DORSEY
always ahead

Patenting & Licensing When Subject Matter Eligibility is Uncertain

Presented by:
Jennifer Spaith, Partner, Patent
Rhona Schmidt, Partner, Technology Commerce
Erik Nyre, Associate, Patent

January 18, 2017

Patenting & Licensing When Subject Matter Eligibility is Uncertain

Jennifer Spaith
Partner, Patent

Rhona Schmidt
Partner, Technology Commerce

Erik Nyre
Associate, Patent

Why Pick This Topic?

- *Patent Eligibility is in Question for important technologies*
- *Consider the Implications of Holding Invalid Patents*

Patentability Under § 101

"Section 101 of the Patent Act defines the subject matter eligible for patent protection. It provides:

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

We have long held that this provision contains an important implicit exception: Laws of nature, natural phenomena, and abstract ideas are not patentable."

Alice v. CLS Bank, 134 S. Ct. 2347, 2354 (2014)
(Internal quotation marks and citations omitted)

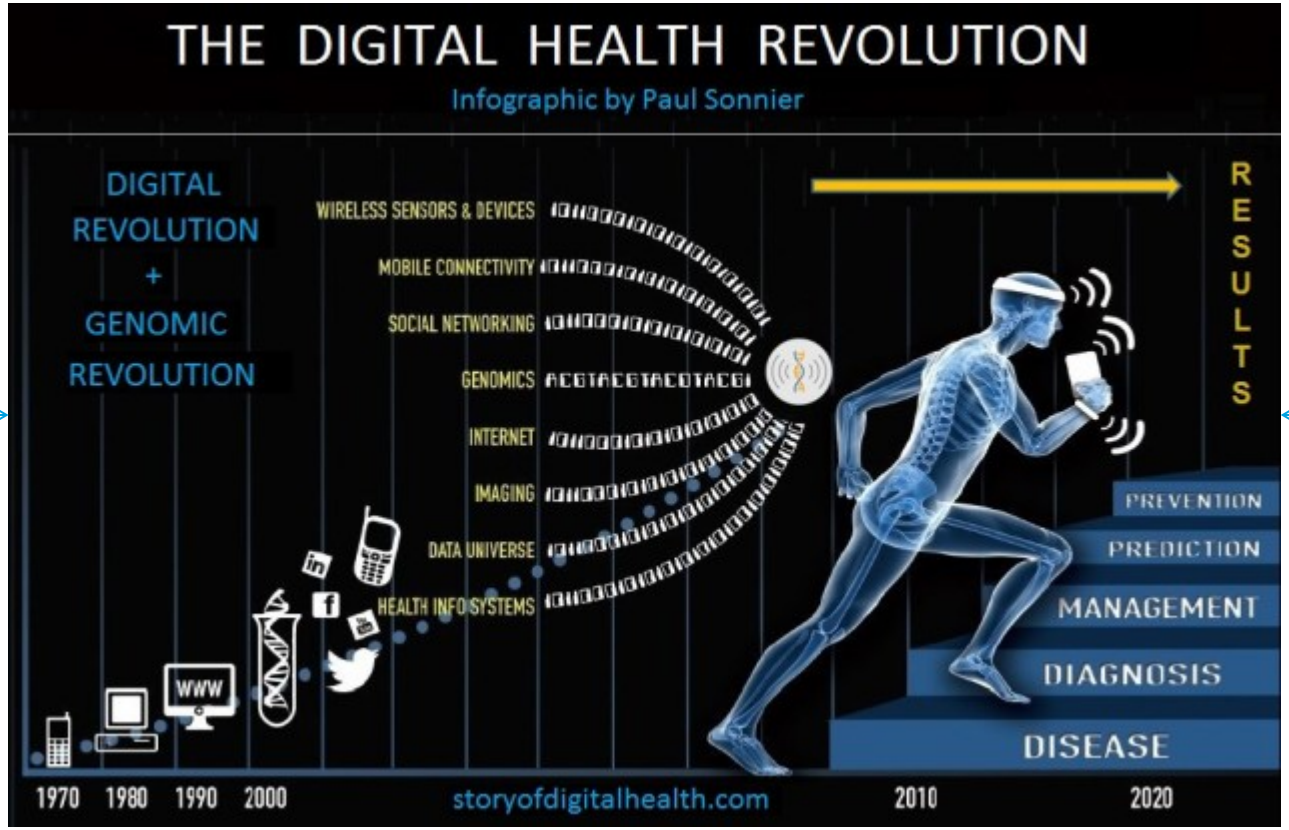
Eligibility

- Recent case law has expanded the notion of ineligible subject matter
  - Software / business methods (*Alice*)
  - Biotechnology (*Mayo / Sequenom)*

