



Part 2: Section 101, *Alice & Mayo* – Litigation Trends for Invalidity Challenges Under Section 101

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Background of Patentable Subject Matter

What is Patentable Subject Matter?

- 35 U.S.C. §101 - Inventions patentable

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.

Section 101 Defines Eligibility

- Section 101 addresses only the threshold issue whether the claimed invention is eligible to be patented
- 35 U.S.C. §§102, 103, 112, and other sections of the patent code deal with issues of novelty, obviousness, and the description and claiming of the invention that might affect its patentability

Exceptions From Eligibility

- Supreme Court has recognized that a patent may be invalid under §101 if it is drawn to certain exceptions from eligibility:
 - laws of nature,
 - natural phenomena, and
 - abstract ideas.

Diamond v. Chakrabarty, 447 U.S. 303, 309 (1980).

Mayo v. Prometheus (Mar. 2012)

- The U.S. Supreme Court announced a two-part test for patent eligibility in *Mayo*:
 - *First*, the Court determines if the claims are directed to a patent-ineligible concept
 - *Second*, the Court then determines whether the claim's elements, considered both individually and "as an ordered combination," transform the nature of the claim into a patent-eligible application
- *Mayo* stated that simply identifying an abstract idea plus "apply it" is not patent-eligible

Alice Corp. v. CLS Bank (Jun. 2014)

- Supreme Court in *Alice* (citing *Mayo v. Prometheus*) set out a two-step test:

- Step 1: are the claims directed to abstract ideas?

The court must “determine whether the claims at issue are directed to” an abstract idea. *Alice*, 134 S. Ct. at 2355.

- Step 2: do the claims add an “inventive step”?

“We have described step two of this analysis as a search for an ‘inventive concept’—i.e., an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’” *Id.* (quoting *Mayo*, 132 S. Ct. at 1294).

Alice – Strong Message

- The category of ineligible abstract ideas is not limited to “preexisting, fundamental truths that exist in principle apart from any human action,” but can include “method[s] of organizing human activity.” The Supreme Court found that intermediated settlement fit that definition.
- To truly transform an abstract idea into something more, a patent must do more than state the idea and say, “apply it.” “The introduction of a computer into the claims does not alter the analysis” So claiming an abstract idea, even an algorithm or formula, implemented on a general purpose computer does not make the abstract idea patentable.
- Nor can patentees get around “the prohibition against patenting abstract ideas . . . by attempting to limit the use of the idea to a particular technological environment.”

Section 101 Challenges at the Federal Circuit

- *DDR Holdings, LLC v. Hotels.com, L.P.* remains the only *post-Alice* Federal Circuit ruling upholding the validity of a patent in response to a subject matter eligibility challenge.
- The Court found “the claimed solution [wa]s necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.”
- The claims “specif[ied] how interactions with the Internet are manipulated to yield a desired result – a result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink.”

2015 Was a Busy Year at the Federal Circuit for Alice Challenges, and 2016 Shows No Sign of Letting Up

Noteworthy Federal Circuit Opinions from 2015 and 2016

- Allvoice Developments US, LLC v. Microsoft Corp. (non-precedential)
- OIP Technologies, Inc. v. Amazon.com, Inc.
- Internet Patents Corp. v. Active Network, Inc.
- Vehicle Intelligence and Safety LLC v. Mercedes-Benz USA, LLC (non-precedential)
- Versata Development Group, Inc. v. SAP America, Inc.
- Intellectual Ventures I LLC v. Capital One Bank (USA)
- Mortgage Grader, Inc. v. First Choice Loan Services Inc.
- Ariosa Diagnostics, Inc. v. Sequenom, Inc.

Noteworthy Federal Circuit Opinions from 2015-2016

Allvoice Developments US, LLC v. Microsoft Corp. (non-precedential)

- Patent for speech recognition technology found ineligible under Section 101 because it was not directed to one of the statutory categories.
- The interface claims in the patent for a speech recognition product did not recite a process or a tangible or physical object.
- Consequently, were invalid for not falling within any category of patent-eligible subject matter, where the claimed interfaces were software instructions without any hardware limitations.

Noteworthy Federal Circuit Opinions from 2015-2016

OIP Technologies, Inc. v. Amazon.com, Inc.

- The patent claimed an automated method for pricing items based on demand.
- The Court held claims for “offer based price optimization” requiring only “conventional computer activities or routine data-gathering steps” were directed to ineligible abstract ideas.

Noteworthy Federal Circuit Opinions from 2015-2016

Internet Patents Corp. v. Active Network, Inc.

