

RECENT CHANGES TO U.S. PATENT LAWS AND THEIR IMPACT ON PATENT LICENSING

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OVERVIEW

1. Recent Developments in U.S. Patent Law Have Substantially Altered The Balance Of Patent License Negotiations
2. The Impact of Changes on Licensing Strategies
3. Best Practices for a Changing Licensing Landscape
 - A. Licensee Estoppel: “No-Challenge Clauses” & At-Risk Licenses
 - B. Forum Selection for Validity Challenges
 - C. Staying Nimble After *Kimble*: Alternatives to Patent Royalties for Licensors

1. RECENT DEVELOPMENTS IN U.S. PATENT LAW HAVE SUBSTANTIALLY ALTERED THE BALANCE OF PATENT LICENSE NEGOTIATIONS

- A. Post Grant Challenges Before U.S. Patent Trial and Appeal Board (PTAB)
- B. Patent Eligible Subject Matter and Early-Stage Validity Challenges
- C. Increased Scrutiny of Means Plus Function Claims
- D. Post-Expiration Royalties Are *Per Se* Unlawful
- E. An Evolving Landscape For Patent Damages

SIGNIFICANT DEVELOPMENTS IN PATENT LAW

America Invents Act:

PTAB created to provide additional avenues to challenge issued patents.

Alice Corp. v. CLS Bank Int'l

Abstract ideas not patent eligible through “generic computer implementation.”¹

Williamson II

There is no “strong” presumption against means-plus-function claiming.

Kimble v. Marvel Entm't

Post-expiration royalty payments are *per se* unlawful.

September 2012

June 2014

June 2015

June 2015

¹ “[S]imply appending conventional steps, specified at a high level of generality” to natural phenomena does not make them patent eligible. *Mayo v. Prometheus Labs., Inc.* (2012)

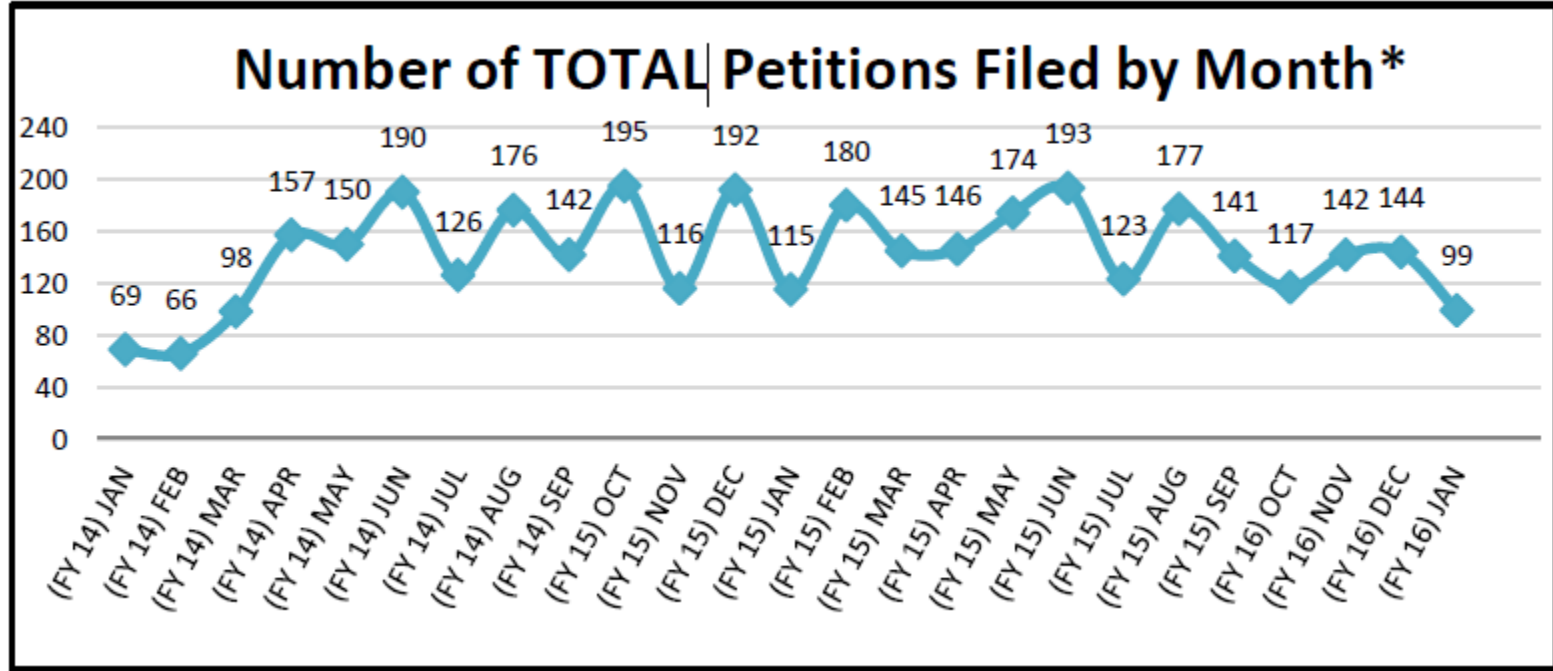
PATENT TRIAL AND APPEAL BOARD

Patent Trial and Appeal Board (PTAB) created by America Invents Act.



