

Is This Really Patentable?

Strategies to Defend Against Patent Claims by Raising Lack of Patentable Subject Matter in District Court Litigation

By Louis L. Touton, Steven J. Corr and Nickou Oskoui

With the Supreme Court's decision in *Alice v. CLS Bank*, 134 S. Ct. 2347 (2014) (*Alice*), parties defending against a claim of patent infringement gained a potential way to find an early resolution to patent litigation.

For decades before 2010, defendants rarely challenged a patent by questioning whether it was directed to unpatentable subject matter under Section 101 of the Patent Act. Typically, a defendant would

challenge an asserted patent on the basis that it lacked novelty (Section 102), was obvious (Section 103), and/or failed to clearly describe or enable the claimed invention (Section 112). Further, a number of older opinions endorsed the patentability of software and business methods. See, e.g., *Diamond v. Diebr*, 450 U.S. 175 (1981); *State Street Bank & Trust v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

The viability of such a defense shifted with the decisions in: *Bilski v. Kappos*, 561 U.S. 593 (2010); *Mayo Collaborative Services v. Prometheus Labs.*, 566 U.S. 66 (2012); and finally *Alice v. CLS Bank*, 134 S. Ct. 2347 (2014). These decisions, taken together, reinvigorated the principle that “laws of nature, natural phenomena, and abstract ideas” are not eligible for patenting. *Mayo* in particular established a two-step framework for analysis: 1) are the patent's claims directed to one of the three patent-ineligible topics?; and 2) do the claims contain “additional features” that ensure that the claim “is more than a drafting effort to monopolize” the natural law, phenomenon, or abstract idea?

The result has been that many patents — especially those claiming methods of transacting business implemented with computers or medical techniques based on scientific principles — that the United States Patent and Trademark Office (USPTO) issued under the pre-2014 approach are now subject to the defense

under the current and more stringent application of Section 101.

Since *Alice* was decided in 2014, there have been hundreds of cases in which accused infringers have asserted a Section 101 defense. In district court litigation, litigants have primarily raised this defense by way of three mechanisms: 1) motions to dismiss for failure to state a claim (Fed. Civ. R. 12(b)(6)); 2) motions for judgment on the pleadings (Fed. Civ. R. 12(c)); and 3) motions for summary judgment (Fed. Civ. R. 56). A Section 101 defense may also be raised at trial. The success rate for Section 101 defenses appears to depend, to a remarkable degree, on the mechanism by which the defense is raised, the timing of the motion, and the particular tribunal in which the issue is decided.

To better understand the statistical prospects of raising a Section 101 defense, we analyzed decisions since the 2014 *Alice* decision in various district courts and the USPTO's Patent Trial and Appeal Board (PTAB). For our analysis, we reviewed outcomes of motions raising the Section 101 defense (for simplicity, we refer to these as *Alice* motions) filed in four district courts: the District of Delaware, the Northern District of California, the Central District of California, and the Eastern District of Texas. All of our analysis is based on opinions issued during the period between the Supreme Court's *Alice Corp. v. CLS Bank Int'l* ruling, June 19, 2014, and Dec. 31, 2016, inclusive.

Louis L. Touton is a Partner in the IP Practice in the Los Angeles office of Jones Day. He has helped clients in patent disputes associated with the Internet, communication, computer and other electrical technologies. He can be reached at lltouton@jonesday.com. **Steven J. Corr** is also a Partner in the IP Practice in the Los Angeles office of Jones Day with nearly 15 years of experience in complex intellectual property matters in jurisdictions throughout the U.S. and the USPTO. He can be reached at sjcorr@jonesday.com. **Nickou Oskoui** is an associate in the Dallas office of the firm. His practice includes patent, trade secret, copyright and trademark law, with a focus on patent litigation. He can be reached at noskoui@jonesday.com. *The views and opinions set forth herein are the personal views or opinions of the authors; they do not necessarily reflect views or opinions of the law firm with which they are associated.*

Together, the four selected jurisdictions comprise approximately 51% of the 368 orders resulting from *Alice* motions issued by district courts nationwide during this period, providing a large number of data points and resulting in trends that are more reliable. The results, as presented in more detail below, are intended to be instructive for litigants considering whether to raise a Section 101 defense, as well as how and when to raise it.