- Concerned a patent directed to “the use of a conventional web browser Back and Forward navigational functionalities without data loss in an online application consisting of dynamically generated web pages”
- The Court held it was directed to a patent-ineligible abstract idea: retaining information in the navigation of online forms.
- Nor did it add an inventive concept by relying on “Back” and “Forward” functionality of a conventional internet browser. The Court noted “claim 1 contains no restriction on how the result is accomplished. The mechanism for maintaining the state is not described, although this is stated to be the essential innovation.”

Noteworthy Federal Circuit Opinions from 2015-2016

Vehicle Intelligence and Safety LLC v. Mercedes-Benz USA, LLC (non-precedential)

- patent for screening equipment operators for impairment.
- Recitation of an “expert system” for performing the methods and systems insufficient to provide inventive concept because the claims and specification failed to provide any details about how it functioned.
- Also significant – the Court roundly rejected Vehicle Intelligence’s argument that the absence of complete preemption, demonstrated by the existence of prior art equipment operator testing, was probative of the patent’s eligibility. “If we adopt Vehicle Intelligence’s argument, all a patentee would need do to insulate itself from a § 101 challenge would be to identify a single prior art reference in the specification and state that its invention improves upon that reference.”

Noteworthy Federal Circuit Opinions from 2015-2016

Versata Development Group, Inc. v. SAP America, Inc.

- First review by the Federal Circuit of a PTAB decision in a CBM Review of a patent's eligibility.
- Federal circuit affirmed the PTAB's authority to test the validity of challenged claims under Section 101.
- Claims were directed to the abstract idea of determining a price, using organizational and product group hierarchies. The additional steps of storing, retrieving, sorting, eliminating and receiving were "well-known, routine, and conventional steps."

Noteworthy Federal Circuit Opinions from 2015-2016

Intellectual Ventures I LLC v. Capital One Bank (USA)

- Involved two patents, one for a computer-based budgeting program and the other related to customizing webpage content based on browser history – e.g., the time of the user’s last access.
- The first patent essentially claimed budgeting on a computer. The Court clarified the method was unpatentable in part because the calculations “‘could still be made using a pencil and paper’ with a simple notification device . . . even in real time as expenditures were being made.”
- With respect to the web customization patent, the Court stated that this “sort of information tailoring is ‘a fundamental . . . practice long prevalent in our system’” even though it occurred only on the web in the claimed method.

Noteworthy Federal Circuit Opinions from 2015-2016

Mortgage Grader, Inc. v. First Choice Loan Services Inc.

- patent for computer-implemented system for enabling borrowers to anonymously shop for loan packages offered by a plurality of lenders were directed to an abstract idea of “anonymous loan shopping.”
- The claims failed to supply an inventive concept by adding “only generic computer components such as an ‘interface,’ ‘network,’ and ‘database.’”
- The Court held that the district court had correctly disregarded the “dueling expert testimony” and decided the issue on the claims and specification alone.

Noteworthy Federal Circuit Opinions from 2015-2016

Ariosa Diagnostics, Inc. v. Sequenom, Inc.

- Patent governing a method of prenatal diagnosis of fetal DNA held to be directed to a law of nature.
- Absence of preemption by narrowly-tailoring the invention did not save it in the *Mayo* analysis.
- The Court further clarified that the “discovery” alone of using maternal plasma or serum to amplify and detect paternally-inherited cffDNA was not patentable.