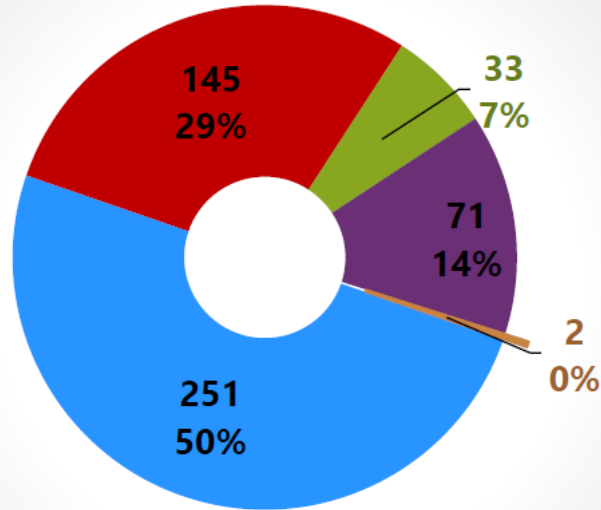
- Increasingly effective venue to invalidate patents.
- In 2015, the PTAB granted approximately 70% of petitions to **institute** *Inter Partes* Review (IPR) and Covered Business Method (CBM) challenges to issued patents.
- For IPRs that reach a final written decision, 87% cancel at least one claim, with 72% cancelling all challenged claims.
- IPRs may also facilitate settlement, with over half of trial institutions ending in settlement.

PATENT TRIAL AND APPEAL BOARD



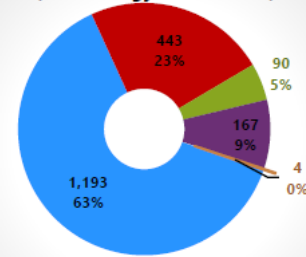
PATENT TRIAL AND APPEAL BOARD

502 Total AIA Petitions in FY 16*
(Technology Breakdown)

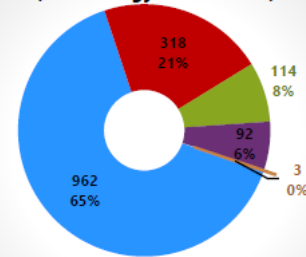


- Electrical/Computer - TCs 2100, 2400, 2600, 2800
- Mechanical/Business Method - TCs 3600, 3700
- Chemical - TC 1700
- Bio/Pharma - TC 1600
- Design - TC 2900

1897 Total AIA Petitions in FY 15*
(Technology Breakdown)

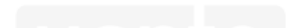


1489 Total AIA Petitions in FY 14*
(Technology Breakdown)



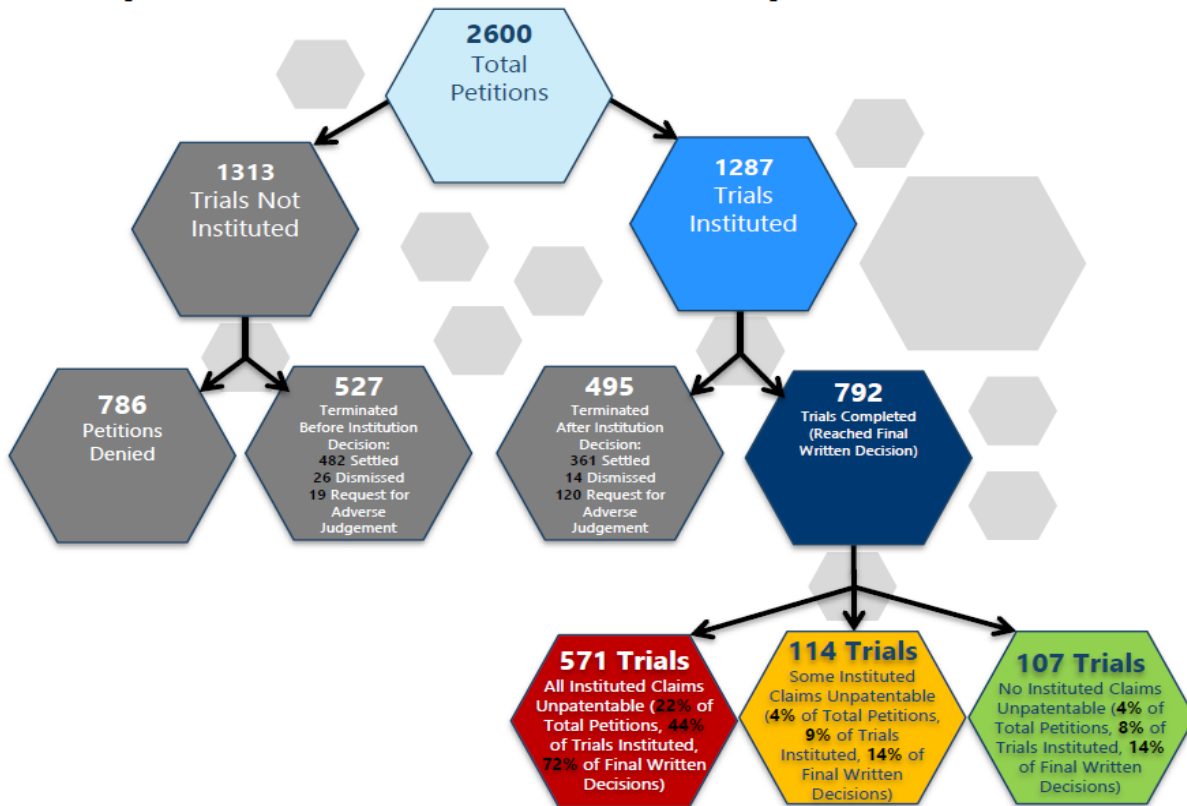
Narrative:

This pie chart shows the total number of AIA petitions filed in the current fiscal year to date as well as the number and percentage of these petitions broken down by technology.



PATENT TRIAL AND APPEAL BOARD

Disposition of IPR Petitions Completed to Date*



Narrative:

This graph shows a stepping stone visual depicting the outcomes for all IPR petitions filed to-date that have reached a final disposition.

*Data current as of: 1/31/2016

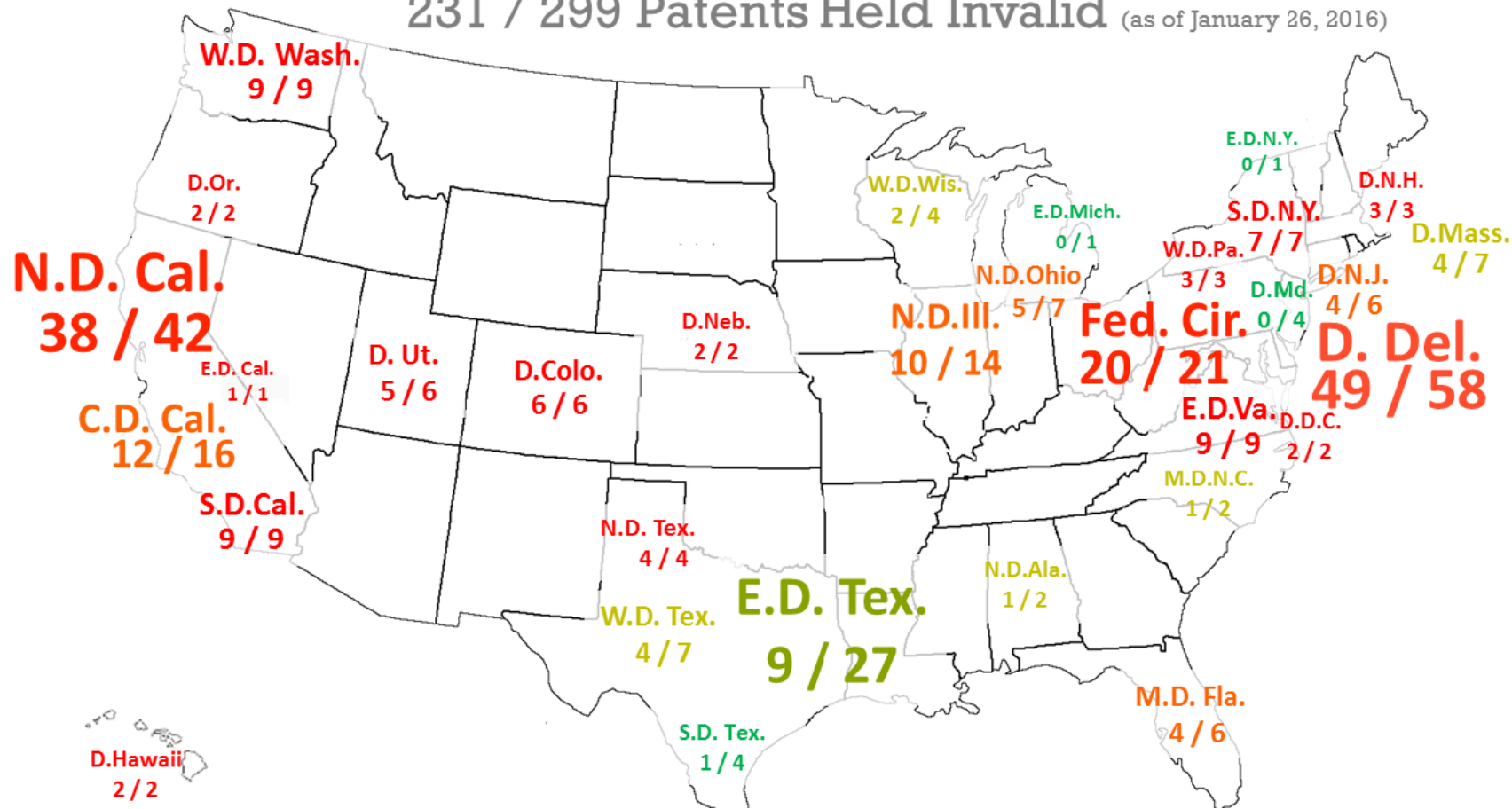


PATENT ELIGIBLE SUBJECT MATTER AND EARLY-STAGE VALIDITY CHALLENGES

1. Under Section 101 of the Patent Act, “laws of nature, natural phenomena, and **abstract ideas are not patentable.**” *Alice Corp. v. CLS Bank Int’l* (S. Ct. 2014)
2. Since *Alice* decision, trial courts have increasingly invalidated patents at early stages without discovery or expert testimony.
3. Patents directed to software, computer implemented technologies and business methods are especially vulnerable.

PATENT ELIGIBLE SUBJECT MATTER

231 / 299 Patents Held Invalid (as of January 26, 2016)



INCREASED SCRUTINY OF MEANS PLUS FUNCTION CLAIMS

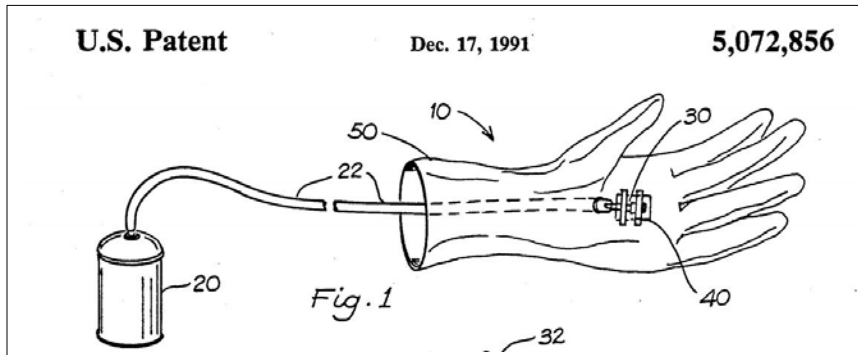
- Under U.S. law, means-plus-function claims that generically recite “means” for performing a specified function are limited to specific structure disclosed in the patent.
- Means-plus-function claims are generally construed more narrowly.
- Courts have long recognized a “strong presumption” against means-plus-function claiming for claims that do not explicitly use the word “means.”

INCREASED SCRUTINY OF MEANS PLUS FUNCTION CLAIMS

- Under ***Williamson v. Citrix Online*** (Fed. Cir. 2015) (*en banc*), the rebuttable presumption against means-plus-function claiming for claims without the word “means” is no longer a strong one.
