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Tones That Echo From a Past Era of Rigid Jurisprudence: Pre-Challenge Royalties and the Federal Circuit's Shell Test

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TONES THAT ECHO FROM A PAST ERA OF RIGID JURISPRUDENCE: PRE-CHALLENGE ROYALTIES AND THE FEDERAL CIRCUIT'S *SHELL* TEST

Andrew C. Michaels[†]

In the 1969 decision Lear v. Adkins, the Supreme Court held that patent licensees were no longer estopped from challenging the validity of licensed patents, citing the “federal patent policy” of incentivizing prompt adjudication of the validity of patents. In the 1997 Shell decision, where the licensed patent was found invalid, the Federal Circuit nevertheless held that a licensee was not relieved of royalty obligations that had accrued prior to the licensee’s validity challenge. The decision as a whole applied Lear in view of its underlying policies and reached the correct result. However, the end of the decision sets forth a one-sentence test which, when applied rigidly, can lead to results contrary to the policies and equitable considerations underlying both the Lear and Shell decisions. Some district courts have applied Shell’s test rigidly, whereas others have taken a more holistic and flexible approach. This article argues that the holistic and flexible approach to Shell is the correct one, comporting better with both Shell’s developmental roots, and the Supreme Court’s current tendency to repudiate rigidity in Federal Circuit jurisprudence. Besides the factors captured in Shell’s one-sentence test, an examination of the Shell opinion and the doctrine as a whole reveals that courts should also consider the structure of the license agreement at issue, as well as the nature of the invalidating prior art, in deciding whether and when a licensee should be relieved of royalty obligations accrued under an invalid patent.

[†] The views expressed herein are the author’s. The author would like to thank Professor Rochelle C. Dreyfuss for her comments and guidance.

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INTRODUCTION

Where a licensed patent turns out to be invalid, under what circumstances must a licensee pay royalties accrued under the invalid licensed patent? Although it is a fundamental axiom of patent law that one cannot infringe an invalid patent,¹ courts have nevertheless required that royalties be paid on invalid patents in certain circumstances.²

1. See, e.g., *Lazare Kaplan Int'l, Inc. v. Photocscribe Techs., Inc.*, 714 F.3d 1289, 1295 (Fed. Cir. 2013) (“[N]o accused products can be found liable for infringement of an invalid claim”) (citing *Medtronic, Inc. v. Cardiac Pacemakers, Inc.*, 721 F.2d 1563, 1583 (Fed. Cir. 1983) (“An invalid claim cannot give rise to liability for infringement . . .”).

2. See, e.g., *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561 (Fed. Cir. 1997); *Icon Health & Fitness, Inc. v. Park City Entm't, Inc.*, No. 1:10-cv-195-RJS, 2013 U.S. Dist. LEXIS 112045 (D. Utah Aug. 7, 2013); *Bristol Locknut Co. v. SPS Techs., Inc.*, 677 F.2d 1277 (9th Cir. 1982); *Hull v. Brunswick Corp.*, 704 F.2d 1195 (10th Cir. 1983); *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700 (6th Cir. 1976).

In the landmark 1969 decision *Lear, Inc. v. Adkins*, the Supreme Court held that generally, where a licensed patent is invalid, a licensee is relieved of royalty obligations, as patent licensees were no longer estopped from challenging the validity of licensed patents.³ The Court reasoned that “[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery,” and if “they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.”⁴ The *Lear* Court thus stated that “Lear must be permitted to avoid the payment of all royalties accruing after Adkins’ 1960 patent issued if Lear can prove patent invalidity.”⁵

However, in its 1997 *Shell Oil* decision, the Federal Circuit applied an exception to the Supreme Court’s general rule against royalties on invalid licensed patents, stating: “a licensee, such as Shell, cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid.”⁶ That is, although licensees are not estopped from challenging validity, and a successful validity challenge can prospectively relieve the licensee of royalty obligations, a finding of invalidity generally cannot relieve a licensee of royalties already paid, or royalties accrued prior to the challenge. Variations of this so-called “challenge rule”⁷ developed in other circuit courts prior to the creation of the Federal Circuit.⁸

These circuit courts aptly reasoned that because *Lear* was based in part on the “strong federal policy of prompting early adjudication of patent validity,”⁹ a licensee should not be relieved of royalties until it “takes an affirmative step that would prompt the early adjudication of

3. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

4. *Id.* at 670.

5. *Id.* at 674; *see also* *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1979) (“In *Lear*, . . . we held that a licensee who establishes that the patent is invalid need not pay the royalties accrued under the licensing agreement subsequent to the issuance of the patent.”).

6. *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997).

7. 6 DONALD S. CHISUM, CHISUM ON PATENTS § 19.02[3][b][iv][B] (Matthew Bender).

8. *See Shell*, 112 F.3d at 1568 (citing, *inter alia*, *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 706, 708 (6th Cir. 1976)); *Am. Sterilizer Co. v. Sybron Corp.*, 614 F.2d 890, 897–98 (3d Cir. 1980)).

9. *Bristol Locknut Co. v. SPS Techs., Inc.*, 677 F.2d 1277, 1283 n.7 (9th Cir. 1982).

the validity of the patent. . . .”¹⁰ If licensees could later be relieved of royalties accrued or paid before a validity challenge, licensees could be subject to a “temptation to forestall validity litigation,” so as to enjoy the benefits of a license for as long as possible before later challenging the validity of a licensed patent, thereby frustrating a federal patent policy underlying *Lear*.¹¹ For example, in *Shell*, the licensee (Shell) did not inform the licensor of all of its licensed polypropylene production, enjoying the protection of the license until such production was later discovered by the licensor.¹² Once discovered, Shell successfully challenged the validity of the licensed patent.¹³ Excusing Shell from all unpaid pre-challenge royalties would have created an incentive for licensees to engage in such dilatory behavior, turning *Lear*’s policy of incentivizing prompt validity challenge on its head. In developing the challenge rule, circuit courts thus recognized that *Lear*’s general statements suggesting that a finding of invalidity relieves a licensee of all royalty obligations¹⁴ must be read in context, for it “is a maxim, not to be disregarded, that general expressions, in every opinion, are to be taken in connection with the case in which these expressions are used.”¹⁵

Given this history out of which *Shell*’s test developed, it would be incongruous to apply the test rigidly without regard to the federal patent policies and reasoning underlying the *Lear* and *Shell* decisions as a whole. Indeed the importance of the “factual setting” and its bearing on “federal patent policy” are consistently emphasized throughout the *Shell* decision itself.¹⁶ Yet when confronted with *Shell*’s test, some

10. *Id.* at 1283; see also *PPG*, 530 F.2d at 706 (“Something more than mere nonpayment is required to ‘encourage an early adjudication of invalidity.’” (quoting *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1257 (6th Cir. 1972))).

11. See, e.g., *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1203–04 (10th Cir. 1983); *Pony Pal, LLC v. Claire’s Boutiques, Inc.*, No. 05 Civ. 2355 (CSH), 2006 U.S. Dist. LEXIS 14962, at *8–9 (S.D.N.Y. Mar. 30, 2006) (“The Federal Circuit’s rationale in *Shell Oil* was that a licensee who fails to challenge the validity of a patent benefits by retaining the protection of the license while depriving the public of the full and free use of the patented product by withholding a successful challenge to validity. Accordingly, such a licensee should not be allowed to avoid liability for royalties for any such time period on grounds of patent invalidity.”).

12. *Shell*, 112 F.3d at 1563.

13. *Id.* at 1568.

14. See, e.g., *Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969) (“*Lear* must be permitted to avoid the payment of all royalties accruing after *Adkins*’ 1960 patent issued if *Lear* can prove patent invalidity.”).

15. *Troxel*, 465 F.2d at 1259 (quoting *Cohens v. Virginia*, 19 U.S. (6 Wheat) 264, 398 (1821)) (applying this maxim to *Lear*’s general expressions).

16. *Shell*, 112 F.3d at 1568 (“*In this factual setting*, therefore, enforcement of the license according to its terms, even if this entails a determination of whether the *Seadrift* process infringes a now-invalidated patent, does not frustrate *federal patent policy*.” (emphases added)).

courts appear to feel compelled to apply it rigidly,¹⁷ while others take a more holistic and flexible approach.¹⁸ This uncertainty in the law was on display in a recent case where the U.S. District Court for the Central District of California was unsure of whether and how *Shell*'s test should apply under certain factual circumstances, and certified an interlocutory appeal to the Federal Circuit, but the Federal Circuit declined interlocutory review.¹⁹

Although *Shell* was decided correctly on its facts in this author's view, in part for the reasons captured in *Shell*'s test, the one-sentence test is not perfect. Factual situations can arise in which rigid application of *Shell*'s test would lead to a result directly contrary to the federal patent policies underlying both the *Lear* and *Shell* decisions. For example, although *Shell* involved a license to one specific patent, consider a running royalty license to an entire portfolio consisting of many patents, where there is some uncertainty as to which patents are implicated by the licensee's products. In such a situation, if the licensor were to delay in making known its view that the licensee should be paying royalties on certain products, that could result in a delay to the licensee's validity challenge. That is, a licensee might not believe it has any reason to challenge the validity of a patent in the vast licensed portfolio until the licensor makes known its belief that such patent requires the payment of additional royalties by the licensee. Strict application of *Shell*'s test in such a situation would mean that the licensee must pay pre-challenge royalties even where the patent is ultimately found invalid, thus creating an incentive for the licensor to delay validity challenge by delaying in making known its view as to the import of a potentially invalid patent, precisely the opposite incentive of what *Lear* and *Shell* sought to achieve. Indeed, the *Lear*

17. See, e.g., *Icon Health & Fitness, Inc. v. Park City Entm't, Inc.*, No. 1:10-cv-195-RJS, 2013 U.S. Dist. LEXIS 112045, at *17 (D. Utah Aug. 7, 2013) (stating that *Shell* does not "suggest any authority for a trial court to relieve licensees of the prerequisites identified" in the case); see also discussion *infra* Part III[A].

18. See *MedImmune, Inc. v. Genentech, Inc.*, 535 F. Supp. 2d 1000, 1016–17 (C.D. Cal. 2008) (explaining that *Shell*'s test, "taken out of context extends the holding far beyond the rest of the case[,]” and finding that *Shell* did not “[p]rohibit MedImmune’s [i]nvo[ca]tion of *Lear* [b]ecause [i]t [d]ealt [w]ith a [s]ignificantly [d]ifferent [f]actual [s]cenario”); see also discussion *infra* Part III[B].

19. See *Jang v. Bos. Sci. Corp.*, 767 F.3d 1334, 1336, 1339 (Fed. Cir. 2014) (“Without taking any position on the merits of the issues presented, we conclude that the limited circumstances under which an interlocutory appeal might be permitted are not met in this case.”); see also discussion *infra* Part III[C].

Court explicitly expressed an intent to discourage licensors from engaging in such dilatory tactics.²⁰

Additionally, although *Shell* involved a patent that was invalid based on the licensor's own prior work,²¹ if the patent is found invalid based on the licensee's own prior work, it may not make sense to require the licensee to pay for the use of its own prior work, as such a result would run contrary to significant federal patent policy concerns protecting prior users. As will be explained *infra*, factors relating to inventorship appear to have been significant in both *Lear* and *Shell*, as well as in other Federal Circuit cases applying *Shell*. Yet these important equitable and policy concerns are also not captured in *Shell*'s one-sentence test.

Perhaps part of the reason that the Federal Circuit in *Shell* formulated a set of seemingly rigid prerequisites for a licensee to "invoke the protection of the *Lear* doctrine" is that it viewed the Supreme Court in *Lear* as having spoken in "tones that echo from a past era of skepticism over intellectual property principles."²² In the current climate, however, as evidenced for example by a plethora of recent Supreme Court decisions against patentees,²³ as well as abundant

20. *Lear, Inc. v. Adkins*, 395 U.S. 653, 673 (1969) ("Enforcing this contractual provision would give the licensor an additional economic incentive to device every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning.").

21. *See Shell*, 112 F.3d at 1562–63 (discussing Karl Zeigler, inventor of the licensed patents in *Shell*, Nobel laureate, and past director of the Max Plank Institute, of which the licensor in *Shell*, SGK, was the licensing arm); U.S. Pat. No. 3,082,197 col. 1 ll. 17–18 (filed Dec. 1, 1958) (describing the subject matter of the invalidating foreign patent in *Shell*, Belg. Patent No. 538,782 (issued June 8, 1954), and showing that this patent was co-invented by Ziegler.").

