of the Licensed Patents expired. *Id* §§7.1, 7.2. Because the Canadian Patent does not expire until January 2, 2024, the License Agreement would remain in effect until that date, as would the minimum royalty obligation if neither of the FDA contingencies had occurred.

F. The Parties' Arguments.

Atrium did not obtain FDA approval for vascular use of iCast until March of 2023. Nor did the FDA rescind iCast's approval for tracheobronchial uses. As a result, the License Agreement's $15 million annual minimum royalty remained in effect beyond the 2019 expiration of the 135 Patent. It ended in March of this year when the FDA finally granted approval of iCast for vascular uses. *See* Ex. 1 §3.1(a).

Atrium argues that the patent misuse doctrine excuses it from paying minimum royalties after August 2019 because those royalties include, at least in part, royalties for the sale of products in the United States after the 135 Patent expired.[8] Bard counters that there is no evidence to support Atrium's characterization of the minimum royalty provision. Bard argues that the provision was not compensation for use of the 135 Patent after its expiration, but instead was compensation for a bundle of things included in the License and Settlement Agreements, including Atrium's pre-2011 infringing sales (the subject of the Lawsuit), off-label sales of iCast products before 2019, and the release granted by Bard in the Settlement Agreement.

III. PATENT MISUSE DOCTRINE.

Under the patent misuse doctrine, "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, 32-33 (1964); *see Kimble v. Marvel Ent., LLC*, 576 U.S. 446, 449 (2015) (affirming *Brulotte*'s holding that "a patent holder cannot charge royalties for the use of his invention after its patent term has expired"). "Determining the reach of *Brulotte*'s barrier to the collection of royalties requires [the Court] to consider the scope of the royalty provision[s]. In other words, [the Court must] ask both what [Atrium] is paying royalties for and under what conditions its obligation to do so is lawful." *Zila, Inc. v. Tinnell*, 502 F.3d 1014, 1025 (9th Cir. 2007). The parties agree that patent misuse is an

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[8] Atrium agrees that if the Canadian Patent is a Licensed Patent – which it is under the Court's summary judgment ruling (Doc. 143 at 15) – Atrium must pay 15% royalties under § 3.1 for sales of Licensed Products in Canada until the Canadian Patent expires in January 2024. *See* Doc. 142 at 56.

equitable defense that must be resolved by the Court rather than a jury, and that Atrium bears the burden of proof. Docs. 142 at 62-64, 145 at 1, 152 at 2, 153 at 2, 162 at 12, 165 at 21.

IV. FURTHER FINDINGS OF FACT.

A. The Parties' Negotiations Before December 6, 2010.

On November 10, 2010, Bill Scofield sent Atrium's opening settlement proposal to Charles Krauss. Atrium proposed to pay royalties of 15% or 20% on Vascular Products, 10% or 15% on iCast sales, and 10% on sales before the date of the jury verdict in the Gore case, with all of these obligations to be subject to the outcome of the appeal in Bard v. Gore. Ex. 13. No time period for the payments was specified.

Krauss responded in an email dated November 24, 2010. Ex. 14. Bard counter-proposed royalties of 10% on all sales between 2002 (the year the 135 Patent became effective) and the second quarter of 2007, and 15% on all sales of Atrium products from the third quarter of 2007 (when the Gore verdict was rendered) to 2019 (the year when the 135 Patent expired). *Id.* The email made clear that iCast products would be included, and one-third of the royalties for the 2002-2007 sales could be escrowed pending the result in the Bard v. Gore appeal. *Id.*

This proposal, like the initial Atrium proposal, would create what Charles Krause called a "per-use" royalty – the royalty would be due on each sale of an Atrium product. The proposal was modeled after the royalties ordered in the Gore case and was Bard's preferred method of payment. Doc. 187 at 203. The proposal also included a 2019 end-date for future royalties, including the iCast royalties. Ex. 14.

Atrium responded in an email from Scofield to Krauss on December 2, 2010. Ex. 15. The email proposed 10% on all Vascular Products and iCast products before July 1, 2007, 15% on all Vascular Products after that date, 10% on iCast products after that date (or 15% if peripheral equipment was not included in the purchase price), with royalties for iCast products to be escrowed until after the Bard v. Gore appeal. *Id.* Krauss was pleased that Atrium appeared to be agreeing to a per-use royalty for iCast and thought the parties were close to a deal. Doc. 187 at 208.

