

KNOW BEFORE YOU GO: IMPACT OF THE ALICE CASE ON SOFTWARE- AND COMPUTER-IMPLEMENTED INVENTIONS IN THE DISTRICT COURTS



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Alice Corp. v. CLS Bank, Supreme Court 2014

The story of *Alice v. CLS Bank* is likely well-known to patent practitioners. Alice Corporation (Alice) owned four patents on electronic methods and computer programs for financial-trading systems on which trades between two parties who are to exchange payment were settled by a third party in ways that reduced “settlement risk” — the risk that one party will perform while the other will not.

Alice alleged that CLS Bank International and CLS Services Ltd. (collectively “CLS Bank”) began to use similar technology in 2002. Alice accused CLS Bank of infringement of Alice’s patents, the parties could not come to a resolution, and CLS Bank sought a declaratory judgment that the claims at issue were invalid. Alice counterclaimed, alleging infringement.

The district court ruled on CLS Bank’s motion for summary judgment, holding each of Alice’s patents invalid because the claimed inventions were directed to abstract ideas and thus not eligible for patent protection under 35 U.S.C. § 101.

On appeal to the Federal Circuit, the original panel reversed the lower court’s decision.

The Federal Circuit accepted the case for *en banc* review. The outcome was seven different opinions, with no single opinion supported by a majority on all points. Seven of the 10 judges upheld the ineligibility of Alice’s method claims and computer-readable medium claims, but they did so for different reasons. Five of the 10 judges upheld the ineligibility of Alice’s system claims as not patent eligible, and five judges disagreed. As a whole, the panel did not agree on a single standard to determine whether a computer-implemented invention is a patent-ineligible abstract idea.

In 2014, the Supreme Court reduced the Federal Circuit’s multipart test to a two-part test, namely:

- (1) Does the invention consist in significant part of a patent-ineligible concept — for example, a law of nature, natural phenomenon or abstract idea?
- (2) If so, the invention is patent-eligible only if the remaining parts provide an “inventive concept” — that is, elements that ensure a patent on the invention amounts in practice “to significantly more than a patent upon the ineligible concept itself.”

Applying this test, the Supreme Court found the Alice patents to be invalid under § 101.

Bottom line of *Alice*, if your patent claims are directed merely to the use of a general purpose computer to gather and analyze

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[IMPACT OF THE *ALICE* CASE, FROM PAGE 7]

data, those claims risk invalidation for lack of patent-eligible subject matter under § 101.

To assess the impact of *Alice* on patent litigation in the district courts for software- and computer-implemented inventions, we have analyzed rulings on challenges to patent validity under § 101. The data show notable differences across the district courts in their treatment of such challenges. Some venues appear to be more favorable to either patent owners or defendants while others appear to be fairly neutral toward each. And even within individual district courts, the data show differences between rulings on the various types of motions most often used to challenge patent validity under § 101. This data may be helpful to inform litigation strategies in light of recent court decisions that will likely limit the forums available to a party to bring a patent dispute.

VENUE CASES

Following the Supreme Court's decision in *TC Heartland* and the Federal Circuit's subsequent decision in *In re Cray*, patent owners now must file infringement actions in the jurisdiction where the defendant is incorporated, or where the defendant has a fixed physical location that qualifies as a regular and established place of business. Forum shopping by the patent owner is no longer permitted — and avoiding a court that has a history of granting *Alice* rulings may be difficult, if not impossible.

In a post-*TC Heartland* and post-*Cray* world, parties to patent litigation involving questions of subject matter eligibility under § 101 would benefit from a sober assessment of what to expect from the venues most likely to hear the dispute.

DETAILED FINDINGS

To assess the impact of *Alice* on patents directed to computer- and software-implemented inventions at the district court level, we looked at the three most popular mechanisms for asserting invalidity arising from a lack of patent-eligible subject matter: 12(b)(6) motions to dismiss, 12(c) motions on the pleadings, and motions for summary judgment of patent invalidity. Using data obtained from DocketNavigator, a patent litigation intelligence platform, we catalogued the district courts' grant and denial of such motions.¹ Where a court denied a motion, this was often due to a determination that claim construction was first necessary to understand the claimed invention. And motions both granted and denied in part were typically seen in cases asserting multiple patents with divergent conclusions as to their respective validity under § 101.

Unsurprisingly, the data showed generally high rates of invalidation at the district court level. We found that, together, these three types of motions were granted about 60 percent of the time and were denied about 40 percent of the time. Motions to dismiss under 12(b)(6) amounted to about half of the motions we analyzed while 12(c) motions on the pleadings and motions for summary judgment each represented about a quarter of the motions analyzed. However, all were equally effective in disposing of patent infringement claims. We found that courts granted each type of motion roughly 60–65 percent of the time and denied each type about 40–50 percent of the time.

