IP Licenses in Hybrid form and Royalty Payments Post-Patent Expiration: Balancing Patent Expiration and Continuing Rights to Trade Secrets and Know-How

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I. INTRODUCTION

The analysis of intellectual property licensing has usually viewed licensing in terms of particularized IP rights in the past. Patent license agreements allow for the commercialization of a patented invention, whereas copyright license agreements control particular uses of copyrighted works, and trademark license agreements govern the usage of a registered trademark based on certain terms. In modern day technological transactions, however, this type of segregation has become inadequate.

Modern commercial technologies usually benefit from more than one IP right, rather than just a single right. For instance, a technology platform may include patented technological components, copyrighted source code, trademarks, confidential information, proprietary databases, and know-how. The same can be true of protecting some manufacturing techniques, as patents and confidential know-how can be used together for this purpose. Commercial transactions therefore frequently involve a bundle of rights and associated services that are transferred or made available through one contractual framework.

A hybrid licensing agreement may accordingly be understood as a composite contractual arrangement under which multiple forms of intellectual property and related commercial rights are made available to a licensee. The defining characteristic of such arrangements as the integration of several forms of intellectual property within a single contractual framework for the commercial exploitation of a product, technology or business model.

The commercial utility of such arrangements is apparent. A licensee may require not merely the legal right to practise a patented invention but also access to technical know-how, confidential manufacturing information, software, trademarks, technical support and business systems. Structuring all such rights through one transaction may reduce transaction costs and facilitate technology transfer.

Legal intricacies arise from the fact that different intellectual property rights have their own legal nature and offer varied periods of protection. Patent provides a statutory monopoly for a limited period of time. Copyright likewise subsists for a statutorily prescribed period.

Trademarks, subject to renewal requirements and continued compliance with applicable law, may effectively continue indefinitely. Trade secrets and confidential know-how, by contrast, may continue to possess commercial value for as long as secrecy and the requisite legal and factual conditions are maintained.

This creates a particularly important question in hybrid licensing:

In case a license covers both the patent and additional trade secrets or know-how which have their own value, can the licensor still get his royalty fee even though the patent has expired?

The question is not merely contractual. It concerns the boundary between freedom of contract and the public-domain principle inherent in limited-term intellectual property rights. If the entire post-expiry royalty is effectively consideration for continued use of the expired patent, continuation may amount to an extension of the patent monopoly. If, however, the royalty represents genuine consideration for continuing access to independently valuable trade secrets or know-how, the contractual position may be materially different.

The distinction becomes even more difficult where the agreement does not allocate separate consideration to the different forms of intellectual property. An undifferentiated royalty covering a bundle of patent rights, know-how and trade secrets may obscure the basis upon which the continuing payment is being demanded[1].

This paper therefore examines hybrid licensing not merely as a category of commercial contract, but as a mechanism that requires reconciliation between different forms of intellectual property with fundamentally different legal durations.

The central proposition of this paper is that the survival of a royalty obligation after patent expiry should depend upon the legal and commercial basis of the royalty, rather than merely upon the form of the licensing agreement. A royalty genuinely attributable to independently continuing non-patent rights should be distinguished from a royalty that merely uses those rights as a vehicle for preserving the economic benefits of an expired patent.

II. HYBRID LICENSING DEFINITION

Hybrid licensing refers to a complex legal arrangement whereby a variety of intellectual property and business rights are combined into a single legal agreement.

Instead of licensing one category of intellectual property in isolation, the agreement integrates multiple rights to facilitate the commercial exploitation of a product, technology or business model.

The principal characteristics of hybrid licensing arrangements include the following. The most fundamental characteristic is the presence of more than one category of intellectual property. A single transaction may cover patents, copyright, trademarks, trade secrets and confidential know-how. The consideration payable under the agreement may extend beyond a conventional royalty. Hybrid arrangements may incorporate upfront payments, recurring royalties, technical support fees, franchise rights, milestone payments or even equity participation. A hybrid transaction may combine exclusive and non-exclusive rights, territorial restrictions, limitedterm rights and continuing obligations. The flexibility of the contractual structure allows parties to tailor the transaction to the commercial value and legal duration of the underlying rights.