- If the claim term does not include “sufficiently definite structure” or recites a “function without reciting sufficient structure for performing that function,” the claim will be treated as a means-plus-function claim.
- As a result, many patent claims will be construed much more narrowly.

POST-EXPIRATION ROYALTIES ARE *PER SE* UNLAWFUL

- The U.S. Supreme Court recently confirmed that licenses requiring royalty payments after expiration of a patent are *per se* unlawful, no matter the circumstances. *Kimble v. Marvel Entm't* (June 2015).



- Allowing “even a single company” to enforce an **expired or invalid patent . . .** Would impermissibly undermine the patent laws.”

AN EVOLVING LANDSCAPE FOR PATENT DAMAGES: COMPARABLE LICENSES

Fractus v. Samsung:

Damages evidence excluded where not tied to claimed technology

April 2011

Mondis v. LG:

EMVR ok where every comparable license based on % of product sales price



June 2011

Apple v. Motorola:

Damages experts' testimony excluded for lacking "intellectual rigor" – case dismissed with prejudice



May 2012

AN EVOLVING LANDSCAPE FOR PATENT DAMAGES: COMPARABLE LICENSES

AVM Tech v. Intel:

Relying on a single license, even if comparable, may not be sufficient

Feb. 21, 2013

TVI v. Sony:

Must demonstrate that the licenses sought to be comparable are, in fact, technically comparable to the patent(s) at issue

March 1, 2013

HPL v. NYT:

Licenses that carve out claims or fields of use may not preclude application of patent exhaustion

Aug. 14, 2013

AN EVOLVING LANDSCAPE FOR PATENT DAMAGES: COMPARABLE LICENSES

- Comparable licenses are increasingly used as evidence of a patent's worth in litigation.
- Courts may take an expansive view of what constitutes a comparable license.
- Description of technology, fields of use (scope), payment terms & royalty structure, and license terms are all potentially relevant.
- Accused infringers may claim licenses act as **ceiling on future value** of patented technology.