SHOULD I FILE AN *ALICE* MOTION?

The first step in this analysis is whether an *Alice* motion is worth attempting. Many factors can influence this decision — the jurisdiction, the nature of the asserted patent, the plaintiff, the accused products, expense, and available alternatives for defense. One of the most important factors, however, is the likelihood that such an *Alice* motion will succeed.

Alice motions filed under Rule 12, either to dismiss a case, or for judgment on the pleadings, have emerged as one tactic for defendants to eliminate at least some of the asserted patent claims, if not entire patents, from litigation at the early stages. A successful *Alice* motion filed early in the case has the appeal of concluding the case, or at least significantly limiting its scope, before significant discovery and expert witness expenses are incurred. And although such a result can provide incentives for defendants to file such early *Alice* motions, it is helpful to look at the success rates for *Alice* motions before making the decision to invest in this defense strategy. Specifically, our analysis focuses on two metrics —

the success rate of *Alice* motions: 1) by jurisdiction; and 2) by technology area. “Success” for purposes of this article is defined as a motion being granted or granted in part.

OVERALL *ALICE* MOTION

SUCCESS RATES BY JURISDICTION

The overall success rate for *Alice* motions in all district courts, including the four selected jurisdictions, was approximately 60%. With one notable outlier, the Eastern District of Texas, success rates in our selected jurisdictions were similar to the overall rate. See Table 1.

Closer analysis of the data indicates that two of the selected jurisdictions actually had success rates just slightly lower (by 1%) than the 66% success rate enjoyed by all other districts combined, and that a third is lower by 5%. The Eastern District of Texas, however, has a success rate less than half that of the 66% success rate exhibited by the “other” districts. This distribution of success rates is also reflective of the fact that the jurisdictions focused on in this article are those where the highest number of litigants file *Alice* motions. Lower grant rates for the four selected jurisdictions have a significant impact on the overall numbers.

MOTION SUCCESS RATES

BY TECHNOLOGY AREA

The generally accepted narrative with respect to *Alice* motions is that they are typically most successful against patents directed to computer software. Indeed, of the motions analyzed, the data indicates that 79% of *Alice* motions were directed to patents claiming inventions in the field

of Computer Hardware and Software. For this technology area, courts granted the motion 62% of the time. By comparison, the courts granted such motions 57% for all other technologies. *Alice* success rates for computer hardware and software are moderately higher than both the average overall *Alice* motions and the average success rate for motions involving other technology areas.

For comparison, some other technology categories had significantly lower success rates. For example, for drug patents, the overall success rate was 47%, and for chemical patents, 45%. The success rate for patents directed to mechanical inventions was closer to the average at 59%.

Finally, breaking these results down by selected jurisdiction largely mirrors the success rates for all *Alice* motions in those same selected jurisdictions. For example, chances of success on an *Alice* motion related to computer hardware and software claims are substantially lower than average in the Eastern District of Texas at 31%. In contrast, the success rates in the District of Delaware, the Northern District of California, and the Central District of California were 65%, 65%, and 60% respectively. Yet just as with the Eastern District of Texas, the similarity between these three districts’ overall success rates and their success rates for motions involving computer hardware and software patents suggests that the success rate for computer hardware and software related *Alice* motions may drive these districts’ overall motion success rates. This is likely because motions involving computer

Table 1: Success Rate of *Alice* Motions

Jurisdiction	Success Rate
District of Delaware	65%
Northern District of California	65%
Central District of California	61%
Eastern District of Texas	31%
All Federal District Courts	60%
All Federal District Courts, excluding D. Del., N.D. Cal., C.D. Cal., and E.D. Tex.	66%

Table 2: Alice Motion Success Rates By Technology Area

Jurisdiction	Overall Success Rate	Success Rate for Computer Hardware & Software	Percentage of Cases Involving Hardware & Software
District of Delaware	65%	71%	80%
Northern District of California	65%	67%	87%
Central District of California	60%	60%	85%
Eastern District of Texas	31%	31%	88%
All Federal District Courts	60%	62%	79%

hardware and software comprise the overwhelming majority of *Alice* motions filed, accounting for approximately 79% of *Alice* motions across all district courts, and between 80% and 88% of *Alice* motions in the selected jurisdictions. See Table 2.