22. *Shell*, 112 F.3d at 1567; *see also* CHISUM, *supra* note 7, § 19.02[3] ("Decisions of the Court of Appeals for the Federal Circuit have displayed a noticeable lack of enthusiasm for extending the *Lear* doctrine."); Ronald A. Bleeker & Michael V. O'Shaughnessy, *One Year After MedImmune—The Impact on Patent Licensing & Negotiation*, 17 FED. CIR. B.J. 401, 403 (2008) ("It is worth noting that the court's fundamental unease with *Lear* is manifest throughout *Shell*."); *MedImmune*, 535 F. Supp. 2d at 1015 ("Perhaps these Federal Circuit cases reflect the sentiment, expressed in the 1997 [*Shell*] decision, that *Lear* reflects 'tones that echo from a past era of skepticism over intellectual property principles.'" (quoting *Shell*, 112 F.3d at 1567)); Minute Order Denying Defendants' Motion for Summary Judgment at 15, *Jang v. Bos. Sci. Corp.*, No. EDCV 05-426-VAP (C.D. Cal. Mar. 27, 2014) ("Since *Lear*, however, the Federal Circuit has expressed doubt about its continuing viability, commenting that the holding in *Lear* embodies 'tones that echo from a past era of skepticism over intellectual property principles.'" (quoting *Shell*, 112 F.3d at 1567)).

23. *See, e.g., Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843 (2014) (unanimously reversing the Federal Circuit, and holding that the patentee bears the burden of proving infringement when a licensee seeks a declaratory judgment of non-infringement); *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111 (2014) (unanimously reversing the Federal Circuit, and holding that a defendant may not be liable for inducing infringement when no one has directly infringed the patent); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2124 (2014) (unanimously holding that the Federal Circuit's standard for patent

commentary criticizing the patent system,²⁴ one would be hard pressed to argue that skepticism over intellectual property (particularly patents) has been entirely relegated to a past era. But ironically, the Federal Circuit in *Shell*, with its apparently rigid one-sentence test, may have itself spoken in tones that echo from a past (or passing) era of rigid Federal Circuit jurisprudence, as the Supreme Court has since repeatedly admonished the Federal Circuit for creating such formulaic tests.²⁵

This article argues that in accordance with this trend in Supreme Court guidance, as well as the roots of the challenge rule, *Shell*'s test is best read as two useful clues or guideposts bearing on the question of whether and when a licensee should be relieved of royalties on an invalid patent. The *Shell* decision is generally well-reasoned and is valuable precedent, but the decision should be read and applied *as a whole*, in consideration of its "factual setting," and the underlying policies that it sought to further. The one-sentence test at the end of the *Shell* opinion should not be read out of context as a rigid set of Federal Circuit created prerequisites that must invariably be met in order for a licensee to "invoke the protection of" the Supreme Court's *Lear* decision. Instead of robotically applying *Shell*'s test, courts should examine the specific circumstances of each case and consider which result would best effectuate the policies underlying *Lear* and *Shell*. Besides the factors mentioned in *Shell*'s test, the structure of the license

indefiniteness "tolerates some ambiguous claims but not others, [and] does not satisfy the statute's definiteness requirement"); *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014) (unanimously holding that the patent claims at issue are drawn to an abstract idea and are therefore patent ineligible under 35 U.S.C. § 101).

24. See generally, e.g., Oskar Liivak, *Establishing an Island of Patent Sanity*, 78 BROOK. L. REV. 1335, 1336 (2013) ("From Silicon Valley engineers, to economists, to legal scholars, and now to judges, the patent system is thought to be 'in crisis,' 'broken,' a 'failure,' 'an unnecessary evil,' and 'dysfunctional.'" (citations omitted)).

25. See, e.g., *Octane Fitness LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014) ("[T]he framework established by the Federal Circuit in *Brooks Furniture* is unduly rigid."); *Bilski v. Kappos*, 561 U.S. 593, 604 (2010) (holding that while the "machine-or-transformation test is a useful and important clue, an investigative tool," it "is not the sole test"); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (rejecting the Federal Circuit's "reasonable apprehension of suit" test for declaratory judgment case or controversy in favor of a more flexible "all the circumstances" test); *KSR Int'l v. Teleflex Inc.*, 550 U.S. 398, 415 (2007) ("We begin by rejecting the rigid approach [to nonobviousness] of the [Federal Circuit] Court of Appeals."); see also, e.g., Peter Lee, *Patent Law and the Two Cultures*, 120 YALE L.J. 2, 7 (2010) ("Starting about a decade and a half ago, the Supreme Court has more aggressively asserted its appellate jurisdiction over the Federal Circuit . . . systematically favoring 'holistic' standards over formalistic rules in a variety of areas of patent doctrine."); Rochelle Cooper Dreyfuss, *What the Federal Circuit Can Learn from the Supreme Court—And Vice Versa*, 59 AM. U. L. REV. 787, 805 (2010) (suggesting that well-articulated policy "is a tool that might replace at least some of the Federal Circuit's famous rigidity").

agreement (how many patents are involved and any duties of notification), and the nature of the invalidating prior art (whether it originates from the licensor or the licensee, or perhaps whether it is an expired patent), should also be considered.

Part I of this article describes how the *Shell* test developed out of cases holistically applying *Lear* in accordance with *Lear*'s underlying reasoning and federal patent policies. Part II discusses the Supreme Court's tendency to repudiate rigidity in Federal Circuit jurisprudence, a trend that spans at least from shortly after *Shell* was decided through the present day. Part III surveys application of the *Shell* test at the Federal Circuit and in district courts, illustrating that while some courts have taken a rigid and literal approach to *Shell*'s test, others have taken a more holistic and flexible one. Part IV explores scenarios where rigid application of *Shell*'s test might lead to a result contrary to the policies underlying the *Lear/Shell* doctrine, and discusses other factors for courts to consider that are relevant despite not being captured in *Shell*'s one-sentence test. This article concludes by arguing that a more flexible reading of the *Shell* opinion comports best with the developmental roots of the challenge rule, with the Supreme Court's tendency to repudiate rigidity in Federal Circuit jurisprudence, and with the federal patent policies underlying *Lear* and its progeny.

I. THE DEVELOPMENT OF *SHELL*'S TEST AND ITS UNDERLYING POLICIES

A. *Lear*—Incentivizing Prompt Validity Challenge

In the 1969 decision *Lear v. Adkins*, the Supreme Court held that, contrary to some prior case law, a patent licensee generally is no longer estopped from challenging the validity of the licensed patents.²⁶ The court reasoned that the policies motivating the doctrine of licensee estoppel were generally outweighed by the federal patent policy of encouraging prompt challenges to the validity of overbroad patents, thereby "permitting full and free competition in the use of ideas which are in reality a part of the public domain."²⁷ Thus the Court in *Lear* "explicitly abolished licensee estoppel," that is to say, "*Lear* resolved the issue of licensee estoppel by writing its obituary. . . ."²⁸

26. *Lear, Inc. v. Adkins*, 395 U.S. 653, 671 (1969).

27. *Id.* at 670; see also *Am. Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542, 546-47 (3d Cir. 1975) ("We read the Supreme Court's opinion in *Lear* as resolving the competing equities between the licensee and the licensor *in favor of the licensee.*" (emphasis added)).

28. *Diamond Sci. Co. v. Ambico, Inc.*, 848 F.2d 1220, 1223 (Fed. Cir. 1988); see also *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 1064 (Fed. Cir. 1989) ("*Lear* abrogated the doctrine

As explained by the Supreme Court ten years later, the general holding of *Lear* is that “a licensee who establishes that the patent is invalid need not pay the royalties accrued under the licensing agreement subsequent to the issuance of the patent.”²⁹ As the Supreme Court unanimously reminded us just recently, the public “has a paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope,” a patentee generally “should not be . . . allowed to exact royalties for the use of an idea . . . that is beyond the scope of the patent monopoly granted,” and licensees should be encouraged to “litigate questions of a patent’s scope” and validity.³⁰

The Supreme Court’s general abrogation of licensee estoppel in *Lear* was intended to incentivize prompt licensee challenges to the validity of suspect patents and remove any incentive for licensors to delay or postpone ultimate decisions on the validity of such licensed patents. The Court explained that “federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts,” as this would “give the licensor an additional economic incentive to devise every conceivable *dilatory tactic* in an effort to *postpone* the day of final judicial reckoning.”³¹ Interpreting *Lear*, numerous circuit courts have recognized *Lear*’s aims of encouraging prompt validity challenge by the licensee, and discouraging the licensor from engaging in dilatory tactics to postpone a final decision on patent validity.³²

of ‘licensee estoppel’”); *see also* CHISUM, *supra* note 7, § 19.02[3][a] (“In *Lear, Inc. v. Adkins*, the Supreme Court abolished as inconsistent with federal patent and antitrust policy the doctrine that a licensee was estopped from contesting the validity of a patent.” (citation omitted)).

29. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1979).

30. *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851–52 (2014) (alteration in original) (citations omitted).

31. *Lear*, 395 U.S. at 673 (emphases added).

32. *See, e.g.*, *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1203 (10th Cir. 1983) (“One reason *Lear* permits licensees to suspend royalty payments prior to a final judicial determination of validity is to discourage licensors from delaying such determination.”); *Rite-Nail Packaging Corp. v. Berryfast, Inc.*, 706 F.2d 933, 936 (9th Cir. 1983) (“Federal patent policies favoring early adjudication of patent validity prevail over the provisions of state law and private contract in determining whether to award unpaid royalties accrued under an invalid patent.”); *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 705 (6th Cir. 1976) (recognizing that the policy “underlying” *Lear* was to encourage “early adjudication of invalidity”); *Cordis Corp. v. Medtronic, Inc.*, 780 F.2d 991, 995 (Fed. Cir. 1985) (“In *Lear*, the Court examined the interests of the licensor, the licensee, and the general public in light of the federal patent policy encouraging prompt adjudication of patent validity . . .”).

B. The Challenge Rule and Shell's Test—Holistically Applying Lear

The *Lear* Court stated that “Lear must be permitted to avoid the payment of all royalties accruing after Adkins’ 1960 patent issued if Lear can prove patent invalidity.”³³ Similarly, in *Aronson v. Quick Point Pencil Co.*, the Court explained that “[i]n *Lear*, . . . [it] held that a licensee who establishes that the patent is invalid need not pay the royalties accrued under the licensing agreement subsequent to the issuance of the patent.”³⁴ Such general statements, viewed in isolation, might appear to preclude an award of pre-challenge royalties where a patent is ultimately held invalid. But in light of *Lear*’s focus on federal patent policies, circuit courts fashioned exceptions to *Lear*’s general rule, where these policies so counseled.

The Federal Circuit in *Shell* found such an exception applicable,³⁵ declining to rigidly apply the Supreme Court’s broadest general statements, reasoning aptly that in the “factual setting” before it, enforcement of the license would not “frustrate federal patent policy.”³⁶ At the end of the decision, the court set forth a one-sentence test that reads: “[A] licensee, such as *Shell*, cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid.”³⁷ The Federal Circuit found that, under the circumstances of the case, *Shell* (the licensee) had “delayed a timely challenge to the validity of the ’698 patent and postponed the public’s full and free use of the invention”³⁸ The court held that *Shell* remained liable for royalties accrued before the validity challenge so as to create a disincentive for

33. *Lear*, 395 U.S. at 674.

34. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1979).

35. See, e.g., *Advanced Card Techs. LLC v. Versatile Card Tech., Inc.*, 410 F. Supp. 2d 158, 161 (S.D.N.Y. 2006) (“Thus, the [*Shell*] exception to *Lear* applies.”); *Jang v. Bos. Sci. Corp.*, 767 F.3d 1334, 1336 (Fed. Cir. 2014) (“If the [*Shell*] exception does apply”). Some courts have referred to the *Shell* court as declining to extend *Lear* rather than applying an exception to it. See, e.g., *MedImmune, Inc. v. Genentech, Inc.*, 535 F. Supp. 2d 1000, 1012 (C.D. Cal. 2008) (“[R]ecent courts, including the Federal Circuit, have declined to extend *Lear*.”). The author’s view is that *Shell* is consistent with *Lear* as a whole, but would be an exception to rigid application of *Lear*’s broadest general statements. Similarly, the holistic application of *Shell* advocated in this article is consistent with the *Shell* opinion as a whole, but would create exceptions to a literal reading of the one-sentence test set forth towards the end of the *Shell* opinion.