Litigation Strategies for Asserting Section 101

Litigation Strategies – Section 101 Motions

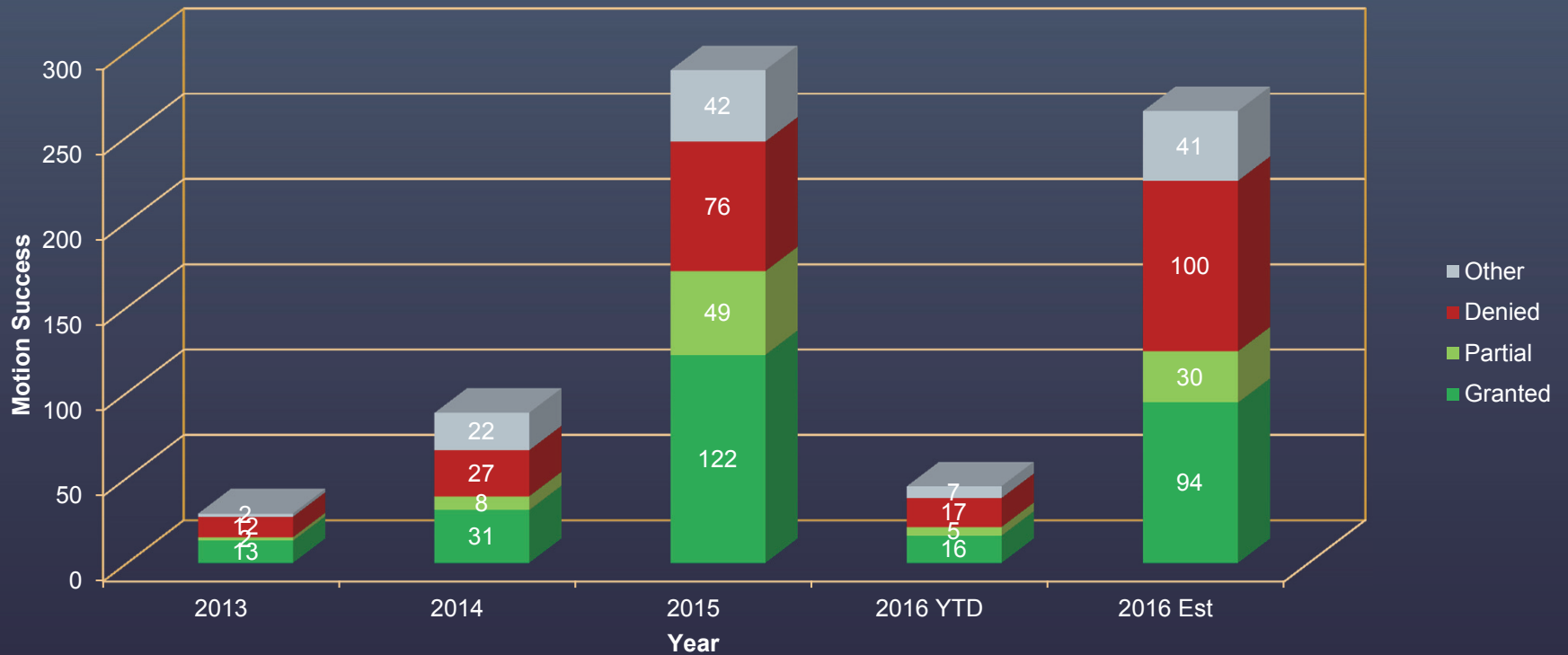
Section 101 Motions per Year



Source: DocketNavigator

Litigation Strategies – Section 101 Motions

Unpatentable Subject Matter (35 USC § 101)



Source: DocketNavigator

Litigation Strategies - Patent Trial and Appeal Board

- Is the USPTO's Patent Trial and Appeal Board ("PTAB") an option?
 - Is the patent subject to Covered Business Method (CBM) review?
 - Is the patent subject to Post Grant Review (PGR)?
 - Cannot assert Section 101 in an Inter Partes Review (IPR)

Litigation Strategies - Patent Trial and Appeal Board

- Statistics of 101 issues winning/losing at the PTAB (as of Jan. 31):

| | Total | Total Invalid | Percent Invalid |
|---------------------------|--------------|-------------------------------|-----------------------------|
| Federal Circuit Decisions | 141 | 104 | 73.8% |
| Patents | 346 | 212 | 61.3% |
| Claims | 6,519 | 4,672 | 71.7% |
| Motions on Pleading | 67 | 47 | 70.1% |
| PTAB CBM Institution Rate | 134 | 91 *(10 more joinders) | 67.9% *(70% incl. joinders) |
| PTAB CBM Final Decision | 85 | 82 (1 or more claims invalid) | 96.4% |

Litigation Strategies - Patent Trial and Appeal Board

Eligibility:

- A patent that “claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.” Pub.L. No. 112–29, § 18(d)(1), 125 Stat. at 331; 37 C.F.R. § 42.301(a).

Litigation Strategies - Patent Trial and Appeal Board

Financial Product or Service:

- “[T]he definition of ‘covered business method patent’ is not limited to products and services of only the financial industry, or to patents owned by or directly affecting the activities of financial institutions, such as banks and brokerage houses.” *Versata Dev. Grp., Inc. v. SAP America, Inc.*, 793 F.3d 1306, 1325 (Fed. Cir. 2015).

Litigation Strategies - Patent Trial and Appeal Board

Technological Invention Exclusion

- Test: “[W]hether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technological problem using a technical solution.” 37 C.F.R. § 42.301(b).
- Careful! This not automatic, and conclusory statements will not suffice.
- Petitioners must assess the claims as a whole and not just certain isolated elements.