WHEN SHOULD I FILE AN ALICE MOTION?

The data demonstrates that for all district courts, a litigant's chance of success is strongly correlated to when the motion is presented. Generally, filing the motion at later stage of the litigation improves chances for success. For example, across all districts, the highest likelihood of success is at the summary judgment stage. While motions to dismiss had the lowest rate of success, they comprised the largest number of motions considered, as shown in Figure 1.

In the District of Delaware, the Northern District of California, and the Central District of California, movants succeeded in the summary judgment context 77%, 81%, and 86% of the time respectively. Yet these success rates are significantly lower at earlier stages of litigation. For example, in the District of Delaware and the Central District of California, *Alice* motions filed as a motion for judgment to dismiss under Fed. R. Civ. P. 12(b) (6) were successful 59% and 60% of the time respectively. Notably, in the Northern District of California, movants had a less than 50% chance of success at this stage. Similarly, when filed as a motion for judgment on the pleadings, *Alice* motions were successful in the District of Delaware, the Northern District of

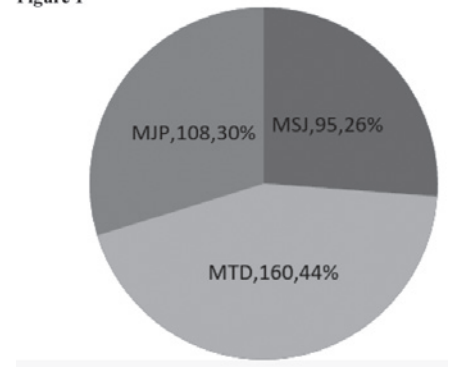
California, and the Central District of California 65%, 57% and 50% of the time respectively.

This trend was also reflected in the success rates for all districts, though it was much less pronounced. Indeed, success rates for districts exclusive of the District of Delaware, the Eastern District of Texas and the Northern and Central Districts of California showed that this trend exhibited a relatively flat curve, with success rates at various stages of litigation falling within 11% of each other.

In the Eastern District of Texas, however, the overall trend is reversed: *Alice* motions in this district are more likely to succeed as a motion to dismiss (37%) than as a motion for judgment on the pleadings (20%) or as a motion for summary judgment (29%). In short, at least in the Eastern District of Texas, *Alice* motions are most effective when a patentable subject matter defect is apparent at the outset, so that it can be presented by a motion to dismiss, but a later motion (which can allow additional analysis and evidence) is less effective. Given the generally abysmal success rates in this district, however, and the Supreme Court's recent *TC Heartland* decision, defendants seeking to invalidate claims on *Alice* grounds in this district should consider their prospects of seeking first to dismiss or transfer their case based on improper or inconvenient venue.

One reason sometimes given by courts for deferring a decision to rule on an *Alice* motion is that the claims contain terms that must be construed. For courts with defined procedures for

Figure 1



claim construction, such *Alice* motions are sometimes denied without prejudice pending a *Markman* order. This not a frequent occurrence in the District of Delaware and the Northern and Central Districts of California (approximately 14%, 20%, and 17% of denied motions respectively). But in the Eastern District of Texas the need for claim construction was cited as at least one reason for denial of *Alice* motions 44% of the time. None of the cases analyzed involved claim construction discovery, though in some cases, the court ordered the parties to re-brief the motion in light of a separately issued *Markman* order.

At least some judges in the Eastern District of Texas have standing orders that attempt to address this issue by requiring parties to certify whether there is agreement on the need for claim construction when filing an *Alice* motion prior to entry of the court's claim construction order. This suggests that, at least in this district, unless the parties agree on a claim construction, or one is clearly not necessary, the court is unlikely to grant an *Alice* motion.