Hybrid licensing is particularly relevant to international technology transfer and global business collaborations. Technology may be developed in one jurisdiction, protected through different forms of intellectual property in several jurisdictions, and commercially exploited through licensees located elsewhere. Because several forms of rights may be bundled together, hybrid licensing arrangements can be subject simultaneously to contract law, intellectual property law, competition law and, in cross-border transactions, international legal regimes[2].

The resulting legal structure is therefore more complex than a conventional single-right licence. The enforceability of one component does not necessarily determine the enforceability of every other component.

III. FORMS OF HYBRID LICENSING

The expression "hybrid licensing" is principally a functional description. Different combinations of rights are ordinarily described according to the rights and commercial arrangements that they contain rather than uniformly being called hybrid licences.

Several common forms may be identified.

1. Patent and Know-How Licensing

A patent may be licensed together with confidential technical information, manufacturing processes or other know-how. This structure is particularly significant in technology-transfer transactions because the patent may disclose the invention while practical know-how may remain outside the patent specification and retain independent commercial value.

2. Trademark and Franchise Licensing

A franchise arrangement may combine trademark rights with operational systems, software access, business methods and other proprietary materials. The licensee is therefore not merely using a trademark but participating in a broader commercial system.

3. Software Hybrid Licensing

Software transactions may involve a combination of open-source and proprietary licensing models. Dual-licensing structures is an example in which software may be made available under an open-source licence for certain users while a separate commercial licence applies to proprietary commercial use.

4. Cross-Licensing

Cross-licensing arrangements involve the exchange of intellectual property rights between parties and may incorporate royalty arrangements and interoperability obligations.

5. Patent, Trade Secret and Know-How Licensing

For purposes of the present analysis, the most significant form is the combination of patents with trade secrets[3] or technical know-how. This structure directly raises the question of what happens when the patent expires while the confidential information continues to have commercial value.

IV. THE LEGAL SIGNIFICANCE OF DIFFERENT IP DURATIONS

The difficulty in hybrid licensing is fundamentally connected to the different legal durations and characteristics of intellectual property rights. A patent confers a statutory monopoly for a limited period. At the end of that period, the invention enters the public domain and the patent holder cannot ordinarily continue to exercise patent-based exclusion merely through contract. Copyright similarly has a finite duration. Trademarks are structurally different because they may be renewed periodically and can therefore continue for substantially longer periods, subject to the applicable legal requirements. Trade secrets and know-how are different again. Their protection is connected to confidentiality and the preservation of secrecy rather than to a predetermined statutory monopoly period.

This difference creates a unique contractual problem.

Suppose a manufacturer receives:

1. a licence to use a patented manufacturing technology;
2. access to confidential manufacturing know-how;
3. technical assistance; and
4. a licence to use associated trademarks.

The agreement provides for one royalty calculated as a percentage of sales and does not distinguish the consideration attributable to each component.

When the patent expires, the licensee may contend that the royalty must cease because the principal statutory right has entered the public domain. The licensor may respond that the royalty also compensates for know-how, technical assistance or trade secrets that continue to be supplied and protected[4].

Both propositions may have commercial logic. The difficulty lies in determining the legal basis of the continuing payment. This is why the distinction between a bundled transaction and a bundled monopoly is critical. A contract may legitimately bundle several rights. It does not necessarily follow that the expiry of one right destroys the commercial value of all the others. Conversely, the mere inclusion of non-patent rights cannot automatically legitimise a continuing royalty that is substantively attributable to the expired patent. The legal analysis must therefore move from the label attached to the agreement to the substance of the rights and consideration involved.

V. THE INDIAN LEGAL FRAMEWORK

In India, hybrid licensing arrangements are principally supported by the general law of contract, while the individual intellectual property rights within the arrangement are governed by their respective statutory frameworks.