Digging deeper into the data, however, revealed that the success rates of particular types of motions varied across the district

courts. We found a district court's disposition toward each type of motion could be categorized in one of three ways based on the number of motions granted versus denied: (i) generally neutral toward patent owners and defendants with an equal split between grants and denials, (ii) generally favorable toward patent owners with a tendency to deny the motion more often than grant it, and (iii) generally favorable toward defendants with a tendency to grant the motion more often than deny it. We also found that venues generally favorable to patent owners or defendants with regard to one type of motion were not necessarily the same with respect to another type of motion.

12(b)(6) Motions to Dismiss

- **Favorable to Patent Owners:** D.N.J and S.D. Tex.
- **Favorable to Defendants:** E.D. Va., N.D. Ill., D. Mass., W.D. Pa., M.D. Fla., and N.D. Tex.
- **Neutral Toward Patent Owners and Defendants:** E.D. Tex., D. Del., N.D. Cal., C.D. Cal., D. Nev., and W.D. Tex.

With respect to 12(b)(6) motions to dismiss, we found those venues that were generally favorable to defendants granted the motion to dismiss two to three times more often than denying it. In addition, only two courts, the D.N.J and the S.D. Tex., stood out as more favorable to patent owners. Finally, those venues that were generally neutral in their treatment of patent owners and defendants included some of the more popular venues for patent suits such as the E.D. Tex., D. Del., N.D. Cal., and C.D. Cal.

12(c) Motions on the Pleadings

- **Favorable to Patent Owners:** E.D. Tex., M.D. Fla., and D. Mass.
- **Favorable to Defendants:** D. Del., C.D. Cal., N.D. Ill., S.D. Cal., S.D.N.Y., N.D. Tex., D. Utah, E.D. Va., and W.D. Wash.
- **Neutral Toward Patent Owners and Defendants:** N.D. Cal.

We found a slightly different result with 12(c) motions on the pleadings. Here, we found the district courts were less likely to split grants and denials. The N.D. Cal. was the only venue exhibiting a 50/50 split. The other district courts tended to lean toward granting or denying this type of motion. Notably, the E.D. Tex. — found to be neutral toward patent owners and defendants with respect to 12(b)(6) motions — appeared to be more favorable for patent owners concerning 12(c) motions on the pleadings. We found the opposite for the D. Del. and C.D. Cal. Both of these courts, while neutral regarding motions to dismiss, appeared to be more favorable for defendants regarding motions on the pleadings. Finally, we found one court, the D. Mass, more favorable to defendants on 12(b)(6) motions to dismiss but more favorable to patent owners regarding 12(c) motions on the pleadings.

Motions for Summary Judgment of Patent Invalidity

- **Favorable to Patent Owners:** E.D. Tex. and W.D. Tex.
- **Favorable to Defendants:** D. Del., C.D. Cal., N.D. Cal., N.D. Ill., S.D.N.Y., and M.D. Fla.

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We again found a different outcome across the district courts with motions for summary judgment. Here, we found the district courts were favorable to either patent owners or defendants on motions for summary judgment of patent invalidity. We found that those district courts more favorable to defendants granted the motions for summary judgment about twice as often than denying them. And we found the two courts that were more favorable to patent owners — the E.D. Tex. and W.D. Tex. — denied those motions about twice as often as granting them. The M.D. Fla. similarly stood out as being more favorable to patent owners on 12(c) motions on the pleadings while being more favorable to defendants on motions for summary judgment.

TAKEAWAYS

The tendency to rule in favor of patent owners or defendants should not be taken as an indication of how a court is likely to rule on any particular patent. Each patent is different and must be judged on its own merits. However, to the extent that parties can observe the unique tendencies of the district courts, this can provide meaningful insight for those parties when making decisions on whether and how to engage in patent litigation involving questions of subject-matter eligibility. No party operates with unlimited resources. Understanding how

courts are more or less likely to rule on the various mechanisms for challenging subject-matter eligibility should thus help parties determine what will be the most efficient use of their limited resources during litigation.

Insight into such tendencies may assist you with your litigation strategies. For patent owners, such insight may help with decisions of what patents to assert. For defendants, this insight may guide decisions of the extent to which resources should be committed to the various mechanisms for challenging subject-matter eligibility. This can also include whether and how strenuously to argue for transfer to whatever venue might be available under the new *TC Heartland* standard. On either side, such insight may provide guidance as to potential compromises between the parties.

As non-traditional venues see more patent litigation in the aftermath of *TC Heartland* and *Cray*, time will tell if further distinctions emerge between district courts' treatment of challenges to subject-matter eligibility and the various motions for disposing of patent infringement claims on that basis. ■

1. The ability to draw meaningful conclusions from the data available should be appreciated. Some venues provided little to no data due to a dearth or lack of patent infringement suits in those venues following the *Alice* decision. Accordingly, to reach our conclusions, we included in our analysis only those district courts that have issued at least three rulings on either 12(b)(6) motions, 12(c) motions, or motions for summary judgment.