Litigation Strategies - Patent Trial and Appeal Board

Advantages to Filing:

- Can stay district court infringement case pending CBM review
- Greater scope with which to challenge a patent than in an IPR (§§ 101, 102(a), 103, 112)
- More limited estoppel restricted to grounds actually raised as opposed to the IPR estoppel on grounds that reasonably could have been raised
- Petitioner can offer expert testimony, while Patentee cannot – although USPTO has proposed new rules changing this (uncertain whether this would have any effect in a s 101 analysis)

Litigation Strategies - Patent Trial and Appeal Board

Strategic Differences from District Court Litigation:

- The fight is at institution, where the Petitioner has a distinct advantage
- In recognition of the importance of the institution decision, Patent Owners have increasingly filed preliminary responses
 - 2014: 86%
 - 2015: 93%
 - 2016 to date: 100%

Litigation Strategies - Patent Trial and Appeal Board

Takeaways:

- Petitioners need to pay attention to PTAB procedural rules
- PTAB has rejected CBM petitions for oversimplifying alleged abstract idea. See *NRT Technology Corp. v. Everi Payments, Inc.*, CBM2015-00167 (PTAB Jan. 22, 2016) (Paper 14)
- If the PTAB denies institution, it is unlikely to institute review of the same claims on the same grounds in a subsequent petition, even if compelling new reasons are presented that were available for the initial petition. See *Square, Inc. v. Think Computer Corp.*, CBM2015-00067, 2015 WL9898995 (PTAB July 2, 2015) (declining petitioner's invitation for "second bite at the apple").

Litigation Strategies - Patent Trial and Appeal Board

Takeaways:

- Petitioning for CBM review has little downside for an accused infringer
 - Puts additional pressure on the Patent Owner
 - Can be faster and cheaper than district court litigation
 - PTAB may perform truncated claim construction to dispose of patent eligibility issues rather than delaying a decision
 - Claims that are instituted and reach trial have an exceptionally high likelihood of being found unpatentable
 - Provides an opportunity to have parallel district court litigation stayed
 - The estoppel only applies if there has been a final written decision and even then, only to the grounds asserted in the petition

Litigation Strategies – District Court Motions to Dismiss – FRCP 12(b)(6) or 12(c)

■ PROS

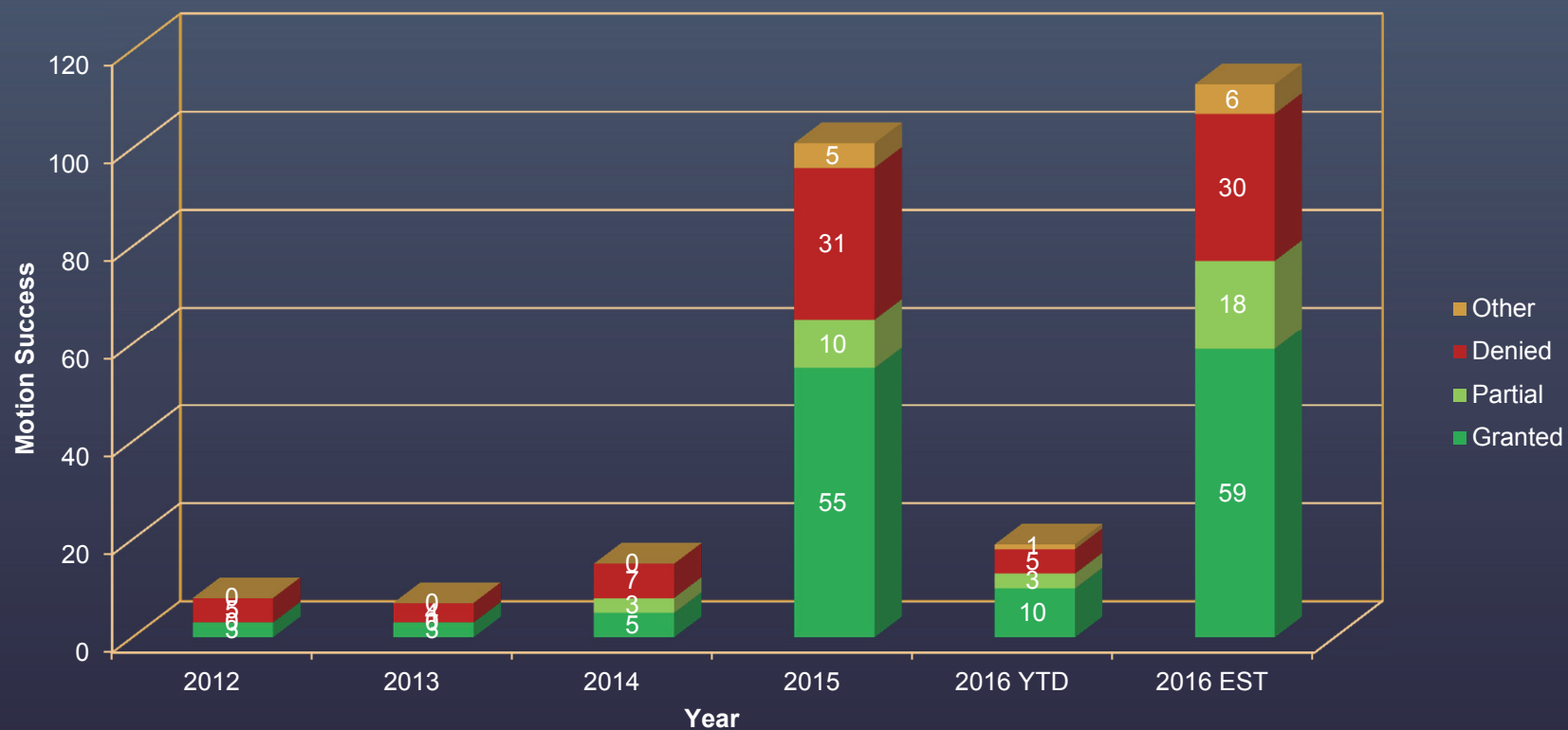
- Earliest possible timing
- Little/no discovery
- Easy way for judge to dispose of case
- Instant pressure on plaintiff