36. *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997).

37. *Id.*

38. *Id.*

such delay; like *Lear*, *Shell*'s aim was to prevent delay in validity challenge.³⁹

Shell's test for invoking *Lear* developed from prior circuit court cases applying *Lear*. The trend in these cases was not to relieve the licensee of royalty obligations until the licensee stopped paying royalties and gave some indication to the licensor that the reason it was stopping payment was that it intended to challenge (or at least questioned) the validity of the licensed patents.⁴⁰ The purpose of this challenge rule is to remove any incentive for the licensee to delay a validity challenge so as to enjoy the benefits of the agreement for as long as possible before later challenging validity.⁴¹ By removing such incentive, the challenge rule furthers *Lear*'s goal of incentivizing prompt challenges to the validity of suspect patents.

One of the earliest cases that confronted the question of how to apply *Lear* in a context relating to pre-challenge royalties was *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, decided just three years after the Supreme Court's *Lear* decision.⁴² In *Troxel*, the licensee was attempting to recover royalties already paid under the license agreement, in light of the fact that the licensed patent was subsequently held invalid. Troxel argued that *Lear* held that payment of royalties on an invalid patent could be avoided from the time the patent issued, and not merely from the time the patent was declared to be invalid. In support of its argument, Troxel cited the following broad language from *Lear*: "[W]e hold that *Lear* must be permitted to avoid payment of all royalties occurring after Adkins' 1960 patent issued if *Lear* can prove patent invalidity."⁴³

39. See *Pony Pal, LLC v. Claire's Boutiques, Inc.*, 2006 U.S. Dist. LEXIS 14962, at *8–9 (S.D.N.Y. Mar. 31, 2006) ("The Federal Circuit's rationale in *Shell Oil* was that a licensee who fails to challenge the validity of a patent benefits by retaining the protection of the license while depriving the public of the full and free use of the patented product by withholding a successful challenge to validity. Accordingly, such a licensee should not be allowed to avoid liability for royalties for any such time period on grounds of patent invalidity.").

40. See, e.g., *Bristol Locknut Co. v. SPS Techs., Inc.*, 677 F.2d 1277, 1283 (9th Cir. 1981); see also *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 706 (6th Cir. 1976) ("Something more than mere nonpayment is required to 'encourage' an early adjudication of invalidity." (alteration in original) (quoting *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1257 (6th Cir. 1972))).

41. *Shell*, 112 F.3d at 1568; see also, e.g., *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1204 (10th Cir. 1983) ("Limiting the royalties licensees can avoid to those accruing after the licensees effectively notify the licensors that they question the validity of the licensed patent prevents the rule in *Lear* from being used to frustrate the policies enunciated there.").

42. *Troxel*, 465 F.2d at 1253.

43. *Id.* at 1259 (quoting *Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969)).

But the Sixth Circuit rejected Troxel's attempt to rigidly apply this language, recalling the words of Chief Justice John Marshall, that "[i]t is a maxim not to be disregarded, that general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used."⁴⁴ Applying Marshall's maxim, the Sixth Circuit held that a licensor need not repay all royalties received from its licensee under a license agreement where the patent is subsequently invalidated.⁴⁵

The *Troxel* decision served as an example for other circuit courts faced with interpreting the *Lear* decision, ultimately leading to the Federal Circuit's *Shell* test. The next major step along this path appears to have been *PPG Industries, Inc. v. Westwood Chemical, Inc.*, a Sixth Circuit case decided in 1976, just a few years after *Troxel*.⁴⁶ PPG more squarely presented the question of pre-challenge royalties that ultimately led to the Federal Circuit's *Shell* test.⁴⁷ The PPG court relied upon *Troxel*, explaining that the full refund sought in *Troxel* would not have promoted early adjudication of the invalidity of the patent, and thus would have been contrary to the reasoning and federal patent policies underlying the *Lear* decision.⁴⁸

The court in PPG held that "a licensee can terminate its liability for royalties under an invalid patent by ceasing payment for the purpose of prompting an early adjudication of the invalidity of the patent."⁴⁹ Because the court found that PPG's actions "were not of the type to prompt an early adjudication of invalidity," the court held that PPG's liability for royalties did not cease when PPG stopped paying royalties.⁵⁰ PPG stopped paying royalties as of 1968 and did not challenge validity, or indicate that it would do so, until 1971.⁵¹ Thus

44. *Id.* (quoting *Cohens v. Virginia*, 19 U.S. (6 Wheat) 264, 398 (1821)).

45. *Id.*

46. *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700 (6th Cir. 1976).

47. *See id.* at 703 (explaining that PPG was not seeking a refund as in *Troxel*, but rather, was attempting to avoid payment of royalties which had been withheld, as in *Shell*).

48. *Id.* at 705 ("If a *full refund* were granted on all royalties paid from the date of the execution of the license agreement, the courts would be faced with a myriad of suits by licensees who have waited until the patent is about to expire in the hope that the patent would be declared invalid. Such a practice would encourage and reward the *late* adjudication of invalidity and defeat the purposes of *Lear*." (alteration in original)).

49. *Id.* at 706.

50. *Id.*

51. *Id.* at 703 ("Although PPG withheld royalty payments, no notice was given to Westwood as to the reasons for nonpayment. When Westwood inquired about the unpaid royalties, PPG's chief patent counsel merely informed Westwood 'that he would look into it and see what could be done.'").

PPG was not relieved of royalties until the time it filed suit in 1971.⁵² In other words, “[s]omething more than mere nonpayment is required ‘to encourage an early adjudication of invalidity,’” in accordance with the reasoning and federal patent policies underlying the *Lear* decision.⁵³

The *Shell* decision cited four circuit court cases in support of its two-part test.⁵⁴ The earliest case was *PPG*, and indeed, all of the other three cases cite *PPG*, with some discussing it at length.⁵⁵ Thus *Shell*’s test has strong developmental roots in the Sixth Circuit’s *PPG* decision, which itself was based on *Troxel*’s application of Marshall’s maxim.

Marshall’s maxim, in full, remains refreshingly insightful and instructive 194 years later, and reads as follows:

It is a maxim not to be disregarded, that general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used. If they go beyond the case, they may be respected, but ought not to control the judgment in a subsequent suit when the very point is presented for decision. The reason of this maxim is obvious. The question actually before the Court is investigated with care, and considered in its full extent. Other principles which may serve to illustrate it, are considered in their relation to the case decided, but their possible bearing on all other cases is seldom completely investigated.⁵⁶

Given that the Federal Circuit’s *Shell* one-sentence test for invocation of *Lear* grew out of applying this maxim to broad general statements in *Lear*, it would be rather incongruous for district courts to treat *Shell*’s two-part test rigidly, applying it without regard to the *Shell* decision’s equities and underlying federal patent policies. Marshall’s maxim should be just as applicable to *Shell* as it is to *Lear*. Although the two factors of *Shell*’s test can be instructive, their “possible bearing on all other cases,” could not have been “completely investigated” by the Federal Circuit panel in *Shell*. Indeed, the dependence of *Shell*’s

52. *Id.* at 701 (“[U]nder the facts and circumstances presented here, we hold that the liability of the licensee terminated as of the date this suit was filed on January 18, 1971.”).

53. *Id.* at 706 (alteration in original) (quoting *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1257 (6th Cir. 1972)).

54. *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997) (citing *Rite-Nail Packaging Corp. v. Berryfast, Inc.*, 706 F.2d 933, 936–37 (9th Cir. 1983); *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1203 (10th Cir. 1983); *Am. Sterilizer Co. v. Sybron Corp.*, 614 F.2d 890, 897–98 (3d Cir. 1980); *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 706, 708 (6th Cir. 1976)).

55. *Rite-Nail*, 706 F.2d at 936–37; *Hull*, 704 F.2d at 1203; *Am. Sterilizer Co.*, 614 F.2d at 897–98.

56. *Cohens v. Virginia*, 19 U.S. (6 Wheat.) 264, 399–400 (1821).

test on factual circumstances and policy considerations is reflected in the very next paragraph immediately following the test.⁵⁷ Pre-*Shell* Federal Circuit applications of *Lear* also recognized that whether a licensee may invoke the protection of *Lear* is “dependent on particular fact situations,” but “must be resolved in harmony with general principles discernible from *Lear*.”⁵⁸

C. *Equities in Shell and Lear*

Aside from the policy of incentivizing prompt validity challenges, equities relating to inventorship appear to have been significant in both *Lear* and *Shell*. After generally abrogating licensee estoppel in *Lear*, the Supreme Court then considered the equities of the individual case in view of federal patent policy.⁵⁹ The licensor, “John Adkins, an inventor and mechanical engineer, was hired by Lear . . . to develop a gyroscope which would meet the increasingly demanding requirements of the aviation industry.”⁶⁰ The Court found significant the fact that Lear’s license extended back “more than four years before Adkins received his 1960 patent.”⁶¹ The Court ultimately determined that, “[w]hile the equities supporting Adkins’ [the licensor’s] position are somewhat more appealing than those supporting the typical licensor, we cannot say that there is enough of a difference to justify such a substantial impairment of overriding federal policy.”⁶²

Thus the equities in *Lear* favored the licensor, but not strongly enough to override the policies of *Lear*’s general rule against royalties on invalid patents.⁶³ However, a departure from *Lear*’s general rule against royalties on invalid patents was found to be justified in *Shell*,⁶⁴ where the relevant equities and policies weighed even more strongly in favor of the licensor, as the patents were only invalid due to the licensor’s own prior work. In other words, though the patents were invalid, the licensor was still essentially the inventor of the licensed technology. Thus in *Shell*, the equities weighed so strongly in favor of

57. *Shell*, 112 F.2d at 1568 (“*In this factual setting*, therefore, enforcement of the license . . . does not frustrate *federal patent policy*.” (emphases added)).

58. *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 1064 (Fed. Cir. 1989).

59. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 671–74 (1969).

60. *Id.* at 655.

61. *Id.* at 671.

62. *Id.* at 672–73.

63. *Id.* at 670 (“Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”).

64. *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997).

the licensor that, unlike in *Lear*, there was “enough of a difference [from the typical licensor] to justify”⁶⁵ an award of royalties on an invalid patent.

The licensor in *Shell* was SGK, the licensing arm of the Max-Planck Institute, a non-profit research and educational organization.⁶⁶ The licensed '698 patent was filed by Professor Karl Ziegler, a Nobel laureate and past director of the Max-Planck Institute.⁶⁷ The licensed '698 patent was held to be anticipated by Professor Zeigler's own Belgian Patent No. 538,782.⁶⁸ In declining to rigidly apply *Lear*, the *Shell* court relied in part upon *Diamond Scientific*, a Federal Circuit case which had declined to apply *Lear* to bar the invocation of assignor estoppel, explaining that “[d]espite the public policy encouraging people to challenge potentially invalid patents, there are still circumstances in which the equities of the contractual relationships between the parties should deprive one party . . . of the right to bring that challenge.”⁶⁹

The equities favored the licensor in *Shell* because the invalidating prior art was the licensor's own work, and furthermore, because the licensee breached a notification obligation under the license. The renegotiated agreement between Shell (the licensee) and SGK (the licensor) was to one specific patent, the '698 Patent, and “obligated Shell to give a yearly accounting of its entire polypropylene production.”⁷⁰ The court found this significant, explaining that “[b]y abrogating its notification duty, Shell delayed a timely challenge to the validity of the '698 patent and postponed the public's full and free use of the invention,” and that “Shell's apparent breach of its duty to notify under the agreement is itself more likely to frustrate federal patent policy than enforcement of the contract.”⁷¹

Because *Shell's* test grew out of flexible and holistic application of *Lear*, and because both *Lear* and *Shell* both explicitly and repeatedly recognize the importance of the equities and federal patent policies to their decisions,⁷² those equities and policies should be considered when

65. *Lear*, 395 U.S. at 672–73.

66. *Shell*, 112 F.3d at 1562.

67. *Id.*

68. *See id.* at 1563; *see also* U.S. Pat. No. 3,082,197 col. 1 ll. 17–18 (filed Dec. 1, 1958) (describing the subject matter of Belg. Patent No. 538,782 (issued June 8, 1954)).

69. *Shell*, 112 F.3d at 1567 (quoting *Diamond Sci. Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224–25 (Fed. Cir. 1988)).

70. *Id.*

71. *Id.* at 1568.