Indian Contract Act, 1872 provides the general contract law under which parties can make a legal business agreement. Specific rights under the license could be controlled by the Patents Act, 1970, Copyright Act, 1957, Trademarks Act, 1999 and Competition Act, 2002.

The resulting framework may therefore be viewed as an interaction of four broad areas:

Contractual autonomy + intellectual property rights + competition law + public policy.

A hybrid licence may generally be commercially structured with considerable flexibility, but that freedom cannot be treated as absolute. There are three broad considerations: the terms must be lawful, restrictions should not be contrary to public policy or unreasonably anti-competitive, and the arrangement should not violate competition law, including through prohibited tying. The competition-law dimension is particularly relevant where different products or rights are compulsorily bundled.

In particular, Section 3(5) of the Competition Act, 2002 recognises the right of an intellectual property holder to restrain infringement or impose reasonable conditions as may be necessary for protecting its IPR. The protection, however, is not an unrestricted exemption from competition law; the condition imposed must bear a reasonable nexus with the protection of the relevant intellectual property right.

The Competition Commission of India ("CCI") has accordingly recognised that IPR-related restrictions remain subject to scrutiny as to whether they are reasonable and necessary for protecting the underlying right.

The position is particularly relevant where a hybrid licence combines different products, rights or obligations. Section 3(4) of the Competition Act, 2002 specifically identifies a *tie-in arrangement* as a vertical restraint, namely, an arrangement requiring the purchaser of one product or service, as a condition of that purchase, to purchase another distinct product or service. Such an arrangement is prohibited where it causes or is likely to cause an appreciable adverse effect on competition. Thus, a contractual bundle cannot be treated as impermissible merely because it contains multiple rights or products; the relevant question is whether the bundling constitutes a tie-in falling within Section 3(4) of the Competition Act, 2002 and, if so, whether it has or is likely to have an appreciable adverse effect on competition.

The position may additionally engage Section 4 of the Competition Act, 2002 where the licensor holds a dominant position in the relevant market. Section 4 of the Competition Act, 2002 addresses, inter alia, the imposition of unfair conditions and the making of contracts subject to supplementary obligations having no connection with the subject matter of the contract. Accordingly, the competition-law analysis of a hybrid licence requires consideration of the nature of the IPR condition, its connection with the protected right, the structure of any bundled obligation, and, where relevant, the market position of the licensor.

A distinction must therefore be maintained between legitimate commercial bundling and anticompetitive tying. For present purposes, however, the more difficult issue concerns the duration and continuing operation of the royalty obligation itself.

A hybrid licence may generally be structured with considerable commercial flexibility, but such contractual freedom is not absolute. The terms of the arrangement must remain lawful and, where the arrangement implicates intellectual property rights, must also be assessed against the competition-law framework. In particular, Section 3(5) of the Competition Act, 2002 recognises the right of an intellectual property holder to impose reasonable conditions as may be necessary for protecting the relevant IPR[5]. The CCI has examined the scope of this protection in the context of IPR licensing arrangements, including in the Monsanto proceedings[6].

The position is particularly relevant where a hybrid licence combines different products, rights or obligations. **Section 3(4)(a)** specifically identifies a tie-in arrangement as a vertical restraint, subject to an assessment of its effect on competition[7]. Where the licensor holds a dominant position, the arrangement may additionally engage **Section 4**, including where unfair conditions or supplementary obligations having no connection with the subject matter of the contract are imposed[7]. The CCI's jurisprudence concerning patent licensing also demonstrates that the structure of royalty payments may itself attract competition-law scrutiny, as illustrated by *Micromax v Ericsson*[8].

VI. PATENT EXPIRY AND CONTINUING RIGHTS IN KNOW-HOW

The central distinction in a hybrid licensing arrangement is between the statutory duration of patent rights and the duration of other rights forming part of the same commercial transaction.

