

## Eligibility

### Quick Patent Decisions at Risk in Appeals Court Rulings

A set of recent decisions by the nation's patent appeals court may make it more difficult for defendants to score quick victories in infringement cases.

The U.S. Court of Appeals for the Federal Circuit has rejected several trial court rulings disposing of cases in their early stages, criticizing lower courts for not doing enough to analyze relevant factual disputes.

Those decisions are warning shots to trial courts that the lower courts shouldn't gloss over factual disagreements when considering whether a patent covers eligible subject matter. Trial courts may become reluctant to hand defendants early victories that allow them to avoid lengthy, costly litigation.

"If the *Berkheimer* and *Aatrix* cases are not overturned *en banc* or by the Supreme Court, the procedural impact will likely be significant," Matthew Rizzolo, counsel at Ropes & Gray LLP, told Bloomberg Law, referring to potential action on two recent Federal Circuit decisions by the full appeals court or the Supreme Court.

Large tech companies such as Alphabet Inc.'s Google have complained about having to defend against what they say are frivolous lawsuits based on patents that should never have been granted. The ability to knock out a patent early in a case discourages such lawsuits, but some patent holders say those early dismissals deprive them of the right to have their arguments adequately considered in court.

Eligibility challenges, under 35 USC § 101, are especially popular in software-related cases because those patents are particularly vulnerable to allegations that their owners want to monopolize abstract ideas, which can't be patented by themselves.

District courts could seek different ways to handle early patent eligibility challenges, such as speeding up hearings to resolve relevant factual disputes.

"It will be interesting to see how courts grapple with issues of Section 101-related procedure going forward, and even would not be surprising to see some judges address 101 issues in a separate early *Markman*-like proceeding," Rizzolo said, referring to a special proceeding for interpreting claim terms in patent infringement cases.

**Eligibility Attack** Trial courts weighing a patent's eligibility for protection ask whether the invention is directed at a law of nature, such as the relationship be-

tween two molecules, or an abstract idea, such as managing financial risk.

Such inventions can't be patented without an inventive concept—an original idea that makes the invention more than just an attempt to monopolize what's abstract or natural.

Whether a patent is eligible for protection is a legal question, which means it should be decided by a judge, not a jury. But that analysis can hinge on case-specific facts, such as whether a particular feature was well-known when the patent was filed. Early dispositive motions, such as a motion to dismiss, are often filed before all the facts are established, so courts should construe factual disputes in the non-moving party's favor when deciding the motion.

In February, the Federal Circuit vacated two decisions in which trial courts found patents covered ineligible subject matter. Judge Kimberly A. Moore, who wrote both decisions, said the trial court didn't properly construe the factual disputes in favor of the patent owner.

In *Aatrix Software Inc. v. Green Shades Software Inc.*, the trial court granted the defendant's motion to dismiss, ruling that the patents covered an abstract idea and lacked an inventive concept. The appeals court reversed, saying Aatrix Software Inc. raised concrete factual allegations that, if true, would establish an inventive concept in its patents, which relate to converting data in software forms. Specifically, Aatrix raised genuine disputes about how to interpret the claim term "data file," which would, in turn, affect whether there was anything new or novel in the patent, Moore wrote.

The court's ruling in *Berkheimer v. HP Inc.* was similar, vacating a summary judgment ruling that a patent relating to digitally processing and archiving files was ineligible. Like in *Aatrix*, the trial court's conclusion that the patent had no inventive concept was premature, the appeals court said, because the patent owner raised genuine factual disputes about whether certain features were unconventional improvements that qualify as inventive concepts as to some of the patent claims.

If the court had properly construed the factual issues in the patent owner's favor, it would have found an inventive concept in some of the claims and rejected HP's summary judgment motion, Moore wrote.

**Subtle but Important Change** Both precedential decisions have raised questions about whether there's a shift in how courts should handle patentability challenges.

"The decisions touch on a really difficult issue for the district courts," Charles D. Ossola, patent partner with

Hunton Andrews Kurth LLP, told Bloomberg Law. Many courts have been uncomfortable with deciding whether a patent is eligible without going through claim construction to construe disputed claim terms, something the Federal Circuit has been encouraging, he said. Moore's opinion reflects those concerns.

The *Berkheimer* and *Aatrix* decisions don't really change that patent eligibility is a question of law supported by underlying factual findings, John Haynes, patent partner at Alston & Bird LLP, told Bloomberg Law. The decisions however, do highlight the need to focus on the intrinsic factual evidence, such as the patent specification, for something that would support an inventive concept, he said.

Judge Jimmie V. Reyna, in a partial dissent in *Aatrix*, said patent eligibility is a legal issue, but the majority's ruling will convert motions to dismiss into full-blown factual inquiries. He worried that approach would allow patent owners to survive a motion to dismiss simply by alleging facts that would support an inventive concept—even if those allegations aren't consistent with the intrinsic record.

The rules, though, are more exacting than that, Haynes said. A plaintiff can't defeat a motion to dismiss by simply alleging facts that aren't anchored to evidence, he said. For example, it would be difficult to defend a patent as eligible simply by alleging some inventive feature that has no tie to the patent's specification, he said.

**Emphasis on Intrinsic Evidence** Since *Berkheimer* and *Aatrix*, the Federal Circuit has issued at least two non-precedential decisions affirming motions to dismiss for patent ineligibility but, again, highlighting the importance of the intrinsic evidence.

In *Intellectual Ventures I LLC v. Symantec Corp.*, the appeals court said *Berkheimer* didn't justify overturning an ineligibility ruling because the lower court explained in detail why there was no inventive concept: the steps were all conventional, and the patent owner didn't offer evidence, such as expert testimony, that would create a factual dispute.

And in *Automated Tracking Sols., LLC v. Coca-Cola Co.*, the court affirmed a ruling that a patent related to radio frequency identification technology lacked an inventive concept. In particular, the patent specification

itself established that there was nothing unconventional about the invention, the court said.

Plaintiffs will likely use their complaints to specify factual issues and how they connect to the patent specification, Ossola said. And some trial courts, in wake of the Federal Circuit decisions, may hesitate from resolving such issues on motions to dismiss without at least holding a hearing on disputed claim terms, he said.

Such an approach could mean that more patent eligibility attacks will be decided later on in a case, such as at the summary judgment stage, he said. A summary judgment motion usually comes after some progress has been made in the case—the court may have held a Markman hearing to interpret claim terms, for example—but before trial.

Rizzolo said the decisions highlight the importance of interpreting patent claims before eligibility determinations. He suggested that courts could hold “mini Markman” proceedings before deciding motions to dismiss, an approach the International Trade Commission takes in some of its patent-related disputes.

**The Law, for Now** *Berkheimer* and *Aatrix* are controlling law, but the defendants in both cases have already asked the full Federal Circuit for a rehearing. Several telecommunications companies, including T-Mobile USA Inc. and Sprint Spectrum LP, have filed a joint brief urging that *Berkheimer* be overturned because it contradicts settled law. Even though Moore said patent eligibility is still a question of law, overly emphasizing underlying factual disputes essentially changes it to a question of facts, they said.

If the full Federal Circuit weighs in, there could be yet another shift for trial courts in handling motions to dismiss. But for now, the court is encouraging litigants and trial courts to focus on intrinsic evidence and acknowledge any outstanding factual disputes—an approach that gives patent owners hope that their infringement lawsuits will not be tossed out quickly.

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