

## Royalty Roulette: When Contract Amendments Disconnect the Patent from the Payment

**Zimmer Biomet Holdings, Inc. v. Insall, 2024 WL 3381286 (7th Cir. July 12, 2024)**

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The 7th Circuit recently upheld an arbitration award and found that royalties may be collected **after** the expiration of the related patent(s) if those royalties were not directly tied to the related patents. After an arbitration panel found that an amendment to the parties’ agreement disconnected the patented technology from any royalties owed, the 7th Circuit—bound by the arbitration panel’s interpretation of the agreement—affirmed the district court’s ruling. The 7th Circuit explained that because the patented rights had been disconnected and because the arbitration award did not run afoul of any explicit, well-defined, and dominant public policy, the Court has “no power to unwind that holding here.”

Over 30 years ago, Dr. John Insall developed technology and obtained patents related to knee reconstruction and replacement. Dr. Insall licensed his technology to Zimmer Biomet Holdings, agreeing that Zimmer would “make royalty payments to Insall until ‘the expiration of the last to expire of the patents licensed hereunder or so long as Product is sold by ZIMMER, whichever is last to occur.’” In 1998, the agreement was amended, stating “royalties shall be paid ... on all sales of the NexGen Knee and all subsequently developed articles, devices or components marketed by Zimmer.” After the last patent’s expiration in early 2018, Zimmer argued it need not pay royalties on expired patents and Dr. Insall’s estate argued payments should continue because the 1998 amendment no longer tied royalties to patented technology. The parties entered arbitration, with the Arbitration Panel finding that the royalties were no longer based on the sales of products containing the patented technology, but rather the sales of items marketed as “NexGen Knee” products. Interestingly, the panel found that the original agreement’s reference to either the patents **or** products was sufficient to tie the royalties to the patented technology and render any post, patent expiration royalties unenforceable.



The Supreme Court explained in *Brulotte* that patent license agreements are unenforceable after the expiration of the included patents. The Supreme Court later clarified in *Kimble* that “post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent.” Although review of arbitration rulings is quite limited, the 7th Circuit explained that it **can** vacate an arbitration award if the award violates an “explicit, well-defined, and dominant public policy.” The 7th Circuit reasoned that because the panel found the royalties were tied to a non-patent right, the post-expiration royalty was permissible and that the Court need not consider whether there is public policy against royalties after a patent’s expiration because the royalties were no longer grounded in the patent.

Given the Supreme Court’s clarification in *Kimble* and the 7th Circuit’s ruling here, contract drafters should be wary when amending any royalty provisions. If a party intends to cease royalty payments after the expiration of a patent, the contract should tie the royalty to that patented technology.