2. THE IMPACT OF CHANGES ON LICENSING STRATEGIES

THE IMPACT OF CHANGES ON LICENSING STRATEGIES

- Legal changes have generally weighed against patent holders.
- License agreement language may not fully protect rights when underlying patent found invalid or unenforceable.
- Changes in the legal framework, as well as new proceedings to challenge patents in the PTAB, offer licensees a cost-effective mechanism to invalidate patents they are currently licensing and eliminate unwarranted royalty payments while mitigating risk.

THE IMPACT OF CHANGES ON LICENSING STRATEGIES: UNIVERSITY VIEWPOINT

- Greater emphasis on inclusion of IP beyond patents that can be licensed, e.g. “Know-How,” Copyright, Tangible Materials.
- Current license terms cover the handling of PTAB actions under patent prosecution and maintenance language, but clarification statements may be added.
- Risk of IPR actions may have most impact on start-up companies licensing technology.
- Too early to determine full impact on licensing strategy.

THE IMPACT OF CHANGES ON LICENSING STRATEGIES: INVESTOR'S PERSPECTIVE

- More challenging for investors to evaluate risk and develop appropriate returns criteria.
 - Section 101 issues: patent eligible subject matter
 - Post Grant challenges before the U.S. Patent Trial and Appeal Board
 - Heightened standard for patent damages
- Increasingly relevant when securing funding for technology company startups and financing licensing programs.

THE IMPACT OF CHANGES ON LICENSING STRATEGIES: INVESTOR'S PERSPECTIVE

- Time for drafting licenses and cost for executing has increased significantly in the past 2-3 years.
 - Section 101 patentability concerns post-*Alice* have had significant impact.
- Parties involved in technology acquisition and licensing have increased scrutiny of license terms.

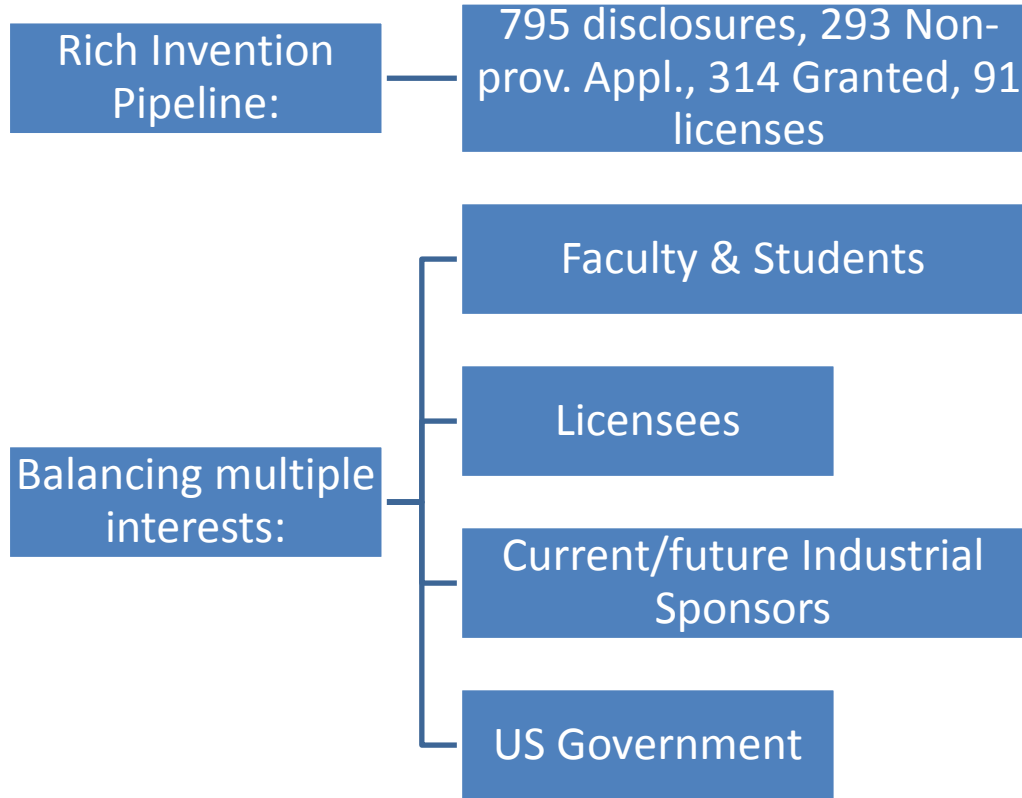
Coping with A Changing IP Landscape: A Personal Prospective from The Trenches

Afarin Bellisario

MIT TLO



Our Environment:



Our Licensees: Long Term Stakes

- Often Spinouts
- Short of cash!
- Use license from MIT to secure financing

Start ups:

- Often have other ties with MIT/PI
- Care more about freedom to operate than exclusivity

Established:



How Do We Respond?