Krauss responded to Scofield on December 3, 2010. Ex. 102. He stated that Bard's management was focused on a 15% royalty rate going forward for "all grafts and covered stents, regardless of indication" – an express inclusion of iCast – but could be more flexible on past royalties, including the rate and the terms of any escrow. *Id.*

B. Atrium's December 6, 2010 Pivot Away From iCast Royalties.

Things changed on December 6, 2010. Scofield sent Krauss an email enclosing an article suggesting that Atrium's iCast products did not infringe the 135 Patent because iCast was approved by the FDA only for tracheobronchial uses and not for vascular uses. Ex. 103. Atrium contended that it made and sold iCast products for approved tracheobronchial uses, which were not covered by the 135 Patent, and the fact that doctors independently elected to use them for off-label vascular purposes did not mean Atrium was infringing the patent. Doc. 187 at 137-41. Having prevailed on this issue in its case against Gore, Krauss testified that there was "no way" Bard's management would accept Atrium's new position. *Id.* at 210.

When asked about the significance of this attempt by Atrium to pull iCast sales out of the settlement agreement, Krauss testified: "It was huge. The entire value of the deal to us was the future of the [iCast sales]." *Id.* at 211. Krauss reiterated, however, that Bard still wanted to settle:

> We did not want [Atrium and iCast] on the market but we would accept them coming onto the market because we didn't want to disrupt the cash flow that would be coming in via Gore. . . . [I]f we had to litigate the case against Atrium and somehow they invalidated the patent, the Gore cash pipeline would go away.

Id.

On December 15, 2010, Krauss emailed Scofield and said Atrium's pivot on iCast was so significant that Bard doubted Atrium was serious about settling. Ex. 105. Scofield responded on December 20, 2010, stated that Atrium remained serious about resolving the Lawsuit, and explained that Atrium was concerned that payment of per-use royalties for iCast off-label sales could cause the FDA to conclude that Atrium was illegally selling iCast products for such off-label uses and jeopardize the FDA's approval of iCast for vascular uses. Ex. 106. Krauss was not persuaded, and doubted the parties could reach a settlement: "If they are pulling out the true value of the deal to us, which was the iCAST, I don't think we're that close." Doc. 187 at 215. Krauss testified that Bard was not going to remove iCast royalties from the settlement. *Id.*

Atrium made a new proposal on January 3, 2011. Scofield's email proposed a 15% royalty on all Vascular Products and minimum royalties of $15 million per year for 2011 and 2012. Ex. 16. Krauss viewed this proposal

as offering at least some value for iCast (in the form of minimum payments), but he was not willing to accept a minimum royalty for only two years because, if the FDA did not approve iCast for vascular uses within those two years, Bard would thereafter receive nothing for iCast sales. Doc. 187 at 217-18.

Atrium essentially reiterated this offer on January 11, 2011, saying it was Atrium's final offer. Ex. 18. Krauss viewed it as "more words, same result." Doc. 187 at 221.

C. The Parties Reach Agreement on Basic Terms.

Bard responded with its own final offer on January 12, 2011. *Id.* Krauss described the offer as "our last shot at if we have a deal or not." *Id.* at 222. Bard proposed that it would release Atrium for all past claims, Atrium would pay a 15% royalty on Vascular Products, and Atrium would pay the proposed $15 million minimum royalty "until all current ePTFE products have received a U.S. vascular indication" – in other words, until iCast received vascular approval from the FDA. *Id.* at 222-23. Atrium accepted this proposal on January 20, 2011. Ex. 18.

Krauss explained at trial why Bard was willing to give up its demand for per-use royalties on iCast (which Krauss referred to as the "Gore model"), and accept a minimum annual royalty instead:

> Q. . . . [Y]ou've accepted their Minimum Royalty model for the first time. Do you see that?
>
> A. I do.
>
> Q. Explain the difference here.
>
> A. Well, the Minimum Royalty payments of $3.75 million per quarter will be made until all current ePTFE products have received a U.S. vascular indication. At this time, it was only the iCAST product that didn't have this. We didn't want to bet on

whether the FDA would or would not approve their product and so we even made movement on this concept of the minimum payment.

Q. So which was preferable, the Minimum Royalty payment to you or having a per-use royalty?

A. I wanted the Gore model which was a per-use model. I wanted all of our deals to reflect that same model.

Q. So why would you willing to accept this flat-fee-per-quarter model?

A. Because we didn't want to put the validity of the [135] patent in jeopardy by having to litigate with a party and the chance that it overturns the apple cart and destroys that really important [Gore] revenue stream at the company.

Q. So instead of the per-use model, what are you trying to get at with this $3.5 million –

A. It's the closest thing we could come to as a proxy for some type of rough valuation that we weren't going to be left not getting paid anything. So it's a gross approximation of what we wanted . . . , which was the Gore model. There's no exact calculation we could handle. But our management said okay, 3.75 a quarter, we can live with that, realizing we're not going to put the [135] patent's validity in jeopardy.