Industries Impacted

Natural phenomenon
(scientific discovery)

Abstract ideas
(big data analysis)

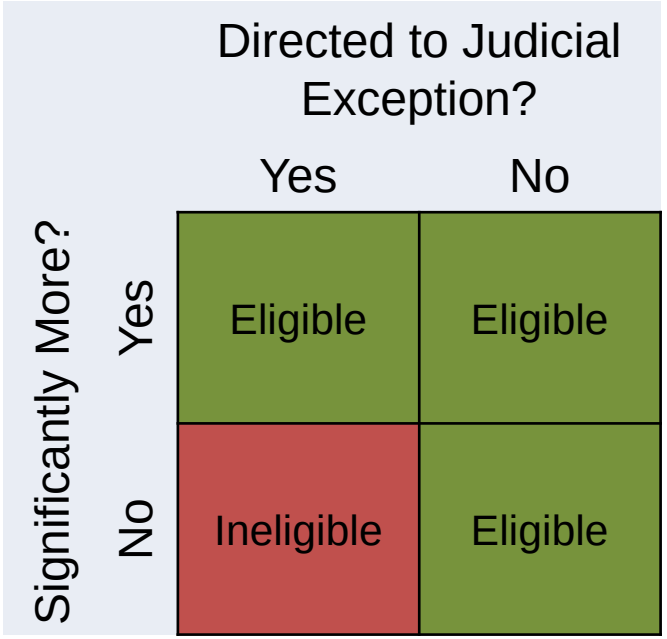


Major emerging industries may face significant patent eligibility challenges

Alice-Mayo Framework

1. Is the claim as a whole directed to a judicial exception (law of nature, natural phenomenon, or an abstract idea)?

2. If so, does the claim recite additional elements that amount to significantly more than the judicial exception?



- Very unclear analysis!!

Example Judicial Exceptions

Abstract ideas

- Economic concepts
  - mitigating settlement risk (*Alice*);
  - hedging (*Bilski*);
  - creating a contractual relationship (*buySAFE*);
  - using advertising as an exchange or currency (*Ultramercial*);
  - processing information through a clearinghouse (*Dealertrack*)
- Organizing / moving data
  - comparing new and stored information and using rules to identify options (*SmartGene*);
  - using categories to organize, store and transmit information (*Cyberfone*);
  - organizing information through mathematical correlations (*Digitech*);
  - managing a game of bingo (*Planet Bingo*)
- Mathematical formulas
  - Arrhenius equation for calculating the cure time of rubber (*Diehr*);
  - a formula for updating alarm limits (*Flook*);
  - a mathematical formula relating to standing wave phenomena (*Mackay Radio*); and
  - a mathematical procedure for converting one form of numerical representation to another (*Benson*)

Laws of nature

- An isolated DNA (*Myriad*);
- A correlation that is the consequence of how a certain compound is metabolized by the body (*Mayo*);
- Electromagnetism to transmit signals (*Morse*);
- The chemical principle underlying the union between fatty elements and water (*Tilghman*)

Examples of Significantly More

Significantly More

- Improvements to another technology or technical field;
- Improvements to the functioning of the computer itself;
- Applying the judicial exception with, or by use of, a particular machine;
- Effecting a transformation or reduction of a particular article to a different state or thing;
- Adding a specific limitation other than what is well-understood, routine and conventional in the field, or adding unconventional steps that confine the claim to a particular useful application; or
- Other meaningful limitations beyond generally linking the use of the judicial exception to a particular technological environment.