There is no direct judicial reference to, or express use of the term "hybrid licensing" in, *LG*

Electronics India Pvt. Ltd. v. CIT, the decision was rendered in the context of transfer pricing and concerned the characterisation and determination of royalty for tax purposes, rather than the enforceability of royalty payments after the expiry of patent rights. Nevertheless, certain features of the licensing arrangement considered by the Tribunal permit a limited inference relevant to hybrid licensing. In particular, the agreement contemplated consideration in respect of multiple categories of intellectual property and technical rights, including Industrial Property Rights, designs and technical know-how, while also containing provisions concerning the LG brand name and trademark and continuing confidentiality obligations[9]. In this context, "perpetuity" may be understood, for present purposes, as a contractual arrangement under which the right or obligation to receive or pay royalty continues beyond the expiry, disposal or exhaustion of a particular patent right, provided that the continuing consideration is attributable to rights that independently survive and possess legal and commercial value. Such an arrangement may, in principle, be structured through separate licences and corresponding royalty streams one relating to patent rights and another relating to independently protectable subject matter such as trade secrets, know-how, confidential information or, where legally applicable, traditional knowledge. The validity and enforceability of such an arrangement would remain subject to applicable contractual, intellectual property and competition law principles, including the prohibition of anti-competitive tying where applicable, while the purported non-patent rights must independently satisfy the legal requirements necessary for their protection. Thus, the inclusion of surviving rights cannot, by itself, provide an enforceable basis for perpetual royalty payments if those rights do not independently exist or possess protectable subject matter.

The Tribunal considered the royalty arrangement in the context of the composite rights contemplated by the agreement however, the decision did not undertake a specific analysis of whether, or on what basis, a uniform royalty could continue after the expiry of a patent where the agreement simultaneously covered other intellectual-property rights. Accordingly, *LG Electronics* may be treated as an illustration of the contractual structure underlying a potentially hybrid licensing arrangement, rather than as authority establishing the legal validity of perpetual post-expiry patent royalties[10]. The absence of a direct judicial framework addressing this precise question further indicates that Indian jurisprudence on hybrid licensing particularly arrangements combining time-limited patent rights with independently protectable know-how, trade secrets and other proprietary rights remains insufficiently developed.

The continuing revenue or royalty rights may arise where the contractual arrangement also covers rights such as trade secrets, know-how or traditional knowledge, which are not subject to the same fixed duration as a patent.

The underlying conceptual point is significant. The expiry of a patent does not necessarily cause confidential technical information to cease being confidential. Nor does the expiration of a patent automatically eliminate every contractual obligation associated with the transfer of know-how.

Thus, two propositions may coexist:

First, the patent monopoly cannot be extended beyond its statutory term merely through contractual drafting.

Second, the parties may continue to contract in respect of independent non-patent rights that retain legal and commercial value.

There is a possibility of structuring separate licences and royalties for the intellectual property and for trade secrets, traditional knowledge or know-how.

This distinction is fundamental to a defensible hybrid licensing structure.

If the parties have genuinely licensed two distinct assets one patent and one body of confidential know-how then the expiry of the patent should not necessarily extinguish the contractual consideration for the know-how. The difficulty arises when the contract does not make this distinction.

A single royalty percentage continuing unchanged before and after patent expiry presents a much greater conceptual difficulty because it may be impossible to determine whether the postexpiry royalty represents consideration for the continuing non-patent rights or merely continues to monetise the expired patent[11].

There is an absence of a clear distinction between the different intellectual property components as a weakness in certain hybrid licensing arrangements.

VII. UNITED STATES JURISPRUDENCE

United States jurisprudence provides a useful comparative framework for examining the treatment of royalties that continue beyond patent expiry.

In *Brulotte v. Thys Co.*,[12] the United States Supreme Court considered a licensing arrangement under which royalties continued beyond the expiration of the relevant patents. The Court treated the extraction of royalties based upon the continued use of the patented invention after patent expiry as impermissible because it would effectively extend the patent monopoly into the public domain. The royalty was tied to the patented machine and the same royalty rate continued both before and after patent expiration.

Brulotte therefore establishes the foundational principle that a patent owner cannot use a licensing agreement to maintain patent-based royalty obligations after the statutory patent term has expired.