Patenting Strategy: Reduce cost, Expedite Issuance

- Narrow but sharp set of claims:
Focus
- Thorough Prior Arts Search
- Take advantage of PCT search report:
 - Modify claims
 - Expedite issuance
- Self filter

Licensing Strategy: Create long term relations

- Reasonable terms
- Easy termination
- Easy process to add patents
- Right to future improvements
- Equity

Sources of Challenge

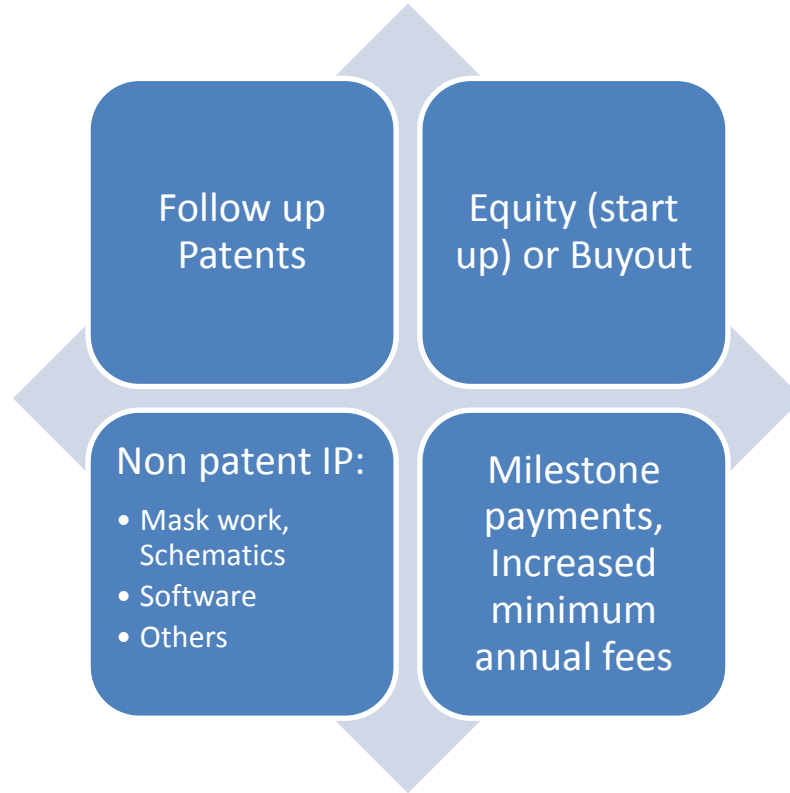
Who Challenges?

- When we elect to enforce infringement
- Competitors to our startups

Why not from licensees?

- Easy Termination Process
- Stake at MIT

Dealing With Patent Expiration



3. BEST PRACTICES FOR A CHANGING LICENSING LANDSCAPE

- A. Licensee Estoppel: “No-Challenge Clauses” & At-Risk Licenses
- B. Forum Selection for Validity Challenges
- C. Staying Nimble After *Kimble*: Alternatives to Patent Royalties for Licensors

BEST PRACTICES FOR A CHANGING LICENSING LANDSCAPE: LICENSEE ESTOPPEL

- The doctrine of **licensee estoppel** can preclude a licensee from challenging the validity of the patent.
- In applying the doctrine, courts have generally sought to balance competing demands of **common law of contracts** and **federal law of patents**.
 - Law of contracts **forbids purchaser to retract promise simply because dissatisfied with bargain.**
 - Federal patent law **requires ideas be dedicated to the public unless protected by a valid patent.**
- Licensees are often the only parties with enough economic incentive to challenge patentability of invention.

BEST PRACTICES FOR A CHANGING LICENSING LANDSCAPE: LICENSEE ESTOPPEL CASE LAW

Lear, Inc. v. Adkins (S. Ct.):

Licensee is not required to pay royalties during the time the licensee is challenging patent validity

1969

Hemstreet v. Spiegel (Fed. Cir.):

Settlement agreements requiring royalty payments even if patent is held invalid are enforceable under public policy favoring final determinations of litigation.

1988

Shell Oil Co. (Fed. Cir.):

Contractual obligations may require payment of pre-invalidation royalties until licensee first challenges patent validity.

1997

Flex-Foot v. CRP (Fed. Cir.):

Licensee is contractually estopped from challenging patent validity when settlement agreement resolving ongoing litigation contains a “no-challenge” clause.

2001

BEST PRACTICES FOR A CHANGING LICENSING LANDSCAPE: LICENSEE ESTOPPEL CASE LAW

Medimmune, v. Genentech (S. Ct.):

Licensee need not cease royalty payments before filing action seeking declaration that the patent is invalid: case or controversy exists.