72. *See, e.g., id.* at 1567–68; *Lear, Inc. v. Adkins*, 395 U.S. 653, 672–73 (1969).

applying *Shell*. Although *Shell*'s one-sentence test provides important guidance, it should not be considered exhaustive of all possible relevant considerations. Such an approach comports best with the Supreme Court's tendency to repudiate rigidity in Federal Circuit jurisprudence.

II. THE SUPREME COURT TREND AGAINST RIGID FEDERAL CIRCUIT JURISPRUDENCE

Over the years since *Shell* was decided, the Supreme Court has taken more of an interest in patent law.⁷³ One of the prevailing themes in the Supreme Court's review of Federal Circuit jurisprudence is a rejection of rigidity. In a number of cases, the Supreme Court has overruled Federal Circuit created "tests," in favor of more flexible, "totality of the circumstances" type inquiries.⁷⁴

This trend is in harmony with Justice Marshall's maxim, which was part of the foundation out of which *Shell*'s test developed from *Lear*'s general rule and policies. Indeed, the Supreme Court recently cited Justice Marshall's "sage observation," in overruling a Federal Circuit opinion for being too rigid, stating:

We resist reading a single sentence unnecessary to the decision as having done so much work. In this regard, we recall Chief Justice Marshall's sage observation that "general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used. If they go beyond the case, they may be respected, but ought not to control the judgment in a subsequent suit when the very point is presented for decision."⁷⁵

Although this recent Supreme Court statement was made in reversing a Federal Circuit Fifth Amendment constitutional-takings case rather than a patent case,⁷⁶ there have been many patent cases over the past two decades rejecting a rigid Federal Circuit approach. Perhaps most applicable to *Shell*'s test is the approach taken by the Supreme Court in *Bilski v. Kappos*, where the Court held that, although the

73. See, e.g., *Lee*, *supra* note 25, at 7 (2010) ("Starting about a decade and a half ago, the Supreme Court has more aggressively asserted its appellate jurisdiction over the Federal Circuit.").

74. See sources cited *supra* note 25.

75. *Ark. Game & Fish Comm'n v. United States*, 133 S. Ct. 511, 520 (2012) (quoting *Cohens v. Virginia*, 19 U.S. (6 Wheat.) 264, 399 (1821)).

76. *Id.* at 515 ("Reversing the judgment of the Court of Federal Claims, which awarded compensation to the Commission, the Federal Circuit held, 2 to 1, that compensation may be sought only when flooding is 'a permanent or inevitably recurring condition, rather than an inherently temporary situation.' We disagree and conclude that recurring floodings, even if of finite duration, are not categorically exempt from Takings Clause liability." (citation omitted)).

Federal Circuit's "machine-or-transformation test is a useful and important clue, an investigative tool," it "is not the sole test" for evaluating patentability under 35 U.S.C. § 101.⁷⁷ The Court explained that "in deciding whether previously unforeseen inventions qualify as patentable 'process[es],' it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test."⁷⁸ Similarly, when deciding whether a licensor is entitled to pre-challenge royalties accrued under an invalid patent, under factual circumstances that are significantly different and thus potentially unforeseen by the *Shell* court, it does not necessarily make sense to confine courts to rigidly applying *Shell*'s test. Although *Shell*'s test and the *Shell* opinion as a whole should certainly be considered as a guidepost, that one-sentence should not be obstinately applied. Rather, the policies underlying the test should be understood, and applied to the fact situation before the court.

Other Supreme Court cases are similarly instructive against rigidity in Federal Circuit jurisprudence. For example, in *KSR Int'l Co. v. Teleflex Inc.*, the Supreme Court began "by rejecting the rigid approach of the [Federal Circuit] Court of Appeals" to non-obviousness, one of the most important doctrines in patent law.⁷⁹ The Federal Circuit had applied the "TSM" test, "under which a patent claim is only proved obvious if 'some motivation or suggestion to combine the prior art teachings' can be found in the prior art, the nature of the problem, or the knowledge of a person having ordinary skill in the art."⁸⁰ The Court found this approach too rigid, stating that: "our precedents make clear, however, the analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ."⁸¹

As another example, in *MedImmune Inc. v. Genentech Inc.*, the Federal Circuit had held that a "reasonable apprehension of suit" was necessary in order to satisfy the Article III case-or-controversy requirement in the declaratory judgment context, but the Supreme Court rejected this test as inconsistent with its prior (non-patent law)

77. *Bilski v. Kappos*, 561 U.S. 593, 604 (2010).

78. *Id.* at 606 (alteration in original).

79. *KSR Int'l v. Teleflex Inc.*, 550 U.S. 398, 415 (2007) ("We begin by rejecting the rigid approach [to nonobviousness] of the [Federal Circuit] Court of Appeals.").

80. *Id.* at 407 (citing, *e.g.*, *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308, 1323–24 (Fed. Cir. 1999)).

81. *Id.* at 418.

precedent.⁸² The Court replaced the Federal Circuit's test with a more flexible and more general test, quoting a collision-insurance case which stated: "Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."⁸³ In passing, the Court in *MedImmune* mentioned *Shell's* two-part test, but did not express an opinion on it, as it was not squarely at issue.⁸⁴

Bilski, *KSR*, and *MedImmune* all involved Supreme Court rejection of a Federal Circuit test for being too rigid.⁸⁵ In all three cases, the test was not entirely off the mark—it involved an important inquiry and in many cases would provide the correct result, but the Supreme Court held that it would not always provide the correct result, and thus should be considered along with other factors, including the Court's prior precedent as a whole.⁸⁶ Rigid application of *Shell's* test runs counter to this trend in Supreme Court jurisprudence. However, *Shell* can be read in harmony with the trend by applying the decision as a whole in light of its factual circumstances and reasoning. While *Shell's* two-part test marks an important inquiry, it is not the end-all be-all and should not necessarily dictate the result in every case.

More recently, in *Octane Fitness, L.L.C. v. Icon Health & Fitness, Inc.*, the Court again admonished the Federal Circuit for being "unduly rigid," in the framework it had established for willfulness.⁸⁷ Other examples of the Supreme Court's more flexible or generalist approach

82. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007) (explaining that the Court's prior decision in *Altwater v. Freeman*, 319 U.S. 359 (1943), "contradict[s] the Federal Circuit's 'reasonable apprehension of suit' test," and that the "test also conflicts with our decision[] in *Maryland Casualty Co. v. Pacific Coal. & Oil Co.* . . . , where jurisdiction obtained even though the collision-victim defendant could not have sued the declaratory judgment plaintiff-insurer without first obtaining a judgment against the insured.").

83. *Id.* at 127 (quoting *Md. Casualty Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

84. *Id.* at 124–25 ("We express no opinion on whether a *nonrepudiating* licensee is similarly relieved of its contract obligations during a successful challenge to a patent's validity—that is, on the applicability of licensee estoppel under these circumstances." (citing *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co.*, 112 F.3d 1561, 1568 (Fed. Cir. 1997) ("[A] licensee . . . cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid.")).

85. See *supra* notes 77–84 and corresponding text.

86. See *supra* notes 77–84 and corresponding text.

87. *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014) ("The framework established by the Federal Circuit in *Brooks Furniture* is unduly rigid . . .").

to patent law can be found in the areas of prosecution history estoppel,⁸⁸ federal jurisdiction over state law claims,⁸⁹ and injunctive relief.⁹⁰ Numerous commentators have also recognized this trend in the Supreme Court's review of Federal Circuit jurisprudence.⁹¹ As stated by Professor Peter Lee: "Starting about a decade and a half ago, the Supreme Court has more aggressively asserted its appellate jurisdiction over the Federal Circuit . . . systematically favoring 'holistic' standards over formulistic rules in a variety of areas of patent doctrine."⁹² Professor Lee explains that while "the Federal Circuit's rule-based doctrine is overwhelmingly 'inquiry-truncating,' the Supreme Court's new standards compel decision-makers to engage in multi-factored examinations of inventions and their technological context," so as to promote accuracy in decision making by requiring more detailed analysis of the factual context.⁹³ Similarly, rigid application of *Shell's* test would be "inquiry truncating," whereas consideration of the *Shell* opinion as a whole, in view of its facts and reasoning and in concert with *Lear*, would promote accuracy.

This Supreme Court trend away from rigidity in Federal Circuit jurisprudence has occurred concurrently with a related Supreme Court tendency to substantively constrain and narrow patent rights in a number of areas.⁹⁴ This has coincided with a general sentiment that the patent system is not functioning correctly.⁹⁵ The *Shell* court referred to *Lear* as having spoken in "tones that echo from a past era of skepticism

88. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 737 (2002) (rejecting the Federal Circuit's formalistic complete-prosecution-history bar in favor of a more flexible approach which "requires an examination of the subject matter surrendered by the narrowing amendment").

89. See *Gunn v. Minton*, 133 S. Ct. 1059 (2013) (rejecting the Federal Circuit's rule that jurisdiction lies wherever a question of patent law is a necessary element of a state-law malpractice claim, in favor of the standard four-factor test for whether there is a federal jurisdiction over a state-law claim, which includes an inquiry into whether the issue is of substantial importance to the federal system as a whole).

90. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (rejecting the Federal Circuit's general rule in favor of permanent injunctions, holding that the traditional four-factor test applies "with equal force to disputes arising under the Patent Act," and admonishing the Federal Circuit that "a major departure from the long tradition of equity practice should not be lightly implied." (internal quotation marks omitted)).

91. See, e.g., Dreyfuss, *What the Federal Circuit Can Learn from the Supreme Court—And Vice Versa*, *supra* note 25, at 805 (suggesting that well-articulated policy "is a tool that might replace at least some of the Federal Circuit's famous rigidity").

92. Lee, *supra* note 25, at 7.

93. *Id.* at 46–47.

94. See *supra* cases cited note 23.

95. See *supra* note 24.

over intellectual property principles.”⁹⁶ *Lear* was indeed originally heavily criticized in the patent community as being too anti-patent.⁹⁷ Commentators and courts alike have noted that the Federal Circuit has displayed a noticeable lack of enthusiasm for the *Lear* doctrine.⁹⁸ But the recent anti-patent trend in Supreme Court jurisprudence and in the patent community at large, much of which occurred after the *Shell* decision, appears to show that the “era of skepticism over intellectual property”⁹⁹ has not entirely passed.¹⁰⁰

96. Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (*Shell*), 112 F.3d 1561, 1567 (Fed. Cir. 1997).

97. See, e.g., Donald S. Chisum, The Supreme Court and Patent Law: Does Shallow Reasoning Lead to Thin Law?, The Honorable Helen Wilson Nies Memorial Lecture in Intellectual Property Law (Mar. 16, 1999), in 3 MARQ. INTEL. PROP. L. REV. 1 (1999) (“*Lear* is, in certain circles in the patent community, a much, much despised decision because of its anti-patent tone.”); Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677, 680 (1986) (“Small, specialized, non-integrated research firms . . . can avoid risk only by shifting it to their licensees. Under *Lear*, their ability to do so is severely restricted.”).

98. CHISUM, *supra* note 7, § 19.02[3] (“Decisions of the Court of Appeals for the Federal Circuit have displayed a noticeable lack of enthusiasm for extending the *Lear* doctrine.”); see also Bleeker & O’Shaughnessy, *supra* note 22, at 403 (“It is worth noting that the court’s fundamental unease with *Lear* is manifest throughout *Shell*.”); MedImmune, Inc. v. Genentech, Inc., 535 F. Supp. 2d 1000, 1015 (C.D. Cal. 2008) (“Perhaps these Federal Circuit cases reflect the sentiment, expressed in the 1997 [*Shell*] decision, that *Lear* reflects ‘tones that echo from a past era of skepticism over intellectual property principles.’”); Minute Order Denying Defendants’ Motion for Summary Judgment at 15, Jang v. Bos. Sci. Corp., No. EDCV 05-426-VAP (C.D. Cal. Mar. 27, 2014) (“Since *Lear*, however, the Federal Circuit has expressed doubt about its continuing viability, commenting that the holding in *Lear* embodies ‘tones that echo from a past era of skepticism over intellectual property principles.’” (quoting *Shell*)).

99. *Shell*, 112 F.3d at 1567.