However, the case also highlights the significance of what exactly the royalty compensates for. Where the royalty is expressly connected to the patented invention, continuation after expiry creates the appearance—and potentially the legal reality—of extending the patent monopoly. This becomes more complicated where the licence includes rights that do not expire with the patent.

The United States Supreme Court revisited the *Brulotte* rule in *Kimble v. Marvel Entertainment, LLC*,[13] The case involved a patent licence providing for royalty payments connected to sales. The Supreme Court reaffirmed the *Brulotte* rule and rejected post-expiration patent royalties, while recognising that parties remain free to structure alternative payment arrangements that do not amount to royalties tied to continued use of an expired patent. There is a lump-sum payments and amortisation arrangements as examples of permissible alternatives.

The importance of *Kimble* extends beyond its reaffirmation of *Brulotte*. It illustrates that the problem is not necessarily payment after patent expiry as such. Rather, the legal concern is payment that remains legally linked to the expired patent monopoly.

This distinction is directly relevant to hybrid licensing.

If parties agree upon a payment mechanism that reflects the value of a broader bundle of rights and is not legally dependent upon the continued exercise of the expired patent, the analysis may differ from a conventional post-expiry patent royalty.

In *Scheiber v. Dolby Laboratories Inc.*,[14] parties had created a patent-package licensing arrangement with royalties continuing until expiration of all relevant patents.

The case illustrates the importance of contractual clarity. Ambiguity in the arrangement created difficulties and that the court's analysis remained subject to the constraints imposed by *Brulotte*. It also notes judicial criticism of *Brulotte*, particularly the view associated with Judge Posner that the doctrine could be understood as affecting the timing of payments rather than necessarily the underlying economics of the transaction. The broader lesson is that parties cannot rely upon an imprecise description of a "package" of rights to avoid the consequences of patent expiry.

Chromalloy American Corp. v. Fischmann,[15] is particularly relevant to hybrid licensing because the licence included patents, know-how and business assets and provided for blended royalty payments. The case demonstrates the need to distinguish between patent and non-patent value. While compensation for non-patent assets may continue, patent leverage cannot simply be carried forward after expiration of the patent. This principle provides a useful analytical bridge between conventional patent licensing and genuine hybrid licensing. The existence of non-patent rights may provide an independent basis for continued remuneration. But the nonpatent rights must have independent existence and value; their mere inclusion in the contract should not automatically legitimise a continuing patent-derived royalty.

VIII. THE PROBLEM OF BLENDED ROYALTIES

The most significant legal difficulty in hybrid licensing arises where the agreement imposes a single, undifferentiated royalty for a bundle of rights.

Three broad structures may be distinguished.

A. Undifferentiated Level Royalty

Under this structure, the licensee pays a single royalty percentage covering both patent rights and trade secret or know-how rights. The agreement does not distinguish the respective contributions of the different forms of intellectual property.

If the same royalty continues at the same rate after patent expiry, the arrangement creates a substantial risk that the royalty will be characterised as continuing compensation for the expired patent.

Brulotte and *Chromalloy* can be read to understand the central problem.

The central problem is not simply the existence of one royalty. It is the inability to establish what the licensee is paying for after the patent has ceased to confer exclusive rights.

B. Blended Royalty Without Allocation

A second structure arises where the agreement expressly identifies both patents and trade secrets but nevertheless provides only one royalty rate and no allocation of consideration between the two.

The licensor may argue that the royalty continues because the trade secrets or know-how remain valuable. However, if the contract provides no mechanism to distinguish that value from the value previously derived from the patent, the continuing royalty may remain vulnerable.

In *Pitney Bowes, Inc. v. Mestre,*[16] court have identified the absence of a clear distinction between patent and trade-secret value as a significant difficulty.

C. Separated or Step-Down Royalty

A more carefully structured agreement may distinguish between the consideration attributable to patent rights and that attributable to trade secrets or know-how.

This may occur in at least two ways.

First, the agreement may assign separate royalty rates to different categories of rights.