■ CONS

- Judgement only on pleadings, no external evidence allowed
- No claim construction taken place
- Easy for the judge to deny and put in pocket until much later in the case

Litigation Strategies – District Court

Motions to Dismiss



Source: DocketNavigator

Litigation Strategies – District Court Motions for Summary Judgment – FRCP 56

■ PROS

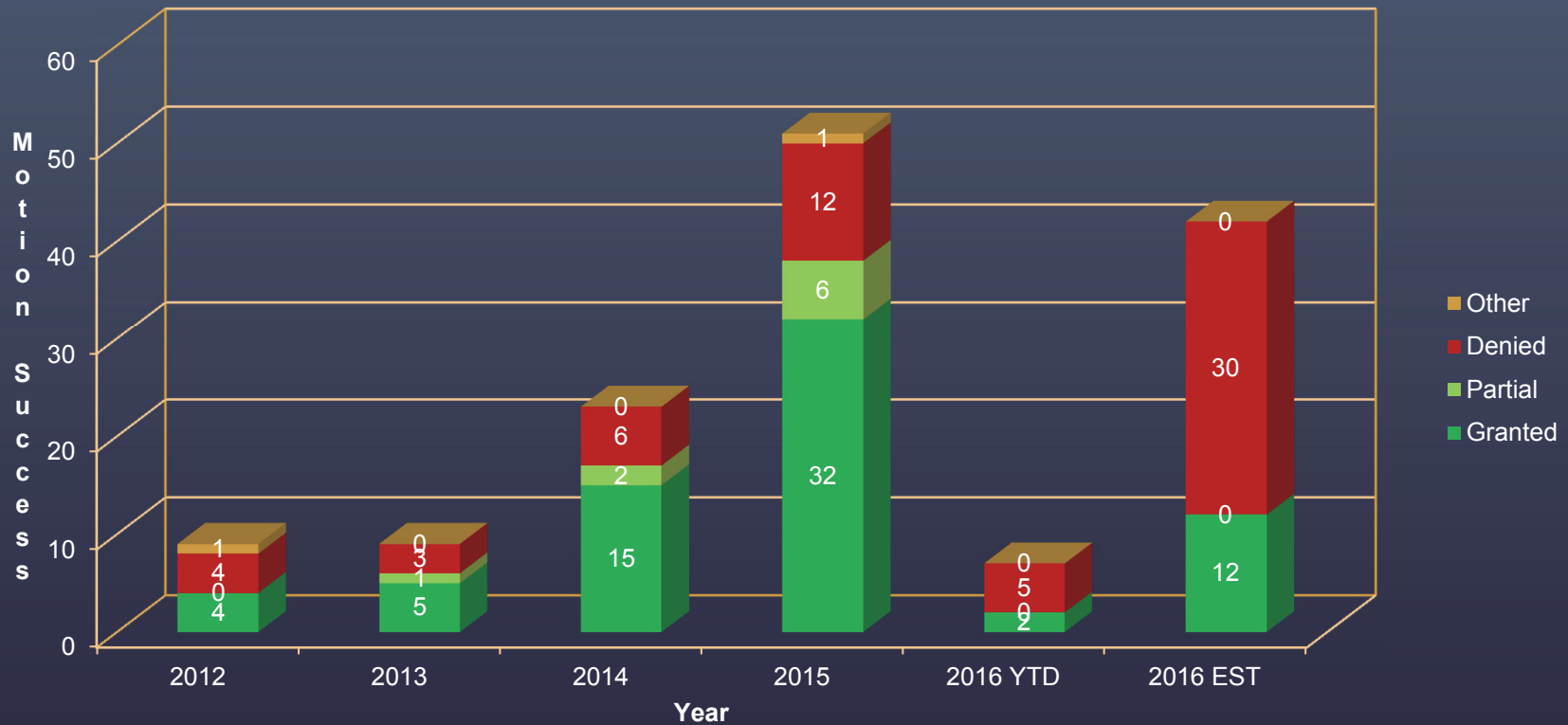
- Can introduce evidence
- Claim construction issues are resolved
- Judge's more comfortable dismissing case at this stage