Not Significantly More

- Adding the words "apply it" (or an equivalent) with the judicial exception, or mere instructions to implement an abstract idea on a computer;
- Simply appending well-understood, routine and conventional activities previously known to the industry, specified at a high level of generality, to the judicial exception, e.g., a claim to an abstract idea requiring no more than a generic computer to perform generic computer functions that are well-understood, routine and conventional activities previously known to the industry;
- Adding insignificant extra-solution activity to the judicial exception, e.g., mere data gathering in conjunction with a law of nature or abstract idea;
- Generally linking the use of the judicial exception to a particular technological environment or field of use.

Patentability Under § 101: Conclusions

- Patent examiners and judges remain constricted by the 2-part *Mayo-Alice* framework.
- Recently, increased emphasis has been allocated to the "directed to" inquiry embodied in part 1, providing new avenues for arguing against § 101 rejections.
- Claim recitations involving specific solutions that improve upon preexisting approaches may amount to "significantly more."

Patentability Under § 101: Practice Pointers

- The specification matters!
  - Avoid characterizing state of the art and describing portions of the claim language as conventional
  - Provide some context to how the technology has improved the state of the art
- Claim language
  - Focus on specific processes distinct from mental comparisons or conventional activity
  - Consider omitting recitations that involve mental comparisons
- 101 rejections are common at the PTO
  - Guidance and case law evolving
  - Ultimately, appeal to Board (note: takes years)
    - Average pendency from initial application filing to Board decision is over 6 years

Lear Doctrine and MedImmune

Lear Doctrine

1) A licensee is not estopped from challenging the validity of a licensed patent as a defense to an action brought by the licensor to enforce the license agreement.
2) A licensee cannot be required to continue to pay royalties during the time the licensed patent is being challenged.

MedImmune

1) A licensee is not required to terminate or materially breach a license agreement before challenging the validity of a licensed patent.

Disincentive-to-Challenge Spectrum

Prohibiting challenges of licensed patents

Leaving some incentive to challenge licensed patents

Leaving every possible incentive to challenge licensed patents

"The more punitive the provision, burdening a licensee for merely exercising its *Lear*-protected right to challenge the validity of the licensed patent, the greater the risk of unenforceability."

Server & Singleton, *Licensee Patent Validity Challenges Following MedImmune: Implications for Patent Licensing*, 3 HASTING SCI. & TECH. LAW J. 243, 436 (2011)

Impact on Licensing Practices

what if the licensed patents are invalid?

- Licensor – concern about invalidity of patents being out-licensed
- Licensee – concern (opportunity?) that
  - patents being in-licensed are invalid
  - clauses included by Licensor trigger a patent misuse claim by a third party infringer