2007

Baseload Energy v. Roberts (Fed. Cir.):

General release of claims in a settlement agreement will not bar validity challenge: no-challenge clauses must be clear and unambiguous.

2010

Rates Tech v. Speakeasy (2d Cir.):

No-challenge clauses entered into prior to litigation are void *per se*.

2012

PRACTICAL CONSIDERATIONS FOR LICENSEE ESTOPPEL: KEY TAKE-AWAYS

1. **Was the contract pre-litigation?** If yes, the no-challenge clause may be unenforceable. The general reasoning is that the licensee has not had a full and fair opportunity to investigate or challenge validity.
 - *Rates* is established law in Second Circuit only, and greater uncertainty exists for licenses governed by other controlling law.
2. **Was the contract entered into during or as a result of litigation?** If yes, the no-challenge clause may be enforceable. However, it must be clear and unambiguous.
3. Even if a litigation-induced no-challenge clause is clear and unambiguous, **public policy considerations** may still support unenforceability. This inquiry is highly fact specific.

PRACTICAL CONSIDERATIONS FOR LICENSEE ESTOPPEL: KEY TAKE-AWAYS

- Not all existing licenses are prime candidates for renegotiation in the context of patent validity. Must consider all contours of existing licenses.
- Important factors to consider include:
 - License language and scope (cross license/portfolio)
 - Party identities / business relationships
 - Contractual obligations under state and federal law
- The legal principles relating to patent litigation and technology monetization provide a solid framework for this inquiry.

BEST PRACTICES FOR A CHANGING LICENSING LANDSCAPE: FORUM FOR VALIDITY

- District court recently denied a motion to stay confirmation of an arbitration award because of *ex parte* reexamination challenges in the USPTO.
 - *Bayer Cropscience AG, et. al. v. Dow Agrosciences LLC, et. al.*, 2-12-cv-00047 (VAED January 15, 2016, Order) (Jackson, J.).
- The Court held that the license agreement required that all validity challenges be arbitrated.
 - The arbitrator had found the patents valid.

PRACTICAL CONSIDERATIONS FOR FORUM FOR VALIDITY: KEY TAKE-AWAYS

- Consider whether the licensor would prefer to have validity challenges determined in arbitration.
- Important factors to consider include:
 - Who are the parties to the license agreement
 - Will there be more than one licensee
 - Potential finality/non-reviewable nature of an arbitration award

STAYING NIMBLE AFTER *KIMBLE*: ALTERNATIVES TO PATENT ROYALTIES FOR LICENSORS

1. Consider **up-front payments and front-loading payment obligations**. Concentrating royalty payments early in the license term can maximize revenue before any validity or enforceability challenge.
2. **Tie patent royalties to a non-patent right**, such as a trade secret (know-how, best mode), with contingency for continuing trade secret royalties after patent invalidity or unenforceability.
3. Consider **joint venture arrangement** where both parties share risks and rewards.

STAYING NIMBLE AFTER *KIMBLE*: ALTERNATIVES TO PATENT ROYALTIES FOR LICENSORS

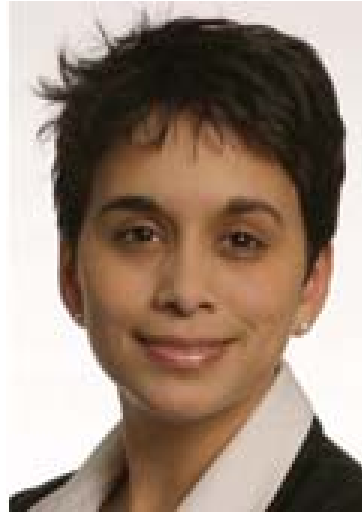
4. Require licensee pay **attorneys' fees** in the event of an unsuccessful validity challenge.
5. Include **termination provisions** allowing licensor to terminate agreement in the event of a validity challenge.
6. Require **pre-suit notification** to allow for renegotiation of license.

QUESTIONS & ANSWERS



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REWRITING THE ODDS

LICENSEE MAY CEASE ROYALTY PAYMENTS AND CHALLENGE PATENT VALIDITY

Lear, Inc. v. Adkins (S. Ct. 1969)

- Licensee may cease royalty payments and challenge patent validity.
- Licensee estoppel will not bar invalidity challenge.

SETTLEMENT AGREEMENT MAY REQUIRE ROYALTIES FOR UNENFORCEABLE PATENT

Hemstreet v. Spiegel, Inc. (Fed. Cir. 1988)

- After one week at trial, the parties signed a settlement agreement that stated “the issues of validity, enforceability and infringement of” the patents in suit “are hereby finally concluded and disposed of.”
- The patent was held unenforceable in a subsequent case.
- The Federal Circuit held that the public policy favoring settlement of complex patent litigation and enforcing voluntary settlement agreements outweighed the policy in *Lear* for the free use of invalid or unenforceable patents.



