

16th Annual Texas IP Law Symposium:  
Patent Assertion Entities

## **The Impact of *Alice Corp. v. CLS Bank* on Patent Litigation**

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### **Agenda**

1. Evolution of Section 101
2. *Alice Corp. v. CLS Bank Int'l*
3. Impact of *Alice* on District Court Litigation
4. Application of *Alice* by the Federal Circuit
5. Conclusion

## Evolution of Section 101



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### 35 U.S.C. § 101

“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.”

- Three judicial “exceptions” to patent eligibility:
  1. Laws of nature
  2. Natural phenomena
  3. Abstract ideas
  
- But “applications” of these exceptions can be patent-eligible.



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

“Congress intended statutory subject matter to include anything under the sun that is made by man.”



***LabCorp. v. Metabolite*, 548 U.S. 124 (2006)**

- Although dismissed as improvidently granted, *Metabolite* signaled that the Supreme Court was looking seriously at § 101.
- The patent claimed a process for diagnosing vitamin deficiencies.
- Lower courts upheld the patent’s validity.
- Justice Breyer’s dissent:
  - “[Even if the claim] meets certain general definitions of process patentability, however, it still fails the one at issue here: the requirement that it not amount to a simple natural correlation, *i.e.*, a ‘natural phenomenon.’”



## ***Bilski v. Kappos*, 561 U.S. 593 (2010)**

- “The question in this case turns on whether a patent can be issued for a claimed invention designed for the business world.”
- “The machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101. The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible ‘process.’”



## ***Mayo v. Prometheus*, 132 S. Ct. 1289 (2012)**

- What constitutes an “application” of a law of nature or natural phenomena?
- The Court stated:

“The question before us is whether the claims do significantly more than simply describe these natural relations. To put the matter more precisely, ***do the patent claims add enough*** to their statements of the correlations to allow the processes they describe ***to qualify as patent-eligible processes that apply natural laws?***”



## ***Mayo v. Prometheus*, 132 S. Ct. 1289 (2012)**

- Held: Steps of “administering a drug” and “determining a level” of a metabolite were not sufficient to confer patent eligibility.
- A patent must do more than simply state the law of nature while adding the words “apply it.”

“To put the matter more succinctly, the claims inform a relevant audience about certain laws of nature; ***any additional steps consist of well understood, routine, conventional activity already engaged in by the scientific community***, and those steps, when viewed as a whole, add nothing significant beyond the sum of their parts taken separately. For these reasons we believe that the steps are not sufficient to transform unpatentable natural correlations into patentable applications of those regularities.”

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## ***Association for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013)**

- Question Presented:
  - Are human genes patent-eligible subject matter under 35 U.S.C. §101?
- Isolated DNA: “[A] naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated.”
- cDNA: But cDNA is patent eligible because it is not naturally occurring.

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## *Alice Corp. v. CLS Bank Int'l*

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### *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014)

#### Facts

- Alice Corp. is an Australian patent assertion entity that obtained U.S. patents for software designed to mitigate “settlement risk.”
- Settlement risk is the problem of only one party in a financial exchange satisfying its obligations.
- Alice’s patents have both method claims and system claims.



## *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014)

### Representative Claim 33:

A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:

- (a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;
- (b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;
- (c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order, and
- (d) at the end-of-day, the supervisory institution instructing on[e] of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.



## *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014)

### Facts

- CLS Bank operates a global network that facilitates currency transactions.
- In 2007, CLS Bank (and an affiliate) filed an action in the D.C. District Court seeking a declaratory judgment that Alice's patents are invalid.
- Alice counterclaimed for infringement.

 ***CLS Bank Int'l v. Alice Corp.*, 768 F. Supp. 2d 221 (D.D.C. 2011)**

**District Court Proceeding:**

- After *Bilski*, CLS Bank moved for summary judgment that Alice's patents were invalid under Section 101.
  
- Held:
  - All asserted claims invalid under Section 101 because they “are directed to an abstract idea of employing an intermediary to facilitate simultaneous exchange of obligations in order to minimize risk.”

 ***Alice Corp. v. CLS Bank Int'l*, 685 F.3d 1341 (Fed. Cir. 2012)**

**Federal Circuit Panel Decision:**

- Judges Linn and O'Malley reversed, holding that it was not “**manifestly evident**” that the asserted claims were directed to an abstract idea.
  
- Judge Prost dissented, concluding that “precedent and common sense counsel that the asserted patent claims are abstract ideas repackaged as methods and systems.”



## *Alice Corp. v. CLS Bank Int'l*, 717 F.3d 1269 (Fed. Cir. 2013) (en banc)

### Federal Circuit En Banc Decision:

- In 2013, a divided Federal Circuit affirmed the district court's decision that all of the asserted claims are invalid in a one paragraph *per curium* opinion.
- Multiple judges filed separate concurring and dissenting opinions.