TAKEAWAYS AND TRENDS

In terms of the likelihood of success, the districts we analyzed generally followed (with one notable exception) the overall trends for all districts. This was true whether viewed from the perspective of procedural posture or technology area. The only notable outlier is the Eastern District of Texas, where success rates were far lower than in any other district regardless of procedural posture or technology at issue. This suggests that while an early *Alice* motion may still be worthwhile in most districts, a more careful cost-benefit analysis should be employed prior to filing one in the Eastern District of Texas. Further, eliminating potential claim construction issues prior to filing an *Alice* motion can improve your odds in the Eastern District of Texas, either by agreement with the other side, or by citing to constructions adopted or advocated in prior litigation involving the same patents.

In terms of trends, the overall number of *Alice* motions filed has increased since 2014, but the number of successful *Alice* motions has decreased.

This increase in filings is unsurprising, given the relatively recent *Alice* decision and the developing case law around it. This does not explain, however, the drop in success rates. There are several possible explanations for this. For example, high success rates for *Alice* motions early on may have prompted defendants to push the envelope by presenting shakier *Alice* defenses, so that later motions did not enjoy success as often. Another possibility is that plaintiffs have become more wary of asserting patents that may be vulnerable to invalidity on grounds of unpatentable subject matter. Such caution could result in lawsuits never being filed, or a greater willingness on the part of plaintiffs to settle early, prior to the filing of an *Alice* motion.

Moreover, this drop in the percentage of granted *Alice* motions roughly coincides with a drop in the filing and institution rates of Covered Business Method

Reviews (CBMRs) by the U.S. Patent Office. CBMRs are proceedings, similar to *inter partes* review, where parties may petition the USPTO to find patent claims unpatentable. One significant advantage to petitioning for CBMR over *inter partes* review is that the patent challenger may cite any grounds for unpatentability, including unpatentable subject matter under 35 U.S.C. §101. The CBMR procedure, however, may only be instituted on patents that “claim[] 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,” but is not for “technological inventions.” 37 CFR 42.301. For the whole studied period, institution rates for CBMR petitions were 54%, somewhat less than success rates for *Alice* motions in district court. Like in the district courts, however, the success rate of CBMR petitions has declined with time.

According to the USPTO, once instituted, CBMR cases that do not settle result in 97% of patents having some claims found unpatentable, and 82% having all claims found unpatentable.

CBMRs are only available to parties that have been sued for alleged infringement of a covered business method patent or who would “have standing to bring a declaratory judgment action in Federal court” concerning alleged infringement of a covered business method patent 37 CFR 42.302(a). A significant number of patents that were the subject of *Alice* motions in district courts were also the subject of petitions for CBMR — approximately 154 of them for the analyzed time period. While the estoppel provisions of the America Invents Act may serve to discourage some from petitioning for CBMR, they are not as expansive as those applying to IPRs.

Institution rates for CBMRs have fallen since their inception. Contrary to the drop in success rates for *Alice* motions, the driving factor in reduced CBMR institution rates is probably the Federal Circuit’s

narrowing of what patents are eligible for CBMR. *See, e.g., Secure Access, LLC v. PNC Bank Nat’l Ass’n*, 848 F.3d 1370 (Fed. Cir. 2017); *Unwired Planet, LLC v. Google Inc.*, 841 F.3d 995 (Fed. Cir. 2016).

Just as courts have grappled with what constitutes unpatentable subject matter, the Federal Circuit and the PTAB have taken some time to settle on what constitutes a “covered business method patent.” In contrast, however, there are still no bright-line rules as to what constitutes an abstract idea. As a result, success rates for *Alice* motions may continue to fluctuate depending on jurisdiction, technology area, and procedural context for the near future. Nevertheless, parties should continue to consider the possibility of an *Alice* motion in cases where the jurisdiction and technology area suggest a greater likelihood of success.