100. A third related interpretation of the Supreme Court’s involvement in patent law over the past decade and a half is that the court has been moving the Federal Circuit in a more generalist direction, discarding tests unique to patent law in favor of more generalized standards applicable in other areas of law. See, e.g., Dennis Crouch, *Broadening Federal Circuit Jurisprudence: Moving Beyond Federal Circuit Patent Cases*, 2010 PATENTLY-O PATENT L.J. 19, 21 (2010) (“In several recent cases, the Supreme Court has pushed the Federal Circuit to consider history and doctrine arising from other areas of law.”); Dreyfuss, *What the Federal Circuit Can Learn from the Supreme Court—And Vice Versa*, *supra* note 25, at 795 (“[T]he Supreme Court has made smallish doctrinal adjustments intended to keep patent law in the mainstream.”); Lee, *supra* note 25, at 77 (2010) (“[T]he Court’s relative insulation from patent law, as well as its generalist outlook, has made it skeptical of patent ‘exceptionalism.’”); Andrew C. Michaels, *An Infamous Illustration of Patent Infringement Pleading: Form 18 and Context-Specificity*, 19 B.U. J. SCI. & TECH. L. 286, 303 (2013) (“There has been a recent theme in Supreme Court jurisprudence that patent litigation is not exceptional and is subject to the same procedural rules and standards as all other litigation in federal courts.”). All three of these trends, against rigid jurisprudence, substantively narrowing patent rights, and away from patent exceptionalism, could potentially be explained by the Supreme Court’s more generalist outlook and its pursuit of broader goals as compared with the Federal Circuit. See Lee, *supra* note 25, at 46.

The Supreme Court's tendency to repudiate rigidity and formalism in Federal Circuit jurisprudence counsels against a robotic or rigid application of *Shell's* test. Particularly given that *Shell* itself evolved from a flexible and holistic interpretation of the Supreme Court's *Lear* decision, it seems unlikely that the Court would endorse a rigid interpretation of *Shell's* limitations on *Lear*. The likelihood of such an endorsement seems even lower in light of the Court's recent tendency to narrow patent rights, and the fact that rigid application of *Shell's* test could unnecessarily broaden patent rights, operating to require a licensee to pay royalties on an invalid patent in a manner contrary to equities and federal patent policy.

As such, this article urges a holistic application of *Shell* and a flexible reading of *Shell's* test. As discussed below, at least one court has already taken such an approach.¹⁰¹

III. APPLICATIONS OF *SHELL'S* TEST—THE IMPORTANCE OF CONTEXT

Courts have taken varying approaches to the application of *Shell's* test, with some apparently feeling compelled to apply it more rigidly than others.

A. Icon Health—Rigid Application of *Shell's* Test

In *Icon Health & Fitness, Inc. v. Park City Entertainment, Inc.*, the U.S. District Court for the District of Utah displayed a rigid approach to *Shell's* test.¹⁰² Icon was a company developing and selling exercise equipment, which held patents covering some such equipment, and licensed some such patents to Park City.¹⁰³ A dispute later arose as to whether the patents covered only single pivot treadmills and as such whether Park City was required to pay royalties only on single pivot treadmills.¹⁰⁴ Icon, the licensor, filed a complaint on Nov. 23, 2010 for breach of contract and unfair competition, and then amended the complaint on July 11, 2011, adding causes of action for patent infringement on U.S. Patent Nos. 5,772,560 ('560 Patent) and 5,674,453 ('453 Patent).¹⁰⁵ Park City formally challenged the validity

101. *MedImmune, Inc. v. Genentech, Inc.*, 535 F. Supp. 2d 1000 (C.D. Cal. 2008) (discussed *infra* Part III[B]).

102. *Icon Health & Fitness, Inc. v. Park City Entm't, Inc.*, No. 1:10-cv-195-RJS, 2013 U.S. Dist. LEXIS 112045 (D. Utah Aug. 7, 2013).

103. *Id.* at *3.

104. *Id.* at *4.

105. *Id.*

of each patent but at different times, challenging the '560 Patent on December 14, 2010, and the '453 Patent on August 1, 2011.¹⁰⁶

The case was stayed on November 1, 2011, for a PTO reexamination that ultimately invalidated the asserted claims.¹⁰⁷ The parties agreed that *Lear* operated to excuse Park City from royalties accrued after the dates of challenge, but disputed whether Park City owed royalties which had accrued before the dates of challenge.¹⁰⁸ The court applied *Shell* to hold that "Park City cannot resort to the *Lear* defense to excuse payment of overdue royalties related to the '560 Patent accruing before it filed its Answer on December 14, 2010, nor overdue royalties related to the '453 Patent accruing before it filed its Amended Answer on August 1, 2011."¹⁰⁹ The court found Park City's attempts to distinguish *Shell* were "spirited but ultimately unpersuasive."¹¹⁰

In so holding, the court set forth a quite rigid view of *Shell*'s test. For example, Park City argued that *Shell* involved the breach of a notice provision in the contract requiring the licensee to notify the licensor of certain activities covered under the license, but that no such notice provision was present in the Icon/Park City license agreement.¹¹¹ Indeed, this notice provision appeared to be a significant factor in the *Shell* decision, featured prominently in the very paragraph in which *Shell*'s test is found:

Shell's apparent breach of its *duty to notify* under the agreement is itself more likely to frustrate federal patent policy than enforcement of the contract. As already noted, *Lear* focused on the "full and free use of ideas in the public domain." By *abrogating its notification duty*, Shell delayed a timely challenge to the validity of the '698 patent and postponed the public's full and free use of the invention of the '698 patent. Shell enjoyed the protection of the license from 1987 until SGK became aware of the Seadrift Process. Upon SGK's discovery of its Seadrift process, Shell suddenly seeks the protection of the *Lear* policies it flaunted for many years. However, a licensee, such as Shell, cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to

106. *Id.* at *4.

107. *Id.* at *4-5.

108. *Id.* at *10-11.

109. *Id.* at *28.

110. *Id.* at *14.

111. *See id.* at *15.

the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid.¹¹²

The *Shell* decision thus emphasized *Shell's* breach of its duty to notify as one of the primary reasons that *Lear's* own policies counseled against application of *Lear* under the circumstances, that is, “[b]y abrogating its notification duty, Shell delayed a timely challenge to . . . validity.”¹¹³ Yet because the notification duty was not captured within the one-sentence test immediately following this discussion, the *Icon Health* court called Park City’s factual distinction “irrelevant,” stating: “Nothing in the *Kohle* [*Shell*] decision suggests it is limited to cases involving a contractual duty to notify, and the court there did not rely on the notice provision in fashioning the two prerequisites to *Lear* protection.”¹¹⁴ Later, the court states: “Neither *Kohle* [*Shell*] nor *Hull*”¹¹⁵ suggest any authority for a trial court to relieve licensees of the prerequisites identified in the cases, and Park City cites no case supporting the existence of such broad discretion.”¹¹⁶

The *Icon Health* court’s rigid application of *Shell’s* test essentially reduces the entire decision down to one sentence, ignoring its lengthy discussion of federal patent policy in light of the facts and equities of the case, and also ignoring the paragraph immediately following the test in which the *Shell* court states: “*In this factual setting*, therefore, enforcement of the license according to its terms, even if this entails a

112. *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997) (emphases added) (citation omitted).

113. *Id.*

114. *Icon Health*, 2013 U.S. Dist. LEXIS 112045, at *15.

115. As noted earlier, *Hull* is a Tenth Circuit case which *Shell* cited for support. In a footnote of the *Icon Health* decision, the Utah District Court discusses whether to apply *Hull* or *Shell*, that is, whether the issue is one of Federal Circuit law or regional circuit law. The court does not definitively decide, stating that the result would be the same under either, but suggests that “Federal Circuit law likely applies because the prerequisites to *Lear* are unique questions regarding the interaction of patent principles with royalties” *Icon Health*, 2013 U.S. Dist. LEXIS 112045 at *12 n.1 (“We apply [Federal Circuit law] with respect to issues of substantive patent law and also with respect to certain procedural issues pertaining to patent law; we apply the law of regional circuits on non-patent issues.”) (alteration in original) (citing *Aero Products Int’l, Inc. v. Intex Recreation Corp.*, 466 F.3d 1000, 1016 (Fed. Cir. 2006)). Because, in the author’s view, the inquiry of when royalties are due on invalid patents or when *Lear* operates to relieve a patent licensee of such royalties is (or at least should be) dependent on federal patent policy considerations and equities relating to inventorship, the author agrees that it is properly considered a matter of Federal Circuit law. *Cf. Advanced Card Techs. LLC v. Versatile Card Tech., Inc.*, 410 F. Supp. 2d 158, 161 (S.D.N.Y. 2006) (“I have not found any Second Circuit case adopting the [*Shell*] exception [T]he Federal Circuit’s primacy in matters pertaining to patent law is such that, in the absence of direct Second Circuit precedent on the point, it is appropriate to rely on [*Shell*] and to apply it to this case.”).

116. *Icon Health*, 2013 U.S. Dist. LEXIS 112045, at *17.

determination of whether the Seadrift process infringes a now-invalidated patent, does not frustrate federal patent policy.”¹¹⁷ Perhaps one reason for this is that Park City may have made overreaching arguments in the other direction. According to the *Icon Health* court, Park City argued that “*Lear* stands for the far-reaching proposition that once a patent is invalidated, the licensee escapes liability for any unpaid royalties that ever accrued under that invalid patent.”¹¹⁸ Such a reading is not persuasive because it would essentially eviscerate the challenge rule. The correct method is a middle-ground approach in which *Shell* is neither eviscerated nor rigidly reduced to one sentence; rather, the opinion should be considered as a whole in light of its facts and underlying policies. An excellent example of such an approach is found in the U.S. District Court for the Central District of California’s *MedImmune* decision in 2008.

B. *MedImmune—Holistic Application of the Shell Decision*

In *MedImmune, Inc. v. Genentech, Inc.*,¹¹⁹ the District Court for the Central District of California was faced with Genentech’s motion for summary judgment of patent validity.¹²⁰ The parties had entered into a license agreement whereby MedImmune agreed to pay royalties on products that would (if not licensed) infringe U.S. Patent No. 6,331,415 (’415 Patent).¹²¹ MedImmune continued to pay royalties “under protest,” but brought a declaratory judgment case for, *inter alia*, invalidity of the ’415 Patent.¹²²

On motion for summary judgment, Genentech (the licensor) argued that MedImmune’s invalidity challenge was barred by the doctrine of licensee estoppel.¹²³ Although licensee estoppel was generally abrogated by the Supreme Court in *Lear*,¹²⁴ the Federal Circuit in *Shell* held that a licensee could not “invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and

117. *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997) (emphasis added).

118. *Icon Health*, 2013 U.S. Dist. LEXIS 112045, at *12.

119. 535 F. Supp. 2d 1000 (C.D. Cal. 2008).

120. *Id.* at 1003.

121. *Id.* at 1002–03.

122. *See id.* at 1003.

123. *See id.* at 1012.

124. *Id.* at 1018 n.15 (“It has generally been observed by the Supreme Court, the Federal Circuit, other courts, and commentators, that *Lear* spelled the end of the licensee estoppel doctrine.” (citing *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 345 (1971); *Diamond Sci. Co. v. Ambico, Inc.*, 848 F.2d 1220, 1223 (Fed. Cir. 1988); *Timely Prods., Inc. v. Costanzo*, 465 F. Supp. 91, 95 (D. Conn. 1979); *CHISUM*, *supra* note 7, § 19.02[3][a])).

(ii)” challenged the validity of the patent.¹²⁵ Genentech argued that because MedImmune was continuing to pay royalties (albeit under protest), it did not meet the first prong of *Shell*’s test, and therefore could not invoke *Lear* to escape licensee estoppel.¹²⁶

The *MedImmune* court, however, rejected Genentech’s argument. The court recognized that the “language of [*Shell*] appears to bar MedImmune’s invocation of *Lear* because it has not ‘cease[d] payment of royalties’ as required by first prong of the [*Shell*] rule,” but found that “that language taken out of context extends the holding far beyond the rest of the case.”¹²⁷ In contrast to the *Icon Health* court, which deemed that the factual circumstances of *Shell* not captured in *Shell*’s one-sentence test were “irrelevant,” the *MedImmune* court found these circumstances highly significant, explaining:

The holding [of *Shell*] concerned whether Shell could be held liable for past-due royalties where patent was later held invalid, in light of the fact that Shell had delayed adjudication of invalidity by clandestinely continuing to operate under the agreement Fundamentally, Shell’s abrogation [of its notification duty] was at odds with the federal policy that justified the *Lear* decision. In this case, MedImmune did not abrogate its notification duty Indeed, it would ‘frustrate federal patent policy,’ as embodied by *Lear*, to prohibit MedImmune from asserting invalidity Where the Federal Circuit distinguished *Lear* in a patent license case in [*Shell*], it did so because the rationale for *Lear* was undermined where a licensee failed to challenge validity until the licensor discovered breach of the agreement. None of those policy-altering distinctions are relevant here.¹²⁸

The *MedImmune* court accordingly applied *Lear* because it felt that the policies underlying *Lear* and *Shell* were better served by application of *Lear*, rather than *Shell*’s exception to *Lear*, even though *Shell*’s test for invocation of *Lear* was not strictly met. For support, the court cited *Levenger Co. v. Feldman*, a case from the U.S. District

125. See *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997).

126. *MedImmune*, 535 F. Supp. 2d at 1012 (Genentech “notes that the Federal Circuit in [*Shell*][] expressly imposes a repudiation requirement on the invocation of *Lear*. Because that requirement has not been met, Genentech reasons, MedImmune is estopped from challenging patent validity.”).