Doc. 187 at 223-24.

D. No Specific Time Limit for Minimum Royalties.

Bard's final offer included no specific termination date for the $15 million minimum annual royalty payments. They would end at a future indeterminate date when i-

Cast received vascular approval from the FDA. As Krauss testified:

> Q. Now in this document, does it set a term for the length of the Minimum Royalty payment?
>
> A. It said the one way it could term it is to get the U.S. vascular indication.

Id. at 224. When asked whether the FDA's approval date could be known with any certainty, Krauss said: "I wouldn't accept anyone's representation that the FDA is going to do anything by a certain date." *Id.* at 217. Nor did Bard's final proposal include a specific end date for the License Agreement:

> Q. . . . Does it set a term in terms of the duration of the agreement?
>
> A. No. That term was later defined in the actual drafting of the document.

Id. at 224.

E. Setting the Duration of the License Agreement.

Following Atrium's acceptance of the basic deal proposed by Bard, lawyers for Bard drafted the License Agreement and sought comments from Bill Scofield. Bard's draft included a standard provision stating that the agreement would endure until the last of the covered patents expired. Ex. 20 §7.1. Atrium did not object to this provision. *See* Exs. 23, 34. In fact, both Scofield and Krauss testified that it is a standard provision for license agreements. Doc. 187 at 180-81, 235.

Bard's draft also included not only the 135 Patent, but "all other patents of Licensor issued anywhere in the world that rely on the [135 Patent] for priority." Ex. 20 §1.15. Atrium did not object, and Scofield testified that this too is a standard provision. Exs. 23, 34; Doc. 187 at

179-84. Atrium did not know what other patents would be covered by the agreement until January 28, 2011, when a Bard attorney told Scofield that the Canadian Patent would also be included. Ex. 22.

The 2024 end date of the License Agreement, based on the termination date for the Canadian Patent, was never discussed by the parties during their settlement negotiations. Doc. 187 at 151-57, 176, 187-88, 231-37. Nor did they ever discuss the License Agreement lasting until 2024 or the minimum royalty payments lasting that long if the FDA did not approve Atrium's request for a vascular approval of iCast or reject iCast approvals altogether. Doc. 186 at 66-67; Doc. 187 at 126, 136-56, 182. Further, the parties never discussed the fact that minimum royalty payments for sales of iCast products between 2011 and 2019 would in part be deferred to minimum payments made after 2019. Doc. 186 at 67-69, 108; Doc. 187 at 136-59, 180-82; Doc. 188 at 276-77, 317-18.

V. THE COURT'S KEY FACTUAL FINDINGS.

Based on the facts set forth above and other evidence presented at trial, the Court finds the following key facts:

- Royalties for Atrium's ongoing sales of iCast were the primary financial goal of Bard's settlement negotiations. Bard viewed iCast royalties as the "true value," the "heart of the deal." Doc. 187 at 215-16.

- Bard would not have agreed to the settlement without getting compensation for iCast. *Id.* at 220, 223. As Bard stated in its trial brief:

> [T]he Minimum Royalty was important to make sure Bard was compensated for sales of Atrium's infringing iCAST product. By the time the parties entered into the License Agreement, iCAST already was by far Atrium's largest grossing ePTFE

> product despite the fact that it did not have an FDA approved vascular indication. . . . [Bard was] steadfast that regardless of the label, the iCAST infringed the 135 Patent and needed to be accounted for in the License Agreement.

Doc. 162 at 5-6.

- Atrium pivoted away from a per-use royalty for iCast because of concerns that this form of royalty could jeopardize FDA approval of iCast for vascular uses, and instead proposed a $15 million minimum annual royalty. Rather than reject the minimum and proceed with the Lawsuit, thereby risking invalidation of the patent that was providing Bard with hundreds of millions of dollars in royalties from Gore, Bard accepted the minimum as a means of compensating it for Atrium's use of the 135 Patent in the iCast products. As Krauss testified: "the Minimum Royalty was the proxy for some value ascribed to the iCAST product." Doc. 187 at 119; *see also id.* at 224, 226, 232.

- When the parties agreed on the basic terms of the settlement, they had not discussed and agreed on the duration of the License Agreement or the duration of the minimum royalties if the FDA did not act. They had agreed only on the $15 million minimum as a means to compensate Bard for iCast sales.