## *Alice Corp. v. CLS Bank Int'l* – En Banc “Decision”

Judge	System Claims	Method Claims	Media Claims
Lourie	Claims are patent ineligible	Claims are patent ineligible	Claims are patent ineligible
Dyk	Claims are patent ineligible	Claims are patent ineligible	Claims are patent ineligible
Prost	Claims are patent ineligible	Claims are patent ineligible	Claims are patent ineligible
Reyna	Claims are patent ineligible	Claims are patent ineligible	Claims are patent ineligible
Wallach	Claims are patent ineligible	Claims are patent ineligible	Claims are patent ineligible
Rader (Chief)	Claims are patent <b>eligible</b>	Claims are patent ineligible	Claims are patent ineligible
Moore	Claims are patent <b>eligible</b>	Claims are patent ineligible	Claims are patent ineligible
Linn	Claims are patent <b>eligible</b>	Claims are patent <b>eligible</b>	Claims are patent <b>eligible</b>
O'Malley	Claims are patent <b>eligible</b>	Claims are patent <b>eligible</b>	Claims are patent <b>eligible</b>
Newman	Claims are patent <b>eligible</b>	Claims are patent <b>eligible</b>	Claims are patent <b>eligible</b>



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Supreme Court Decision (June 19, 2014)**

- The Supreme Court affirmed and held that all of Alice's asserted claims are not patent eligible.
  
- Unanimous decision authored by Justice Thomas.



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Framework For Analyzing Claims Under Section 101**

- **Step 1:** “[D]etermine whether the claims at issue are directed to [a] patent-ineligible concept[]” such as “laws of nature, natural phenomena, and abstract ideas.” If so;
  
- **Step 2:** “[S]earch for an ‘inventive concept’” that could “transform” a claim into a patent-eligible application.



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Step 1: Analysis of Method & System Claims**

- The Court found that Alice’s claims are “drawn to the concept of intermediated settlement” which is “a fundamental economic practice” and “a building block of the modern economy.”
- The claims “are squarely within the realm of ‘abstract ideas.’”



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Step 1: Analysis of Method & System Claims**

- “In any event, we need not labor to delimit the precise contours of the ‘abstract ideas’ category in this case. It is enough to recognize that there is no meaningful distinction between the concept of risk hedging in *Bilski* and the concept of intermediated settlement at issue here. Both are squarely within the realm of ‘abstract ideas’ as we have used that term.”



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Step 2: Analysis of Method Claims**

- The Court concluded “that the method claims, which merely require generic computer implementation, fail to transform that abstract idea into a patent-eligible invention.”
- “Stating an abstract idea ‘while adding the words ‘apply it’ is not enough for patent eligibility. Nor is limiting the use of an abstract idea ‘to a particular technological environment.’”



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Step 2: Analysis of Method Claims**

- Although a computer “is a tangible system,” that is not enough to transform an abstract idea into a patent-eligible invention.
- “[T]he use of a computer to obtain data, adjust account balances, and issue automated instructions; all of these computer functions are well-understood, routine, conventional activities previously known to the industry.”



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Step 2: Analysis of System Claims**

- The Court rejected Alice’s system claims.
- The “specific hardware” described in those systems was “purely functional and generic” and as a result “none of the hardware recited by the system claims ‘offers a meaningful limitation beyond generally linking the use of the [method] to a particular technological environment, that is, implementation via computers.’”



***Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347  
(2014)**

**Concurring Opinion**

- Justices Sotomayor, Ginsberg, and Breyer wrote a concurring opinion that stated that any patent “that merely describes a method of doing business does not qualify” for patent protection under Section 101.

## Impact of *Alice* on District Court Litigation

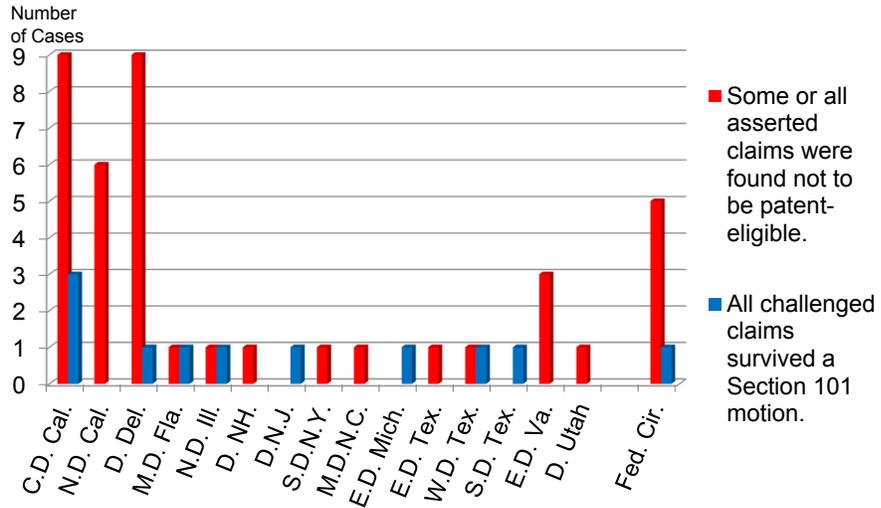
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### Post-*Alice* Section 101 Decisions

- As of February 13, 2015, 51 Section 101 decisions relying on *Alice* have issued.
  - 45 District Court decisions.
  - 6 Federal Circuit decisions.
  
