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The true threshold of patent eligibility

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A recurring theme in each of the U.S. Supreme Court's six patent decisions from this past term was the court's attempt to rein in abusive patent litigation. The court made it easier for a prevailing accused infringer to recoup its attorney fees in the *Octane Fitness* and *Highmark* tandem, imposed an increased burden of "definiteness" on patentees in *Nautilus*, barred patent plaintiffs from proving induced infringement in the absence of direct infringement in *Akamai*, and placed the burden of proving infringement on patentees in declaratory judgment actions in *Mirowski*.

Alice Corp. v. CLS Bank was perhaps the most impactful of these decisions. The court determined that the claims at issue — which recite computerized methods for escrow — were too "abstract" to fall within the scope of 35 U.S.C. Section 101. The court followed its holding in *Bilski v. Kappos* that a fundamental economic practice is an abstract idea, and then applied the "inventive concept" analysis articulated in *Mayo Collaborative Services v. Prometheus Laboratories Inc.* to conclude that the claims did not add "significantly more" to the abstract idea to be patent-eligible. In *Bilski*, *Mayo* and *Alice*, the court held that some of the claims at issue were ineligible, and in doing so consistently referred to Section 101 as a "threshold test" (*Bilski*), which performs a "screening function" (*Mayo*) in order to weed out ineligible patents.

The question remains after *Alice* whether Section 101 is properly adjudicated at the outset of the case, in a pleadings challenge before a defendant is forced into expensive civil discovery. (*Alice* and *Mayo* were both decided on summary judgment, and *Bilski* was an appeal from the Patent and Trademark Office.) Early resolution of Section 101 challenges can save litigants and the judiciary significant time and resources, as a successful pleadings challenge obviates the need for expensive discovery and complicated summary judgment motions on more fact-intensive validity issues.

As the Supreme Court explained in *Bell Atlantic Corp. v. Twombly*, a complaint must include enough facts to make it plausible — not merely possible — that the plaintiff will be able to prove facts to support its claims. The deficiency of a claim should "be exposed

at the point of *minimum expenditure of time and money* by the parties and the court." *Twombly's* requirement of specificity helps "avoid the potentially enormous expense of discovery in cases with no 'reasonably founded hope that the [discovery] process will reveal relevant evidence'" to support a claim. Simply put, a plaintiff fails to state a claim when allegations are premised on a false or implausible legal theory under which a plaintiff is not entitled to relief.

A challenge to the eligibility of a patent under Section 101 fails out of the gate for precisely these reasons. Section 101 eligibility is a legal question, and a patentee asserting an ineligible patent is no different from an antitrust plaintiff advancing a legal theory that is not cognizable. These claims are barred as a matter of law and warrant dismissal.

A decision pending before the U.S. Court of Appeals for the Federal Circuit, *Ultramercial v. WildTangent*, will allow the court to decide whether Section 101 challenges may be raised on the pleadings. The claims at issue in *Ultramercial* cover methods for allowing Internet users to view copyrighted material free of charge in exchange for watching certain advertisements. Because the *Ultramercial* patent claimed an age-old method of advertising, the district court dismissed these claims as ineligible. (*Ultramercial* has been up to the Supreme Court twice — the case was remanded without briefing following *Mayo* and again following *Alice*.)

The Federal Circuit initially reversed the district court, without mentioning whether the eligibility determination was proper at the pleadings stage. Then, on remand from *Mayo*, and without hearing oral argument, the court again held the claims eligible under Section 101, but this time noted in dictum that Section 101 dismissals on the pleadings will normally be "improper." The court explained that because a challenger must overcome the presumption of validity afforded to issued patents, "the only plausible reading of the patent must be that there is clear and convincing evidence of ineligibility." The court also remarked that the Section 101 analysis will typically be "rife with underlying factual issues," and that as a result, Rule 12(b)(6) dismissals under Section 101 "will be the exception, not the rule."

The Federal Circuit's criticism of Section 101 challenges at the pleadings stage is inconsistent with Supreme

Court jurisprudence, as well as the high court's standard for adjudication under Rule 12(b)(6).

For instance, the *Ultramercial* court held that patents are "presumed" valid, and that because this presumption can be overcome only by clear and convincing evidence, the pleadings themselves are normally insufficient. But this presumption does not apply to Section 101 challenges. The Supreme Court in *Microsoft v. i4i* held that *invalidity* defenses must be proved by clear and convincing evidence, but Section 101 governs patent "eligibility," not "validity." Section 282 of the Patent Act defines the "validity" challenges (included in Title II), and Section 101 "eligibility" (in Title I) is not included. If a patent does not even recite eligible subject matter, it is not presumed valid.

In addition, because Section 101 is a legal question, it is not governed by evidentiary presumptions. As Justice Stephen Breyer explained in his *i4i* concurrence, "[w]here the ultimate question of patent validity turns on ... what these subsidiary legal standards mean or how they apply to the facts as given — today's strict standard of proof has no application."

In determining whether a patent claims an abstract idea, the world of relevant facts should exist within the four corners of the patent. The two fundamental Section 101 questions that courts must answer under *Alice* — are the claims directed to a patent-ineligible concept, and if so, do the elements "transform the nature of the claim" into a patent-eligible application — are firmly rooted in the claim language, the construction of which is a legal, not factual, matter. Courts at the pleadings stage may choose to construe the claims, or to adopt (for purposes of the motion to dismiss) a plausible construction proffered by the patentee. But there is no reason to think that Section 101 determinations are *always* or even *usually* "rife with underlying factual issues" as the *Ultramercial* panel presumed. To the contrary, the Supreme Court's recent Section 101 cases have focused on the operative patent claims, which the court in each case has reviewed de novo without any deference to findings or conclusions below. Numerous district courts before *Ultramercial's* unfortunate dictum had decided Section 101 challenges on the pleadings.

The *Ultramercial* panel's decision is infected with the same underlying

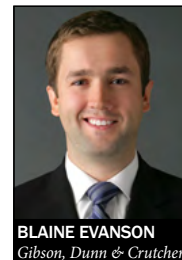
error the Supreme Court rejected in *Alice*. The Federal Circuit in *Ultramercial* held that the claimed invention at issue was patent-eligible because it "is not 'so manifestly abstract' as to override the statutory language of section 101." But the Supreme Court in *Alice* unanimously rejected the "manifest" abstractness standard, and because this heightened burden undergirds the basis for the *Ultramercial* panel's distaste for pleadings challenges, the court on remand should jettison its earlier view.

If a patent defendant can show that even under the plaintiff's (plausible) reading of the patent it recites an invention that cannot plausibly add "significantly more" to an abstract idea, then the defendant should succeed on a 12(b)(6) motion. There is not a different rule under the patent laws, as the Supreme Court (for example, in *eBay v. MerkExchange* and *Medtronic v. Mirowski*) has repeatedly stressed.

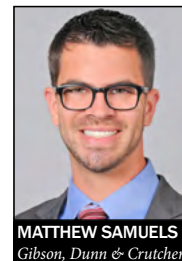
There are enormous costs to eliminating Section 101 as a screening mechanism at the motion to dismiss stage. Much of the harm from low-quality patents takes the form of litigation expenses and nuisance settlements for the cost of litigation. Deferring Section 101 challenges until after the parties go through expensive discovery would not only prevent eligibility from being a "threshold test" as the Supreme Court has required, but would also further drive up the cost of patent litigation and provide incentives for unmeritorious patent claims. The Federal Circuit should therefore encourage, not limit, the availability of Section 101 challenges

early in litigation.

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