

WashU Kicks Off Trial Over Drug Patent Licensing Royalties

By **Vince Sullivan**

Law360, Wilmington (March 26, 2018, 8:26 PM EDT) -- Washington University in St. Louis opened a Delaware federal court bench trial Monday over allegedly unpaid patent royalties, telling a visiting judge that the University of Wisconsin Alumni Research Foundation withheld millions in licensing royalties from a joint patent used in the development of a kidney disease treatment.

During opening arguments, WashU attorney Michael A. Jacobs of Morrison & Foerster LLP told U.S. District Court Judge Joseph F. Bataillon that a treatment for hyperparathyroidism jointly developed by doctors from the respective universities led to U.S. Patent Number 5,597,815, which was licensed to Abbott Laboratories and used in the creation of retail drug Zemplar.

In 1998, the '815 patent was added to a group of 30 related patents licensed to Abbott by WARF, which maintained control over the patents under an earlier interinstitutional agreement between WashU and WARF that allowed for the sharing of royalties from the patents.

WashU says WARF undervalued the '815 patent when it became a staple of the development of Zemplar in a deliberate effort to keep more of the royalties for itself.

"This is basically a case about sharing and whether WARF, out of some kind of institutional selfishness or strategic obfuscation, misled WashU into thinking this slice of revenue ... was fair," Jacobs said.

He told the court that of the \$426 million in royalties taken in by WARF due to the '815 patent, WashU had been sent slightly over \$1 million.

WARF attorney Robert F. Shaffer of Finnegan Henderson Farabow Garrett & Dunner LLP said during the defense's opening arguments that WashU knowingly signed onto the interinstitutional agreement between the two universities in 1995, and that it would have to live with that agreement.

"A deal is a deal, your honor," Shaffer said. "Now WashU wants this court to rewrite the unambiguous terms of the agreement the two sophisticated institutions entered into more than 20 years ago."

Shaffer also said that when royalty payments to WARF began picking up in 2001 with the development of Zemplar, his client began sending larger checks to WashU under the agreement.

"WashU just didn't have any questions or concerns," Shaffer said of the amounts of the royalty checks.

“What is WARF supposed to think from 2004 to 2012? All that time and no questions on relative value. Not one.”

At one point, Judge Bataillon interrupted Shaffer’s opening to keep the focus of the case clear with regard to WashU’s allegation that WARF breached the covenant of good faith and fair dealing by not revealing the true value of the ’815 patent. He told Shaffer that he was overstating his case.

“The real question is how much information should you have disclosed to [WashU] when you found out about the value of the patent,” Judge Bataillon said. “You didn’t give them anything. And that’s what this case is about.”

WashU opened the evidence portion of the trial Monday afternoon by playing recorded portions of the depositions of the inventors of the ’815 patent, University of Wisconsin’s Hector DeLuca and WashU’s Eduardo Slatopolsky, followed by live testimony from the plaintiff’s expert witness on university patent licensing, Michael J. Cleare.

The trial is expected to last four days.

WashU filed suit in 2013 alleging WARF withheld full royalty payments for more than a decade for the jointly developed treatment for hyperparathyroidism, which occurs in patients with chronic kidney disease who are on dialysis.

U.S. District Court Judge Gregory M. Sleet granted WARF’s motion for summary judgment in January 2016, saying WARF’s argument that the claims were time-barred by Wisconsin’s six-year statute of limitations was supported by the evidence that WashU had all the information it needed to bring suit as early as 2001.

The Third Circuit reversed that decision in July after WashU argued on appeal that WARF had an ongoing obligation to assign a fair value to the ’815 patent and pay royalties accordingly. WashU said it should be allowed to seek damages arising from all payments in or after April 2007.

The appellate court found that the claims were subject to an annual payment exception that says a party with a continuing duty incurs a new breach for each separate contract violation and an injured party can bring claims for damages starting on the date of the first breach within the limitations period.

Because WashU alleges the royalty payments were withheld up to the time it filed its suit in 2013, its claims were not barred going back to 2007, the appeals court found. It said material questions of fact remained in the case and remanded it to the district court for further proceedings.

Washington University is represented by Michael A. Jacobs, Christopher Robinson and Elizabeth Patterson of Morrison & Foerster LLP and John G. Day and Andrew C. Mayo of Ashby & Geddes PA.

WARF is represented by Robert F. Shaffer, J. Michael Jakes, Krista E. Bianco and Paula Miller of Finnegan Henderson Farabow Garrett & Dunner LLP and Mary B. Graham, Jeremy A. Tigan and Stephen J. Kraftschik of Morris Nichols Arsht & Tunnell LLP.

The case is *The Washington University v. Wisconsin Alumni Research Foundation*, case number 1:13-cv-02091, in the U.S. District Court for the District of Delaware.

--Additional reporting by John Kennedy. Editing by Marygrace Murphy.

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