Structural Changes: The Hybrid License

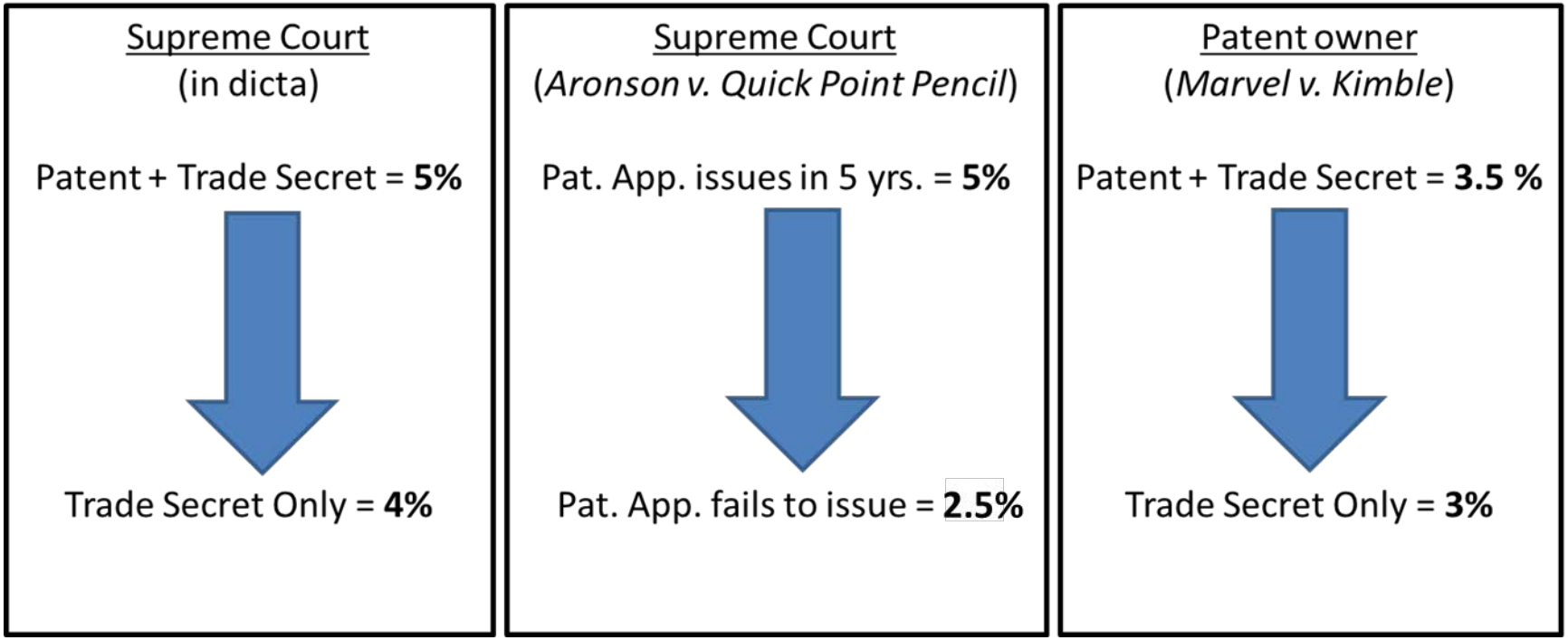
A hybrid license grants a license to both patent rights and other IP (e.g. trade secrets, or "know-how.")

- Licensed trade secrets may survive successful invalidity challenges raised against licensed patents.
- Licensor may still collect royalties for licensed trade secrets, even though (closely related) patents may be invalidated or expired.
  - **1st Caveat:** Royalties must be tied to *non-patent* right(s). Charging *patent* royalties after the patent expires or is invalidated is *per se* unlawful.
  - **2nd Caveat:** Non-patent royalties charged after patent expiration/invalidation must be discounted.

Discounted Royalties: How much is enough?

In general, royalty discounts must clearly indicate that the license was in no way subject to patent leverage.

Satisfactory Discounts



Structural Changes: Other Options

- **Hybrid license – trademarks and copyright**
- **Portfolio licensing**
- **Upfront payment**
  - **Rebate at end of term if no challenge**
- **Equity or other benefit instead of royalties**

Clauses: No-Challenge Clauses

Consensus interpretation of no-challenge clauses post-*Lear*: **Unenforceable** in a *patent license* agreement

Clauses: Other Potential Options

- **Termination-for-challenge clauses**
- **Royalty increase for challenge clauses**
- **Require licensee to pay patent owner's litigation costs**
  - **in all situations**
  - **only upon failed challenge**
- **Require licensee to provide advance notice of litigation**
  - **Negotiate out of the issue**
- **Limit ability to use licensor's confidential information in a challenge**

Who Wants Credit?

Complete the sign in sheet included in the reminder email (sent yesterday) and return to hubble.michelle@dorsey.com.

We will send CLE Certificates to those who return the form.

How Do I Learn More?

interactive dialogue

Confidentiality Clauses: Updates You Need To Make

Wednesday, April 26, 2017
9 AM Pacific / 12 PM Eastern

Presented by:

Jennifer Spaith
Dorsey & Whitney
Patent Dept.
Seattle Office

Mike Droke
Dorsey & Whitney
Labor & Employment Dept.
Seattle Office

Chris Doerksen
Dorsey & Whitney
Corporate Dept.
Seattle Office

DORSEY™
always ahead

Questions?

Jennifer Spaith
spaith.jennifer@dorsey.com
(206) 903-8836

Rhona Schmidt
schmidt.rhona@dorsey.com
(612) 343-2185

Erik Nyre
nyre.erik@dorsey.com
(612) 492-6845