- The parties never discussed how long the License Agreement or the minimum royalties provision would last. *Id.* at 231 (Krauss: "Q: Was there any discussion about the length of the term? A. Never."). Nor did they discuss or agree that the minimum royalties reflected only iCast sales between 2011 and 2019, or that payments of the minimum after 2019 would somehow represent only iCast sales before 2019.

- The parties never calculated the approximate value of per-use iCast royalties between 2011 and 2019, and they never apportioned that approximation over the period from 2011 to 2024. In fact, Krauss testified that the value of iCast sales could not be calculated, explaining: "We couldn't get any more precise. We didn't know what was going to happen." *Id.* at 232.

- Only after the parties agreed that Bard would be paid for iCast sales through the minimum annual royalty of $15 million did the parties agree on the length of the License Agreement. That happened when boilerplate language was adopted for the Agreement's Term (until the last to expire of the covered patents) and the covered patents (including the Canadian Patent). *See* Ex. 1 §§ 1.15, 7.1. This was not a deal where the parties agreed on a value for the iCast license between 2011 and 2019 and then agreed on a longer payout period until 2024. The extension of the License Agreement and minimum royalty payments to 2024 happened without any discussion of the issue, through adoption of industry-standard provisions.

- The purpose of the minimum royalty payments when Atrium accepted Bard's basic terms on January 20, 2011 – to compensate Bard for iCast sales – remained the same throughout the life of those payments. Nothing in the evidence suggests that this purpose changed when the 135 Patent expired on August 20, 2019. The License and Settlement Agreements are silent on that point and the parties never discussed it. The Court finds that the purpose of the minimum royalty payment after the 135 Patent expired was the same as the purpose before it expired: to compensate Bard for iCast sales. Charging Atrium a minimum royalty for U.S. sales of iCast products after the 135 Patent expired is patent misuse.

- Bard's claim that minimum payments after 2019 constituted reimbursement for iCast sales before 2019 is not based on any agreement between the parties. It was never discussed. It was never agreed to. The initial purpose of the minimum payments remained unchanged throughout the life of the License Agreement.

- The Court recognizes that the foregoing is a somewhat simplified discussion. The minimum royalty payments initially also included the 15% royalties for U.S. sales of Vascular Products (*see* Ex. 1, §§3.2, 3.3), but those royalties ended when the 135 Patent expired because Vascular Products no longer constituted Licensed Products in the U.S. under §1.16 and royalties were no longer required under §3.1.[9] The minimum royalties also covered allegedly infringing sales that occurred before the Lawsuit, but that portion was fully paid by 2015, when the Settlement Agreement provided that the release of Atrium for those past sales would be complete. Ex. 2, §2(a). And even if some portion of past damages continued to be part of the minimum royalties paid after the 135 Patent expired, it would only be a small part. As noted above, Bard viewed the iCast sales as "the true value of the deal" and expressed a willingness to be more forgiving on past damages. Doc. 187 at 215; Ex. 102.

VI. ATRIUM HAS MET ITS BURDEN OF PROOF.

Bard cites case law suggesting that Atrium must prove patent misuse by clear and convincing evidence. Doc. 162 at 12-13. Atrium cites cases applying a preponderance-of-the-evidence standard. Doc. 165 at 21-22.

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[9] After expiration of the 135 Patent, the 15% royalties on Canadian sales of the Vascular Products would continue to be part of the quarterly and annual minimum royalty, but only a small portion of those payments.

The parties agree that the cases are split on this issue. *See id.*; Doc. 188 at 382.

Atrium prevails regardless of the standard that is applied. The clear and primary purpose of the minimum royalty provision was to compensate Bard for iCast sales. That was true before and after the 135 Patent expired. The License Agreement's requirement of minimum royalties for this purpose after the 135 Patent expired is patent misuse and is unenforceable.

The Court accordingly will enter judgment in favor of Atrium on Bard's breach of contract claims based on Atrium's failure to make minimum royalty payments after the 135 Patent expired, and on the related claims for declaratory judgment and specific performance. *See* Doc. 53 ¶¶51-55, 77-84, 94-106 (Counts I, IV, VI, and VII).[10]

VII. BARD'S PROMISSORY ESTOPPEL AND QUANTUM MERUIT CLAIMS ALSO FAIL.

Bard seeks an order requiring Atrium to make minimum royalty payments until the FDA's vascular approval of iCast in March 2023. Doc. 162 at 20. Bard contends that it is entitled to those royalty payments under the equitable theories of promissory estoppel and quantum meruit even if the License Agreement's minimum royalty provision is unenforceable for patent misuse. *Id.* at 19-21. According to Bard, Atrium benefitted greatly from the License Agreement by being able to defer its payments for past damages and iCast royalties into the future. *Id.* at 20. But as explained above, the parties never discussed or agreed that compensation for past damages

[10] The parties agree that the Court's ruling on Atrium's patent misuse defense will resolve each of these claims. Doc. 145 at 2.

and sales of iCast products between 2011 and 2019 would be deferred to payments made after 2019.