Litigation settlement agreements may be valid and enforceable even if they require royalty payments for invalid or unenforceable patents.

ROYALTY PAYMENTS STILL DUE UNTIL LICENSEE CHALLENGES PATENT VALIDITY

***Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.* (Fed. Cir. 1997)**

- Licensee withheld royalty payments of 450 million pounds per year.
- After the patent was held invalid, licensee sought to avoid past royalty payments.
- Federal Circuit held that the *Lear* doctrine cannot be invoked to avoid paying royalty payments unless and until the licensee formally challenges patent validity.



Even if the patent is held invalid, contractual obligations may still require royalty payments until the date the licensee challenges validity.

NO-CHALLENGE CLAUSE IN LITIGATION SETTLEMENT AGREEMENT IS VALID

Flex-Foot Inc. v. CRP, Inc. (Fed. Cir. 2001)

- “Once an accused infringer has challenged patent validity, has had an opportunity to conduct discovery on validity issues, and has elected to voluntarily dismiss the litigation with prejudice under a settlement agreement containing a clear and unambiguous undertaking not to challenge validity and/or enforceability of the patent in suit, the accused infringer is contractually estopped from raising any such challenge in any subsequent proceeding.”



No-challenge clause in litigation settlement agreement may estop licensee from challenging patent validity.

LICENSEE CAN CHALLENGE PATENT VALIDITY WITHOUT STOPPING ROYALTIES

Medimmune, Inc. v. Genentech, Inc. (S. Ct. 2007)

- Threat of patent infringement lawsuit and the potential for treble damages if licensee stops paying royalty payments creates a case or controversy under Article III.



Licensee can file declaratory judgment action challenging patent validity without stopping royalty payments.

NO-CHALLENGE CLAUSE MUST BE CLEAR AND UNAMBIGUOUS

Baseload Energy, Inc. v. Roberts (Fed. Cir. 2010)

- During litigation, case settled with a general litigation release clause.
- Litigation defendant later sued for declaratory judgment that the patent was invalid.
- The Federal Circuit held that the general litigation release did not clearly and unambiguously release patent validity claims.



No-challenge clauses that are not clear and unambiguous may be unenforceable on their face or invalid as a matter of law.

NO-CHALLENGE CLAUSE MUST BE CLEAR AND UNAMBIGUOUS

Baseload Energy, Inc. v. Roberts (Fed. Cir. 2010)

- “[The venture capitalist parties] forever release and discharge [the patentee parties], of and from any and all losses, liabilities, claims, expenses, demands and causes of action of every kind and nature, known and unknown, suspected and unsuspected, disclosed and undisclosed, fixed and contingent, whether direct or by way of indemnity, contribution or otherwise, that [the venture capitalist parties] ever had, now have, or hereafter may have or be able to assert against [the patentee parties] by reason of any matter, cause or circumstance whatsoever arising or occurring prior to and including the date of this Agreement, as stated in its first sentence, that arise from or relate in any way, directly or indirectly, to SWPC, the Resnick Action, the Grenier Action or any plan or effort to research or develop a flying electric generator (‘FEG’).”



Not clear and unambiguous.

NO-CHALLENGE CLAUSE MUST BE CLEAR AND UNAMBIGUOUS

Mayo Clinic Jacksonville v. Alzheimer's Inst. of Am. (M.D. Fla. 2009)

- “MAYO hereby agrees not to initiate or voluntarily participate in, or knowingly permit its Affiliates to initiate or voluntarily participate in, any action directed at undermining, invalidating or declaring unenforceable any claims ...”
- On its face, this clause allowed the alleged infringer to bring a counterclaim of patent invalidity because it neither “initiated” nor “voluntarily participated in” an action to invalidate the patent.



Not clear and unambiguous.

NO-CHALLENGE CLAUSE ENTERED INTO PRIOR TO LITIGATION IS INVALID

Rates Tech., Inc. v. Speakeasy, Inc. (2d Cir. 2012)

- The Second Circuit found the *Lear* case rendered pre-litigation no-challenge clauses void because they are against the public policy promoting the free use of ideas in the public domain.

 No-challenge clauses entered into prior to litigation are invalid *per se*.

PATENT TRIAL AND APPEAL BOARD

PTAB Trials Instituted (as of September 30, 2015)

	Year	Percentage of Petitions Instituted
IPR	2013	87% (177)
	2014	75% (572)
	2015	68% (917)
CBM	2013	82% (14)
	2014	75% (92)
	2015	70% (101)

PATENT TRIAL AND APPEAL BOARD

IPR Petitions Terminated (as of July 16, 2015)

	Total Number of Petitions Terminated	Petitions Terminated by Final Written Decision	Petitions Terminated by Settlement	Petitions Terminated by Request for Adverse Judgment
2013	40	0	38	2
2014	379	130	210	39
2015	507	297	388	60
Total	1251	427	636	101