Second, the agreement may provide for a reduction or elimination of the patent component when the patent expires while preserving the royalty associated with continuing know-how or trade-secret rights.

It is a "step-down" structure, whereby the royalty reflects the removal of patent value while preserving consideration for independently continuing non-patent assets.

From a contractual perspective, this approach has a significant advantage: it makes the economic basis of the post-expiry payment more transparent.

IX. THE DISTINCTION BETWEEN SURVIVING RIGHTS AND EXTENDED MONOPOLY

The central thesis of hybrid licensing can therefore be expressed through a distinction between survival and extension.

A surviving right is one that independently continues to exist after the patent expires. Trade secrets, confidential information and certain contractual rights may fall within this category, subject to the relevant legal and factual requirements.

An extended monopoly, by contrast, occurs where the contractual arrangement effectively prevents the licensee or the public from enjoying the freedom that patent expiry was intended to create.

This distinction means that the following propositions should not be conflated: "The patent has expired, therefore every payment under the agreement must cease." and

"The contract contains a trade-secret component therefore every payment may continue

indefinitely."

Neither proposition necessarily captures the complexity of a genuine hybrid transaction.

The appropriate inquiry is instead:

What right is being paid for?

If the payment is consideration for the right to practise the expired patent, continuation is problematic.

If the payment is consideration for access to independently protected confidential information, technical assistance or know-how that continues to have commercial value, a different analysis may apply.

The burden of making this distinction becomes substantially easier when the contract itself identifies the relevant rights and allocates consideration between them.

X. CONCLUSION

Hybrid licensing arrangements are increasingly important in technology-driven commercial transactions because modern products and businesses frequently depend upon multiple forms of intellectual property simultaneously. A single transaction may combine patents, copyright, trademarks, trade secrets, confidential information, know-how, software and associated commercial services.

The principal legal difficulty arises when rights with different durations are bundled together and compensated through a common royalty mechanism.

The expiry of a patent does not necessarily extinguish every right contained within a hybrid licensing arrangement. Trade secrets, confidential information and know-how may retain independent commercial and legal significance after patent expiry. However, the continuing existence of such rights cannot automatically justify continuation of a royalty that is substantively attributable to the expired patent.

The comparative jurisprudence examined in this paper, particularly the United States decisions in *Brulotte*, *Kimble*, *Scheiber* and *Chromalloy*, demonstrates the importance of distinguishing patent-derived royalties from consideration for independently continuing non-patent rights. Indian jurisprudence presents an important but comparatively less developed field for examining the interaction between patent expiry and continuing contractual rights in knowhow and trade secrets.

The central proposition emerging from the analysis is therefore that hybrid licensing should not be regarded as a mechanism for extending an expired patent monopoly. It should instead be structured as a genuine allocation of consideration among legally distinct rights.

Where a licence contains both patent rights and independently valuable know-how or trade secrets, the agreement should clearly identify each category of right, specify its duration, allocate consideration where practicable and provide for an appropriate adjustment of royalties upon patent expiry. A step-down or separated royalty structure can provide a commercially sensible mechanism for removing the patent component while preserving compensation for continuing non-patent rights.

Such an approach reconciles two legitimate objectives. The first is the freedom of sophisticated commercial parties to determine the economic terms of technology transactions. The second is the public interest in preventing private contracts from extending statutory intellectual property monopolies beyond their prescribed duration.

Ultimately, the question in a hybrid licensing dispute should not simply be whether a royalty survives patent expiry. The more appropriate question is what the surviving royalty is paying for.

If it pays for the continued use of an expired patent, it risks becoming an impermissible extension of the patent monopoly. If it pays for independently existing and commercially valuable trade secrets, confidential information or know-how, its continuation may be capable of independent contractual justification.

The future development of Indian jurisprudence in this area would therefore benefit from a rights-based and value-based analysis of hybrid licences, rather than treating the contractual bundle as indivisible. Greater clarity in contractual allocation, coupled with judicial scrutiny of the substantive basis of continuing royalties, can provide a principled framework that protects both innovation incentives and the integrity of the public domain.

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