■ CONS

- Much later in the case . . . after re\$ources have been expended
 - After claim con\$truction hearing
 - After fact di\$covery
 - After expert di\$covery

Litigation Strategies – District Court

Motions for Summary Judgment



Source: DocketNavigator

Litigation Strategies – District Court Post-trial Motion for JMOL -FRCP 50

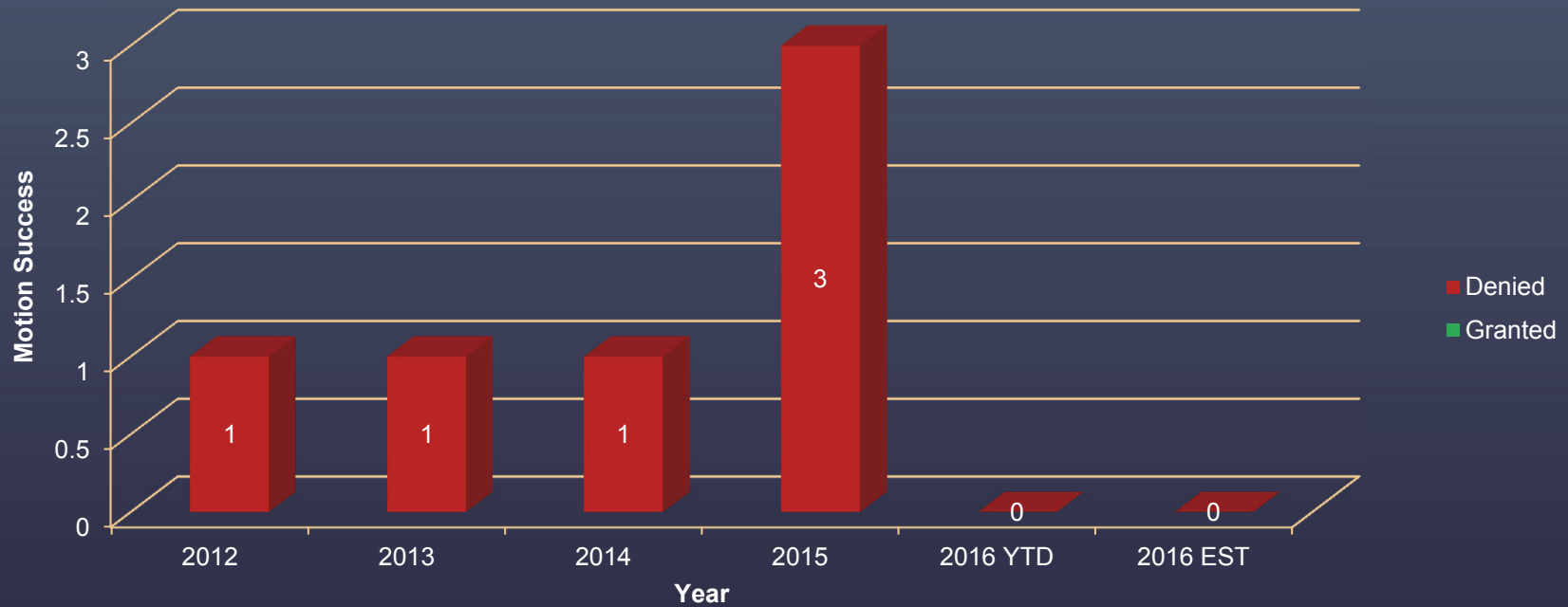
■ CONS

- Last possible chance before appeal
- All resources expended
- To date all have been denied

See, e.g., *Smartflash LLC et al v. Apple Inc. et al.*, no. 6-13-cv-00447 (E.D. Tex. filed July 8, 2015) (J. Gilstrap) "The § 101 issue has already received full and fair treatment. To allow parties, in post-trial motions, to entirely reargue the merits of issues that have already been fully addressed during the case would potentially throw open the flood gates to repetitive post-trial motions. This Court has concerns about materially increasing the burden of post-trial motion practice on the parties and the Court, should this procedure be welcomed and made routine.”)