What is more, Bard's patent misuse bars the equitable relief it seeks. *See* Doc. 165 at 26-28. The patent misuse doctrine arose "from the desire to restrain practices that did not in themselves violate any law, but that drew anti-competitive strength from the patent right, and thus were deemed to be contrary to public policy." *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1025 (Fed. Cir. 2008) (citation omitted); *see In re Gabapentin Pat. Litig.*, 648 F. Supp. 2d 641, 654 (D.N.J. 2009) (explaining that "patent misuse can be found where the patentee's conduct violates the public policies addressed by the patent laws") (citing *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 494 (1942)). The patent misuse defense "is an extension of the equitable doctrine of unclean hands, whereby a court of equity will not lend its support to enforcement of a patent that has been misused." *Qualcomm*, 548 F.3d at 1025; *see C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998) ("The defense of patent misuse arises from the equitable doctrine of unclean hands, and relates generally to the use of patent rights to obtain or to coerce an unfair commercial advantage."); *U.S. Gypsum Co. v. Nat'l Gypsum Co.*, 352 U.S. 457, 465 (1957) ("It is now, of course, familiar law that the courts will not aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse . . . . The rule is an extension of the equitable doctrine of 'unclean hands' to the patent field."); *Morton Salt*, 314 U.S. at 492-94 (linking patent misuse to the doctrine of "unclean hands" and noting "[e]quity may rightly withhold its assistance from such a use of the patent").

Because the License Agreement's requirement of minimum royalties for iCast sales after the 135 Patent expired is patent misuse, the Court will deny Bard's request for equitable relief that would accomplish the same thing. "To hold otherwise would frustrate the public policy that makes the [requirement] unenforceable in the first place." *Columbus Life Ins. Co. v. Wilmington Tr.*, N.A., No. CV 20-736-MN-JLH, 2021 WL 1820614, at *5 (D. Del. May 6, 2021) ("The doctrine of unclean hands 'is a rule of public policy' that permits a court to refuse a request for equitable relief 'in circumstances where the litigant's own acts offend the very sense of equity to which he appeals.' . . . As courts have explained, a contract that is *void ab initio* because it violates public policy may not be enforced through the application of equitable doctrines."); *see Wilmington Sav. Fund Soc'y, FSB v. PHL Variable Ins. Co.*, No. 13-499-RGA, 2014 WL 1389974, at *12 (D. Del. Apr. 9, 2014) (holding that a contract that is void for public policy may not be enforced equitably through theories of promissory estoppel or unjust enrichment); *see also Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 669 (1944) ("It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee [is] using the patent privilege contrary to the public interest."); *Brulotte*, 379 U.S. at 31 (explaining that any "continuation in the patentee . . . of the patent monopoly, after the patent expires, *whatever the legal device employed*, runs counter to the policy and purpose of the patent laws.") (emphasis added). The Court will enter judgment in favor of Atrium on Bard's claims for promissory estoppel and quantum meruit. See Doc. 53 ¶¶107-11, 115-19 (Counts VIII and XII).

IT IS ORDERED:

1. **Judgment** is entered in favor of Defendant Atrium Medical Corporation on Plaintiff C. R. Bard, Inc.'s claims for breach of contract, declaratory judgment, specific performance, promissory estoppel, and quantum meruit (Counts I, IV, VI-VIII, and XII).

2. The parties' motions to seal (Docs. 158, 161, 164) are **granted**. The Clerk is directed to file the lodged documents (Docs. 159, 162, 165) under seal with the same document number.

Dated this 30th day of June, 2023.

/s/ David G. Campbell

David G. Campbell

Senior United States District Judge

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

C.R. BARD, INC.,

Plaintiff-Appellant,

v.

ATRIUM MEDICAL CORPORATION,

Defendant-Appellee.

NO. 23-16020

D.C. NO. 2:21-CV-00284-DGC
DISTRICT OF ARIZONA, PHOENIX

ORDER

December 6, 2024

Before: FRIEDLAND, MENDOZA, and DESAI, Circuit Judges.

The panel has voted to deny Appellee's petition for panel rehearing and petition for rehearing en banc. The full court has been advised of the petition for rehearing en banc, and no judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 40(c).

The petitions for panel rehearing and rehearing en banc are DENIED.