127. *Id.* at 1016–17 (alteration in original) (quoting *Shell*, 112 F.3d at 1568).

128. *Id.* at 1017–18 (citation omitted). The *MedImmune* court also recognized that the Federal Circuit’s decision in *Shell* may have been driven in part by its view that the Supreme Court in *Lear* spoke in “tones that echo from a past era of skepticism over intellectual property principles.” *Id.* at 1015 (quoting *Shell*, 112 F.3d at 1567).

Court for the Southern District of Florida in which the court refused to apply *Shell* because the “balance of the equities” was “not similar to that present in *Shell Oil* where the party who enjoyed the protection of the license for a number of years, did not challenge the patent, but only sought the protection of *Lear* once the licensor accused it of engaging in infringing conduct.”¹²⁹

MedImmune serves as an excellent example of the type of analysis advocated in this article, flexibly applying *Shell* as a whole, in light of its factual circumstances, underlying equities, and federal patent policy considerations, rather than rigidly applying its one-sentence test.¹³⁰

C. Jang—Federal Circuit Denies Interlocutory Review

In a recent case, *Jang v. Boston Scientific Corp.*, the U.S. District Court for the Central District of California again recognized that *Shell*'s test need not necessarily be rigidly applied under all circumstances.¹³¹ Dr. Jang obtained two patents in 1999 relating to coronary stents, and in 2002 executed an assignment agreement whereby he conveyed his rights in those patents to Boston Scientific (BSC), in exchange for royalty payments based on a percentage of BSC's net sales that absent the agreement would infringe the assigned patents.¹³² A dispute arose as to whether royalties were owed on certain of BSC's products, and Dr. Jang sued for breach of contract to collect the royalties he believed to be owed.¹³³ BCS initially contended that royalties were not owed because its products would not “infringe” or were not covered by the two patents, but then in 2006 first argued that the patents could also be

129. *Levenger Co. v. Feldman*, 2007 U.S. Dist. LEXIS 54917, at *10 (S.D. Fla. July 30, 2007). It should be noted that in a later order in the same case, the *Levenger* court ultimately decided in favor of applying *Shell*. See *Levenger Co. v. Feldman*, 516 F. Supp. 2d 1272, 1290 (S.D. Fla. 2007).

130. Although the prong of *Shell*'s test that was technically not met in *MedImmune* was the first prong (the licensee had not ceased payment), and this article focuses more on the second prong (challenge to validity), *MedImmune* provides a good example of reading *Shell*'s test in light of the decision as a whole. The court's consideration of the factual circumstances of *Shell* including the licensee's breach of its notification duty, and the effect of such circumstances on the underlying policies, could be equally applicable in a situation where the second prong of *Shell*'s test is not strictly met, as explained further *infra* Part IV[A].

131. See Minute Order Denying Defendants' Motion for Summary Judgment at 15, *Jang v. Bos. Sci. Corp.*, No. EDCV 05-426-VAP (C.D. Cal. Mar. 27, 2014); Minute Order Granting Defendants' Motion to Certify Questions for Interlocutory Appeal at 15, *Jang v. Bos. Sci. Corp.*, No. EDCV 05-426-VAP (C.D. Cal. Apr. 18, 2014).

132. See Minute Order Denying Defendants' Motion for Summary Judgment at 15, *Jang v. Bos. Sci. Corp.*, No. EDCV 05-426-VAP (C.D. Cal. Mar. 27, 2014). Although the agreement was technically an assignment rather than a license, the presence of the royalty payments makes the situation more or less akin to an exclusive license agreement for purposes of the challenge rule.

133. *Id.* at 2.

invalid.¹³⁴ The district court initially construed the claims narrowly so that there was no “infringement,” but the Federal Circuit reversed in 2012, requiring a broader claim construction.¹³⁵ The patents were ultimately invalidated by the USPTO on reexamination in 2014.¹³⁶

When the case resumed, the district court was faced with the question of whether BSC was liable for royalties accrued under the invalid patents.¹³⁷ Under *Shell*, BCS would seem to owe royalties until 2006 when it first challenged the validity of the patents. But the court questioned whether *Shell* should apply under circumstances where there was no alleged delay by the licensee/assignee. The court found that there was a “paucity of law” on the subject, and that there was “substantial grounds for difference of opinion” based on the “unique nature of the underlying facts.”¹³⁸ As such, the court decided to certify the following two questions for interlocutory appeal:

1. Where an assignor is suing under an assignment agreement for payments allegedly due for practicing claims now determined to be invalid, and where there is no allegation of dishonest or dilatory conduct on the part of the assignee, does the exception to *Lear v. Adkins*, identified in *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.*, apply?

2. If the [*Shell*] exception does apply, what is the appropriate standard for its application where the assignee has never made payments on sales of the accused product and has consistently maintained that no such payments could be due because the claims cannot properly be construed to cover the accused product and would be invalid under any construction that did not cover the accused product?¹³⁹

134. *Id.* at 16.

135. *See id.* at 2; *Jang v. Bos. Sci. Corp.*, 2012 U.S. App. LEXIS 17731, at *14 (Fed. Cir. Aug. 22, 2012) (finding that the district court “impermissibly imported the ‘unattached’ limitation into the claims based on the examples in the specification.”).

136. *See* Minute Order Denying Defendants’ Motion for Summary Judgment at 15, *Jang v. Bos. Sci. Corp.*, No. EDCV 05-426-VAP (C.D. Cal. Mar. 27, 2014). In an interesting twist, the request for *ex parte* re-examination was filed by Boston Scientific Corp. (BSC), the licensee/assignee, and BSC did not contest the PTO’s initial finding of invalidity, despite its right to do so as the owner of the challenged patents. Dr. Jang filed an *ex parte* application for a temporary restraining order seeking to compel BSC to relinquish power of attorney over the licensed/assigned patents and allow Dr. Jang to defend the patents in the re-examination proceedings, but the court denied the request. *Id.* These circumstances whereby Dr. Jang was prevented from defending the validity of the licensed patents may have contributed somewhat to the *Jang* court’s confusion as to how *Shell* should be applied.

137. *Id.* at 14.

138. *Id.* at 12.

139. *Jang v. Bos. Sci. Corp.*, 767 F.3d 1334, 1336 (Fed. Cir. 2014) (citations omitted).

The Federal Circuit denied interlocutory review, stating without much explanation that it was not “clear that the legal issues identified in the questions will in fact be controlling, and each question depends on the resolution of factual issues not yet addressed by the district court.”¹⁴⁰ The Federal Circuit explicitly did not take “any position on the merits of the issues presented.”¹⁴¹

The lack of an “allegation of dishonest or dilatory conduct” on the part of the licensee in the *Jang* case does not seem to necessarily justify a departure from *Shell*’s test. The inquiry should focus on federal patent policies and creating the appropriate incentive structure, rather than on a strict requirement that one party must prove or allege dishonest or dilatory conduct on the part of the other.¹⁴² However, the *Jang* case provides another good example of a court employing the general approach advocated in this article, evaluating the facts before it in light of the underlying reasoning and policies of *Lear* and *Shell*, rather than rigidly applying *Shell*’s test. The next part discusses some types of factual situations that, in the author’s view, would justify departure from *Shell*’s test.

IV. RELEVANT FACTORS NOT CAPTURED IN *SHELL*’S TEST

Although *Shell*’s test achieves the correct result in many situations, the scenarios examined in this section illustrate how the policies and equitable considerations underlying *Lear* and *Shell* are better served by a more flexible application of *Shell*’s test. Factors not captured in *Shell*’s one-sentence test, including the structure of the license agreement, and the nature of the invalidating prior art, can be important considerations in reaching a result consistent with the policies underlying *Lear* and *Shell* as a whole.

140. *Id.* at 1339.

141. *Id.* (“Without taking any position on the merits of the issues presented, we conclude that the limited circumstances under which an interlocutory appeal might be permitted are not met in this case.”).

142. *See, e.g., Lear, Inc. v. Adkins*, 395 U.S. 653, 673 (1969) (“Enforcing this contractual provision would give the licensor an additional *economic incentive* to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. We can perceive no reason to *encourage* dilatory court tactics in this way.”) (emphases added); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (the holdings of *Lear* “relied on the desirability of *encouraging* licensees to challenge the validity of patents, to further the strong federal patent *policy* that only inventions which meet the rigorous requirements of patentability shall be withdrawn from the public domain”) (emphases added); *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 706 (6th Cir. 1975) (declining to apply *Lear* to pre-challenge royalties because the “actions of PPG in the present case in ceasing payment of royalties were not of the type to prompt an early adjudication of invalidity”).

A. The Structure of the License Agreement

As discussed *supra*, the primary federal patent policy explicitly recognized in both *Lear* and *Shell* was to promote early adjudication of invalidity and remove any incentive for either party to delay. The *Lear* Court reasoned that if royalties continued to be owed until the patent were declared invalid, that would be “inconsistent with federal patent policy” in that it would “give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning,” and thereby “encourage dilatory court tactics.”¹⁴³

Whether invocation of *Lear* would encourage or discourage delay depends to some extent on the structure of the license agreement at issue. In *Shell*, the court declined to apply *Lear* because it found that given the factual circumstances of that case, including the structure of the license agreement, invocation of *Lear* would encourage delay and thereby turn *Lear*’s federal patent policy on its head. The court explained that “[b]y abrogating its notification duty, Shell delayed a timely challenge to the validity of the ’698 patent and postponed the public’s full and free use of the invention.”¹⁴⁴

The structure of the license agreement as related to Shell’s delay was thus an important factor in the *Shell* decision, although not explicitly captured in *Shell*’s one-sentence test. The renegotiated agreement between Shell (the licensee) and SGK (the licensor) was to one specific patent, the ’698 Patent, and “obligated Shell to give a yearly accounting of its entire polypropylene production.”¹⁴⁵

There was no question that Shell knew it was obligated to pay royalties on polypropylene production under the ’698 Patent, and Shell was explicitly obligated to inform the licensor of its polypropylene production activities. Shell had all the information that it needed in order to challenge the validity of the ’698 Patent, which it ultimately did, successfully.¹⁴⁶ But Shell delayed in that challenge, operating under the protection of the license for years without informing SGK of its polypropylene activities (and without paying for those activities) as it was required to under the license.¹⁴⁷ Application of *Lear* would have allowed Shell to have its cake and eat it too; clandestinely enjoy the

143. *Lear*, 395 U.S. at 673; see also *supra* Part I[A].

144. *Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (Shell)*, 112 F.3d 1561, 1568 (Fed. Cir. 1997).

145. *Id.* at 1563.

146. *Id.*

147. *Id.*

protection of the license until discovered, and then be excused from paying royalties. The *Shell* court properly prevented this result, holding that under those circumstances, Shell could only be relieved of royalties from the time it challenged the validity of the patent.¹⁴⁸

One of the only Federal Circuit cases squarely applying *Shell*'s test, *Go Medical v. Inmed*, involved a similar situation.¹⁴⁹ Go Medical licensed to MMG the exclusive right to distribute catheters under one specific patent, U.S. Patent No. 4,652,259 ('259 Patent).¹⁵⁰ Thus, as in *Shell*, there was no question that MMG was paying royalties under that patent, and could have challenged the validity of that patent sooner. And like *Shell*, MMG delayed in that challenge, attempting to enjoy the benefits of the agreement for as long as possible.¹⁵¹ Indeed, as the exclusive licensee, MMG urged Go Medical to sue C.R. Bard when it entered the market with a competing catheter.¹⁵² It was not until after the '259 Patent was found invalid in that suit that MMG stopped paying royalties and challenged the validity of the patent.¹⁵³ Under these circumstances, the Federal Circuit cited *Shell* in declining to allow MMG to invoke the protection of *Lear*, finding it significant that MMG was "trying to have it both ways."¹⁵⁴ Thus in both *Shell* and *Go Medical*, the license was to one specific patent which the licensee delayed in challenging, and the Federal Circuit appropriately declined to encourage such delay. But in some situations, where the license is to more than one patent, strict application of *Shell*'s test could actually encourage the licensor to delay.