Litigation Strategies – District Court

Motions for JMOL



Source: DocketNavigator

Litigation Strategies – District Court Mini-Trial – FRCP 42 ??

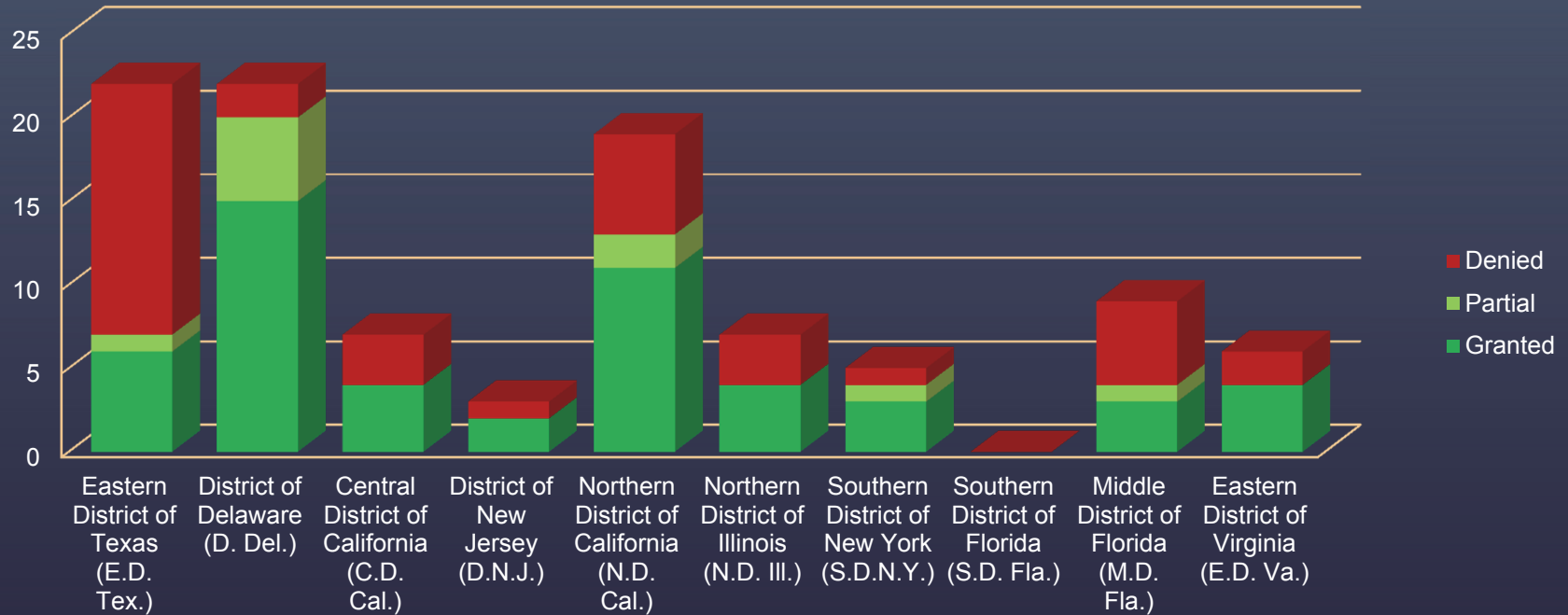
- ***Parallel Networks v. Abercrombie & Fitch***, No. 10-cv-111 (E.D. Tex. Aug. 12, 2011) (Davis, J.)
 - Plaintiff sued > 100 defendants in E.D. Tex.
 - Judge Davis created a new procedure for handling this situation - specifically an expedited mini-*Markman* proceeding (three terms and consideration at the same time of the summary judgment motions of non-infringement that defendants asserted would resolve this case).
 - Construction of the three terms permitted granting summary judgment of non-infringement as to 99 of the 112 defendants.

- ***Magna Carta Holdings, LLC v. Nextgen Healthcare Information Sys., Inc.***, No. 08-cv-7406 (N.D. Ill. Mar. 9, 2012) (Kendall, J.)
 - Judge Kendall construed one key term after the parties each acknowledged that this term's construction would likely resolve the case.
 - The Court construed the key term before the full claim construction process, similar to the “Mini-Markman” process that Chief Judge Davis used in *Parallel Networks*.

Litigation Strategies – Venue Considerations

- Where you litigate matters!