For example, imagine a portfolio license where the licensor owns hundreds of patents, and the license puts the obligation on the licensor to inform the licensee of which of the licensee's products it believes are covered under the license. Further suppose that the royalties owed depend to some extent on the products covered. Now suppose that the licensor notices that the licensee is making certain products it believes are covered by one of its patents, but recognizes that the patent is of questionable validity. The licensee is not paying royalties on these products because it does not know that the licensor believes them to be covered under this questionable patent. Under the license, the licensee has no obligation to investigate the licensor's vast portfolio for patents

148. *Id.* at 1568.

149. *See Go Med. Indus. Pty., Ltd. v. Inmed Corp.*, 471 F.3d 1264 (Fed. Cir. 2006).

150. *Id.* at 1268.

151. *Id.*

152. *Id.*

153. *Id.*

154. *Id.* at 1273.

which might cover some of its products; the license puts that obligation on the licensor.

In these circumstances, if *Shell's* test were always to be strictly applied, the licensor would have a clear incentive to delay in informing the licensee of its belief that royalties were owed on the questionable patent. Imagine that after a period of say three years, the licensor informs the licensee that a product the licensee has been producing is covered by one of the licensor's patents, such that royalties for the past three years are owed. The licensee then investigates the validity of the patent, finds that it is likely invalid, and challenges its validity. Under strict application of *Shell's* test, the licensee would still owe royalties for the three year period preceding the challenge even if the patent were found invalid. If the licensor had informed the licensee three years earlier, the licensee would likely have challenged three years earlier. The licensor would thus be rewarded for its delay with three years of royalties on an invalid patent. This would turn the federal patent policy underlying both *Lear* and *Shell* on its head by encouraging the type of dilatory tactics that those decisions sought to discourage.¹⁵⁵

Thus in this type of a portfolio license situation, *Shell's* test should not be applied rigidly. Reasoned consideration of the *Lear* and *Shell* decisions as a whole would reveal that the licensee should be allowed to invoke *Lear* under such circumstances, in furtherance of the federal patent policies and equities underlying this doctrine.

Such a situation is not so fanciful. Indeed a less extreme version of this situation was presented in *Icon Health*. Park City challenged the validity of Icon's '560 Patent in its original answer on December 14, 2010.¹⁵⁶ Then in July of 2011, Icon amended its complaint adding the '453 Patent, and in August of 2011, Park City amended its answer to add a challenge to the validity of the '453 Patent.¹⁵⁷ The district court

155. In such a situation, the licensee might have an argument that the licensor should be equitably estopped from attempting to argue that *Shell* requires that royalties be paid during the period of the licensor's own delay. Where the licensor, through delay in informing the licensee of its view that royalties are owed on a certain patent of questionable validity, induces the licensee to delay in challenging the validity of such patents, the licensor should not be heard to exploit its own delay through a claim that additional royalties are owed even where the patent is invalid. Without fully engaging the question of how the federal *Lear/Shell* doctrine would or should interact with state law equitable estoppel in the context of a license dispute, the fact that rigid application of *Shell's* test would, in some circumstances, appear to conflict with state law equitable principles at least provides further persuasive support for a more flexible and holistic application of *Shell*, particularly in light of the fact that equities were considered and emphasized in both *Lear* and *Shell*. See *supra* Part I[C].

156. *Icon Health & Fitness, Inc. v. Park City Entrm't, Inc.*, No. 1:10-cv-195-RJS, 2013 U.S. Dist. LEXIS 112045, at *3—4 (D. Utah Aug. 7, 2013).

157. *Id.* at *4.

held that Park City was required to pay royalties on the invalid claims for the period before December 2010 on the '560 Patent, and the period before August 2011 on the '453 Patent.¹⁵⁸ If Park City had known that the '453 Patent would be asserted by Icon, it likely would have challenged its validity in December 2010 when it challenged the '560 Patent. Icon was thus rewarded for its delay in asserting the '453 Patent with almost nine months of extra royalties on an invalid patent.

Park City apparently made an overreaching argument that *Lear* precluded "liability for any unpaid royalties, irrespective of either the dates Park City challenged the validity of the patents under the [l]icense [a]greement or the dates that the royalties became due."¹⁵⁹ But it seems that Park City would have had a strong argument that under the policies of *Lear* and *Shell* as a whole, it should not have been required to pay royalties on the invalid '453 Patent at least from December 2010, so that Icon should not be rewarded for its nine month delay in asserting the '453 Patent. The appropriate inquiry would have been whether Icon was excused in its delay by any factual circumstances such as a breach by Park City of a duty to notify Icon of its activities which would infringe the '453 Patent (akin to the similar breach of a notification duty in the *Shell* case). If not, it seems that such an argument by Park City should prevail, even though it would be contrary to the letter of *Shell*'s one-sentence test.

One additional aspect of *Shell*'s reasoning further confirms the importance of the structure of the license agreement. In declining to apply *Lear*, the *Shell* court relied on *Diamond Scientific Co. v. Ambico, Inc.*, a Federal Circuit case which had declined to apply *Lear* to bar the invocation of assignor estoppel, explaining that "despite the public policy encouraging people to challenge potentially invalid patents, there are still circumstances in which the equities of the contractual relationships between the parties should deprive one party . . . of the right to bring that challenge."¹⁶⁰ In *Diamond Scientific*, the assignor could not invoke *Lear* because it had made a representation of the worth of the patent at the time of assignment to its advantage; to allow the assignor to later repudiate that representation, again to its advantage, would "work an injustice against the assignee."¹⁶¹

The *Shell* court declined to apply *Lear* in part because "as in *Diamond Scientific*, *Shell* executed a contractual agreement which

158. *Id.* at *28.

159. *Id.* at *11.

160. *Diamond Sci. Co. v. Ambico, Inc.*, 848 F.2d 1220, 1225 (Fed. Cir. 1988).

161. *Id.* at 1224.

produced significant benefits for the corporation and attested to the worth of the patent.”¹⁶² This was true because the renegotiated license was to one specific patent, such that the licensee, by entering into the license agreement and continuing to operate under its protection for years, had in some sense attested to the worth of that patent. But where the license is a portfolio license to hundreds of patents, and it is not the licensee’s obligation to investigate each of them, then the licensee can hardly be said to have attested to the validity of each patent in the licensor’s vast portfolio.

The structure of the license agreement, including the number of patents covered, and any obligations to investigate or notify placed upon the licensee, is thus an important consideration bearing on whether the federal patent policies of *Lear* would be served by awarding pre-challenge royalties in a particular case. Although this consideration is not captured in *Shell*’s one-sentence test, examination of the *Shell* opinion as a whole reveals that it weighed as an important part of *Shell*’s factual circumstances. Thus, even though not captured in *Shell*’s one-sentence test, the structure of the license agreement should be considered by courts in deciding whether to allow a licensee to invoke *Lear*.

B. The Nature of the Invalidating Prior Art

As the above discussion of *Shell*’s reliance on *Diamond Scientific* highlights, the “equities of the contractual relationship between the parties” was a significant factor in *Shell*.¹⁶³ Equities were considered in *Lear* as well, where the court found that the “equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”¹⁶⁴ Where the licensed patent is found invalid, the nature of the invalidating prior art can bear on these equities, and thus should be considered in deciding whether the licensee must pay pre-challenge royalties. Where the patent is invalid based on the licensor’s own work, as in both *Shell* and *Go Medical*, this factor should weigh against invocation of *Lear*. But where the patent is invalid based on the licensee’s own prior work, this factor should weigh in favor of invocation of *Lear*.

162. Studiengesellschaft Kohle, m.b.H. v. Shell Oil Co. (*Shell*), 112 F.3d 1561, 1568 (Fed. Cir. 1997).

163. *Id.* at 1567 (quoting *Diamond*, 848 F.2d at 1224–25 (Fed. Cir. 1988)); see also *supra* Part I[C].

164. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

1. Licensee's Own Prior Work

In *Lear*, the court determined that “[w]hile the equities supporting Adkins’ [the licensor’s] position are somewhat more appealing than those supporting the typical licensor, we cannot say that there is enough of a difference to justify such a substantial impairment of overriding federal policy.”¹⁶⁵ But in *Shell*, the equities in favor of the licensor were strong enough to work a departure from *Lear*, in part because the licensed patent was invalid based on the Nobel laureate licensor’s own prior work.¹⁶⁶ *Go Medical* similarly involved a situation where the one licensed patent was invalid based on the inventor licensor’s own prior work; the “parties agreed that a 1982 article written by Dr. O’Neil [founder of licensor Go Medical] anticipated the [licensed] ’259 Patent.”¹⁶⁷ Thus in both *Shell* and *Go Medical*, although the licensed patent was invalid, it was invalid based on the licensor’s own work. The license covered technology that the licensor had invented, so it was not offensive to the equities to require the licensee to pay for pre-challenge use of that technology even though the patent turned out to be invalid.

But what if the invalidating prior art is the licensee’s own prior work? Imagine again a portfolio license situation as discussed above,¹⁶⁸ where the licensor later asserts a patent which turns out to be invalid based on the licensee’s own prior work. For example, imagine if the licensed ’453 Patent in *Icon Health* discussed above were anticipated by a Park City patent on a Park City invention. It would seem highly inequitable to require the licensee to pay for the use of technology that it had itself invented, particularly where it may not have even realized that it was entering into a license agreement that would purportedly cover such technology.

In addition to being inequitable, requiring the licensee to pay for the use of its own prior work would run counter to the strong federal patent policy of protecting prior users from exactly such a result. As explained by the Supreme Court, the right of an inventor to use its own creation “existed before and without the passage of the law and was always the right of an inventor.”¹⁶⁹ It was in part this “common-law

165. *Id.* at 672–73.

166. *See Shell*, 112 F.3d at 1563; *see also* U.S. Patent No. 3,082,197 col. 1 ll. 17–18 (filed Dec. 1, 1958) (describing the subject matter of Belg. Patent No. 538,782 (issued June 8, 1954)).

167. *Go Med. Indus. Pty., Ltd. v. Inmed Corp.*, 471 F.3d 1264, 1269 (Fed. Cir. 2006).

168. *See supra* Part IV[A].

169. *Bauer & Cie v. O’Donnell*, 229 U.S. 1, 10 (1913); *see also Pennock v. Dialogue*, 27 U.S. 1, 23 (1829) (explaining that the Patent Act of 1800 “may well be deemed merely affirmative

right to make, use, and vend . . . which induce[d] the Government to clothe [an inventor or discoverer] with power to exclude everyone else.”¹⁷⁰ To require a licensee to pay for the use of its own invention would thus be an affront to federal patent policy, for as courts and commentators alike have long recognized, it “is less serious to hold that the first inventor has forfeited his right to a patent monopoly than it is to hold that he has forfeited any right to use his own invention without the permission of a subsequent inventor.”¹⁷¹

This long-standing policy of protecting prior users from having to pay for the use of their own prior work is also reflected in the Leahy–Smith America Invents Act (AIA), which provides a defense to infringement “based on prior commercial use.”¹⁷² Prior to the AIA, a “prior user who did not abandon, suppress, or conceal the invention,” could rely on section 102(g)(2) to “invalidate the later patent of another and thereby escape liability for infringement.”¹⁷³ But with the AIA’s switch to a first-to-file patent system, it was necessary to enact the prior commercial use defense in order to ensure that prior users could not be forced to pay for the continued use of their own prior work.¹⁷⁴

As a number of commentators have noted, courts have apparently been more likely to find prior use public enough to be invalidating

of what would be the result from general principles of law,” in that it “gives the right to the first and true inventor and to him only”).

170. *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 36 (1923). *See also* *Evans v. Jordan*, 8 F. Cas. 872, 873 (C.C.D. Va. 1813) (“The constitution and law, taken together, give to the inventor, from the moment of invention, an inchoate property therein, which is completed by suing out a patent.”).