§101 motions made in busiest district courts (2015)



Litigation Strategies – Venue Considerations – Particular Courts

District of Delaware – Exemplary Cases

- *Intellectual Ventures I LLC v. Symantec Corp.*, 100 F. Supp. 3d 371 (D. Del. 2015) – granting Rule 52 and Summary Judgment motions in part, invalidating two patents and upholding the validity of one.
- Analyzed methods of filtering and controlling delivery of email messages to “police officers looking for stolen cars or parking enforcement officers determining how many unpaid tickets belong to owners of illegally parked cars” and “routine steps performed in a corporate mailroom”
- The third patent survived the Alice challenge primarily because it was directed to a method for screening for computer viruses and was therefore “internet-centric”

Litigation Strategies – Venue Considerations – Particular Courts

Northern District of California – Exemplary Cases

- *Mobile-Plan-It LLC v. Facebook Inc.*, No. 14-CV-01709-RS, 2015 WL 1801425 (N.D. Cal. Apr. 20, 2015) - Denying *Alice* motion for judgment on the pleadings where claimed “proxies” related to characteristics of email communications, and to particular issues arising among conference attendees.
- *Bascom Research, LLC v. LinkedIn, Inc.*, --- F.Supp.3d ----, 2015 WL 149480 (N.D. Cal. Jan. 2, 2015) - Granting MSJ under Section 101: “Bascom’s patents similarly describe ‘an abstraction’ having no particular concrete or tangible form. Allowing users to generate relationships between document objects and storing those relationships separately from the document objects simply describes the abstract idea of creating, storing and using relationships between objects”

Litigation Strategies – Venue Considerations – Particular Courts

Eastern District of Texas – Exemplary Cases

- *SmartFlash, LLC v. Apple, Inc.* (Magistrate Judge Mitchell– Affirmed by Judge Gilstrap)
 - Step One: “Therefore, the general purpose of the claims—conditioning and controlling access to data based on payment—is abstract and a fundamental building block of the economy in the digital age.”
 - Step Two: “This sort of access control would not be possible with a DVD already in possession of the user. Thus, the patents do not “broadly and generically claim use of the Internet to perform an abstract business practice.” Instead the claims solve problems faced by digital content providers in the Internet Era and “improve the functioning of the computer itself by providing protection for proprietary digital content.”

Litigation Strategies – Venue Considerations – Particular Courts

Eastern District of Texas – Exemplary Cases

- *Phoenix Licensing, L.L.C. v. CenturyLink, Inc.*, No. 2:14-cv-965-JRG-RSP, 2015 WL 5786582 (E.D. Tex. Sept. 30, 2015) (Magistrate Judge Payne – Affirmed by Judge Gilstrap)
 - “While handling the issue of section 101 eligibility at the pleading stage is permissible, those issues are often inextricably tied to claim construction. Thus, it seems a definitive ruling on eligibility before claim construction is only warranted in narrow circumstances, making such a ruling the exception rather than the rule. The need for claim construction is especially apparent here, where Defendants dispute the meaning of various terms among the various claims it purports to be representative of all Asserted Patents”

Litigation Strategies – Venue Considerations – Particular Courts

Eastern District of Texas – Exemplary Cases

- A closer look at the disputed claim terms:
 - “Financial Product[s] [and/or] [Financial] Services”
 - “Response(s)”
 - “Client Information” / “Personal Data Related to the Persons,”
 - “Financial Product(s) Information” / “Product–Related Information”
 - “Being in Response to Mass Marketing Communications” / “Being in Response to Communications” and “Responding to at Least One of the One Component”
 - “Select A Subset of Financial Products for Each of the Clients Appropriate for That Client” / “Selecting Product–Related Information for Each Person”

Litigation Strategies – Special Rules for § 101 Motions

- Judge Gilstrap’s recently revised model docketing control orders indicate that, if not filed during the pleading stage, parties must seek leave of court before filing dispositive motions under Section 101.
- Judge Gilstrap now requires that: “Parties seeking to file dispositive motions under Section 101 before the court's claim construction order has issued may do so only upon a grant of leave from the court after a showing of good cause which shall be presented through the letter briefing process . . . Parties may file dispositive motions under 35 U.S.C. § 101 without leave from the Court within two weeks of the issuance of the Court’s Claim Construction Order without use of the Court’s letter briefing process”

Aside: Why do we care about Judge Gilstrap?

Number of New Cases

| Judge | 2014 | 2015 | 2016 est |
|---|------|------|----------|
| District Judge Rodney Gilstrap (E.D. Tex.) | 989 | 1688 | 697 |
| Magistrate Judge Roy S. Payne (E.D. Tex.) | 445 | 1072 | 540 |
| District Judge Leonard P. Stark (D. Del.) | 271 | 125 | 41 |
| District Judge Gregory M. Sleet (D. Del.) | 250 | 128 | 41 |
| District Judge Richard G. Andrews (D. Del.) | 236 | 187 | 29 |

Questions?



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