171. *Dunlop Holdings, Ltd. v. RAM Golf Corp.*, 524 F.2d 33, 36 n.11 (7th Cir. 1975); *see also* F. Andrew Ubel, *Who’s on First?—The Trade Secret Prior User or a Subsequent Patentee*, 76 J. PAT. & TRADEMARK OFF. SOC’Y 401, 417 (1994) (“It is submitted that the loss of right to an invention reflects entirely different equities from the loss of right to a patent. The inventor’s right to her invention vests naturally upon the use or working of the invention and without regard to the patent system.” (footnotes omitted)); Chris J. Katopis, *Patents v. Patents?: Policy Implications of Recent Patent Legislation*, 71 ST. JOHN’S L. REV. 329, 364–65 (1997) (“A prior party who is using an invention before the filing date of another party wins the limited rights to continue the use, despite the issuance of the patent to another inventor. Although this a departure from current United States practice, it is deemed equitable.” (citing *Dunlop Holdings*, 524 F.2d at 37)).

172. 35 U.S.C. § 273 (2013).

173. *See* USPTO, REPORT ON THE PRIOR USER RIGHTS DEFENSE 48 (2012); 35 U.S.C. § 102(g)(2), *amended by* Leahy–Smith American Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

174. USPTO, *supra* note 173, at 48 (“The switch from first-to-invent to first-inventor-to-file is cited in the legislative history of the AIA as the main impetus behind the changes to section 273. One of the direct results of adopting a first-inventor-to-file regime is the elimination of section 102(g)(2) of the current law.” (footnote omitted)).

when the prior use is by the defendant, as opposed to a third party.¹⁷⁵ Indeed, according to Professor Karl F. Jorda:

[T]here is actually no case on the books where a first inventor/trade secret owner has been enjoined from practicing his invention/trade secret by a late-comer patentee even though there are literally scores of cases . . . where the second inventor prevailed on the issue of priority in an interference context.¹⁷⁶

As explained by Justice Story, “no subsequent inventor has a right to deprive [a prior user] of the right to use his own prior invention. . . . [I]ndeed, this has been the habitual, if not invariable, interpretation of all our patent acts from the origin of the government.”¹⁷⁷ Thus where a licensed patent is invalid based on the licensee’s own prior work, this should weigh against requiring pre-challenge royalties.

2. Expired Patents

Although invalidity based on the licensee’s own prior work would be the strongest form of invalidating prior art weighing in favor of invocation of *Lear*, there are other instances where the nature of the invalidating prior art could be significant, such as where the invalidating prior art is an expired patent. The patent system provides a grant of a limited monopoly in exchange for dedication of the invention to the public after the patent expires, and courts have “long held that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal

175. Compare, e.g., *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 721 F.2d 1540 (Fed. Cir. 1983) (finding that prior use by a third party, practicing the patented process to sell a product, was not invalidating because the product did not adequately inform the public of the process), with *Friction Div. Products, Inc. v. E.I. DuPont de Nemours & Co.*, 658 F. Supp. 998 (D. Del. 1987) (finding the defendant’s own secret prior use of a patented process invalidating). See also, e.g., *Ubel*, *supra* note 171, at 427–29 (illustrating the importance of prior user rights by comparing *W.L. Gore* with *Friction Division*, “where the defendant was a bona fide prior user” defending “on the basis of their own prior use,” as opposed to that of a third party); Pierre Jean Hubert, *The Prior User Right of H.R. 400: A Careful Balancing of Competing Interests*, 14 SANTA CLARA COMPUTER & HIGH TECH. L.J. 189, 199–200 (1998) (“How does one reconcile *Gore* and *Friction Division*? . . . Interestingly, courts may be drawing the distinction . . . on the strength of the prior user’s interest based on the prior user’s status as a defendant or a third party. The notion is that perhaps a prior user’s interest is strong enough to warrant invalidation of a second inventor’s patent, whereas a third-party infringer’s interest is not.”).

176. Karl F. Jorda, *The Rights of the First Inventor—Trade Secret User as Against Those of the Second Inventor—Patentee*, 61 J. PAT. OFF. SOC’Y 593, 600 (1979); see also Karl F. Jorda, *Patent and Trade Secret Complimentariness: An Unsuspected Synergy*, 48 WASHBURN L. J. 1, 27 (2008) (“[A] later patentee has never enjoined a trade secret owner.”).

177. *Reed v. Cutter*, 20 F. Cas. 435, 437 (C.C.D. Mass. 1841).

law.”¹⁷⁸ In other words, the public dedication and “disclosure required by the Patent Act is ‘the *quid pro quo* of the right to exclude.’”¹⁷⁹ That is, the “federal patent system thus embodies a carefully crafted bargain,” wherein “upon expiration of [the life of the patent], the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use.”¹⁸⁰

In *Scott Paper Co. v. Marcalus Manufacturing Co.*, the Supreme Court declined to apply assignor estoppel where the patent was invalid based on an expired patent, because to do so would be “inconsistent with the patent laws which dedicate to public use the invention of an expired patent.”¹⁸¹ Although *Scott Paper* involved assignor estoppel rather than licensee estoppel, the two doctrines are analogous; indeed, in abrogating the general rule of licensee estoppel, the *Lear* Court cited *Scott Paper* as undermining its “very basis.”¹⁸² Similarly, in *Bonito Boats, Inc. v. Thunder Craft Boat, Inc.*, the Supreme Court explained that “[w]here the public has paid the congressionally mandated price for disclosure, the States may not render the exchange fruitless by offering patent-like protection to the subject matter of the expired patent.”¹⁸³ The Court in *Bonito Boats* also cited *Lear*, noting that careful consideration must be given to the “limited monopoly contained in the federal scheme,” so as not to conflict “with the federal policy ‘that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.’”¹⁸⁴

This policy is invoked where a licensed patent is anticipated by an expired patent, because in that situation the invention should rightfully be a part of the public domain, and it would seem contrary to policy to require the licensee to pay for it. Invalidity based on expired patents in

178. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989); see also *Coats v. Merrick Thread Co.*, 149 U.S. 562, 572 (1893) (“[P]laintiffs’ right to the use of the embossed periphery expired with their patent, and the public had the same right to make use of it as if it never had been patented.”); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896) (“It is self evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property.”).

179. *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int’l, Inc.*, 534 U.S. 124, 142 (2001) (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484 (1974)).

180. *Bonito Boats*, 489 U.S. at 150–51 (quoting *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186–87 (1933)).

181. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 257–58 (1945); see also *Rockwood Pigments NA, Inc. v. Axel J., L.P.*, No. 01-1227, 2002 U.S. App. LEXIS 26527, at *10 (Fed. Cir. Dec. 16, 2002) (“Axel is not, however, estopped from asserting that it is practicing the prior art . . .” (citing *Scott Paper*, 326 U.S. at 249)).

182. *Lear, Inc. v. Adkins*, 395 U.S. 653, 666 (1969).

183. *Bonito Boats*, 489 U.S. at 152.

184. *Id.* at 159–60 (quoting *Lear*, 395 U.S. at 668).

itself should not generally be considered sufficient reason for invoking *Lear* rather than *Shell*. Indeed there exists at least one case where the challenge rule was applied despite invalidity based on an expired patent.¹⁸⁵ And it is perhaps not as strong of a factor in favor of invocation of *Lear* as where invalidity is based on the licensee's own prior work.¹⁸⁶ But it should be a factor to be considered in combination with the other factors discussed above. For example, if invalidity is based on some combination of expired patents and the licensee's own prior work, perhaps this should be of sufficient weight that the licensee should not be required to pay pre-challenge royalties on an invalid patent, particularly in the context of a portfolio license.

CONCLUSION

The challenge rule, and the rule of *Shell*, developed out of a holistic view of *Lear* and cases that declined to rigidly apply *Lear*'s broader general statements. The *Lear* and *Shell* decisions, as a whole, strongly reflect the importance of the underlying equities and their relation to federal patent policies. The challenge rule, and *Shell*'s test, resulted from a recognition that *Lear*'s underlying policies were better served in some circumstances by declining to rigidly apply *Lear*'s general statements, in accordance with Justice Marshall's maxim.¹⁸⁷

Like *Lear*, *Shell* should similarly be applied holistically; its one-sentence test should not be rigidly applied out of context. Rather, the equities and policies underlying *Lear* and *Shell* as a whole should be considered in deciding whether a licensee may invoke the protection of *Lear*. A holistic and flexible application of *Shell* comports best not only with the origination of *Shell*'s test from Marshall's maxim and a holistic and flexible application of *Lear*, but also with the Supreme Court's trend of repudiating rigidity in Federal Circuit jurisprudence.¹⁸⁸ As with the machine-or-transformation test,¹⁸⁹ the reasonable-

185. See *Bristol Locknut Co. v. SPS Techs., Inc.*, 677 F.2d 1277, 1280 n.3, 1281 (9th Cir. 1981).

186. This is not to say that the policy that expired patents enter the public domain is necessarily any less important than the policy of protecting prior users. Rather, the author's perception that invalidity based on the licensee's own work is the stronger argument against rigid application of *Shell*'s test is based on the fact that both *Shell* and *Go Medical* involved invalidity based on the licensor's own prior work, the precise opposite situation of invalidity based on the licensee's prior work, making this a more directly relevant consideration to the doctrine, as compared with expired patents.

187. See *supra* Part I.

188. See *supra* Part II.

189. See *Bilski v. Kappos*, 561 U.S. 593 (2010) (holding that while the "machine-or-transformation test is a useful and important clue, an investigative tool," it "is not the sole test").

apprehension-of-suit test,¹⁹⁰ or the teaching-suggestion-motivation test,¹⁹¹ *Shell*'s one-sentence test provides useful guidance, but should not be considered dispositive in every case.

Other factors not captured in that one sentence of *Shell* also may bear on whether and when a licensee should be required to pay royalties on an invalid patent. These factors include the structure of the license agreement, and the nature of the invalidating prior art reference or references.¹⁹² Where the license agreement is a portfolio license that does not place notification obligations on the licensee, the federal patent policy of encouraging prompt validity challenge would sometimes be better served by allowing invocation of *Lear* to avoid pre-challenge royalties on an invalid patent.¹⁹³ And where the invalidating prior art originates from the licensee, the equities relating to inventorship and the strong federal patent policy of protecting prior users, should counsel against requiring the licensee to pay for the use of its own prior work.¹⁹⁴ Where the invalidating prior art is an expired patent, the federal patent policy that expired patents enter the public domain, may also counsel somewhat in favor of invocation of *Lear*.¹⁹⁵

Although not a direct focus of this article, the AIA provided new ways of challenging validity through the USPTO rather than directly in district courts.¹⁹⁶ As the *Jang* case discussed above illustrates, tricky situations can arise in the interplay between district court proceedings and concurrent administrative reexaminations.¹⁹⁷ Any concurrent administrative proceedings challenging the validity of the licensed patents should be carefully considered by courts in endeavoring to prevent inequitable behavior and promote federal patent policy by avoiding incentives for delayed validity challenge.

190. See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (rejecting the Federal Circuit's "reasonable apprehension of suit" test for declaratory judgment case or controversy in favor of a more flexible "all the circumstances" test).

191. See *KSR Int'l v. Teleflex Inc.*, 550 U.S. 398, 415 (2007) ("We begin by rejecting the rigid approach [to nonobviousness] of the [Federal Circuit] Court of Appeals.").

192. See *supra* Part IV.

193. See *supra* Part IV[A].

194. See *supra* Part IV[B][1].

195. See *supra* Part IV[B][2].

196. See Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011); Andre Iancu et. al., *Challenging Validity of Issued Patents Before the PTO: Inter Partes Reexam Now or Inter Partes Review Later?*, 94 J. PAT. & TRADEMARK OFF. SOC'Y 148, 148 (2012) ("One of the major changes [with the AIA] was the creation of new procedures for challenging the validity of an issued patent before the United States Patent and Trademark Office.").

197. See *supra* note 136.

In sum, when deciding whether a licensee must pay pre-challenge royalties on an invalid patent, the doctrine as reflected in *Lear* and *Shell* should be applied holistically, in view of the equities and federal patent policies reflected in those decisions. In addition to the factors captured in *Shell's* one-sentence test, courts should consider at least: (1) the structure of the license agreement, i.e., how many patents it covers, and whether it places notification obligations on the licensee, with an eye towards preventing any incentives for delay; and (2) the nature of the invalidating prior art, i.e., whether it originates from the licensor or the licensee, or whether it is an expired patent, with an eye towards the relative equities of the case and preventing the licensee from inequitably being required to pay for the use of its own prior work, or for an invention which is rightfully part of the public domain.