- Of the plaintiffs in these 51 decisions:
  - 27 were patent assertion entities.
  - 24 were not patent assertion entities.

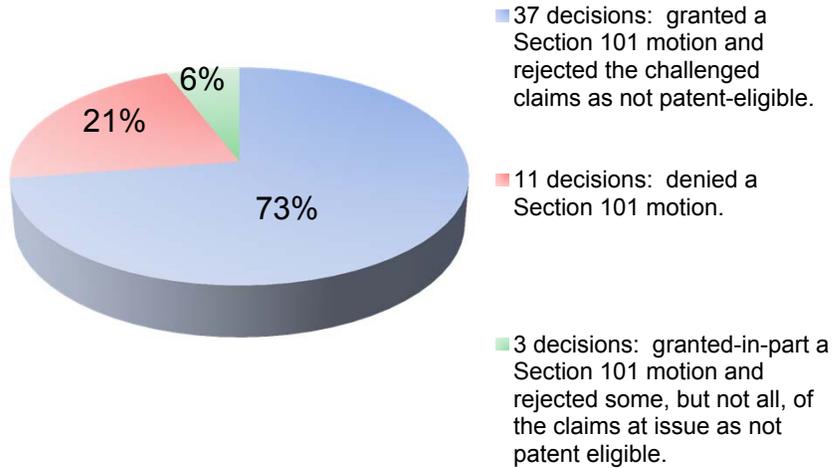
## 51 Post-Alice Section 101 Decisions



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## 51 Post-Alice Section 101 Decisions

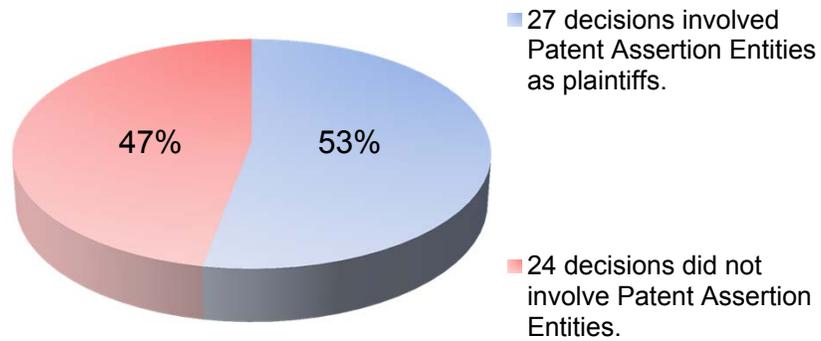


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## 51 Post-*Alice* Section 101 Decisions



## Post-*Alice* District Court Motion Practice

### How and When Section 101 Arguments Are Being Raised:

- FRCP 12: Motion to Dismiss/Judgment on the Pleadings.
- FRCP 56: Motion for Summary Judgment.



## Motion to Dismiss & Summary Judgment Standards

### Motion To Dismiss/ Judgment On The Pleadings

- FRCP 12(b)(6): The court accepts all factual allegations as true, construes the complaint in the light most favorable to the plaintiff, and determines whether, under any reasonable reading of the complaint, the plaintiff may be entitled to relief.
- FRCP 12(c): The court grants judgment on the pleadings if material facts are not in dispute and judgment can be rendered by looking at the substance of the pleadings and any judicially noticed facts.



## Motion to Dismiss & Summary Judgment Standards

### Summary Judgment

- FRCP 56(a): A movant must show that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law.



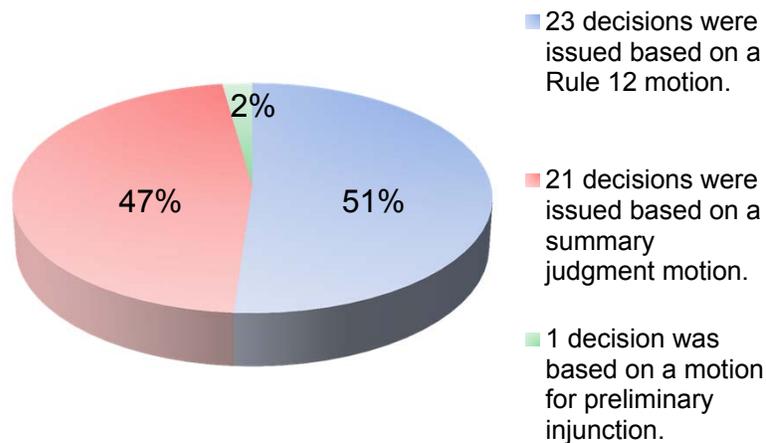
## Motion to Dismiss & Summary Judgment Standards

### Presumption of Validity (35 U.S.C. § 282)

- “A patent shall be presumed valid. Each claim of a patent . . . shall be presumed valid independently of the validity of other claims; dependent or multiple claims shall be presumed valid even though dependent on an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”

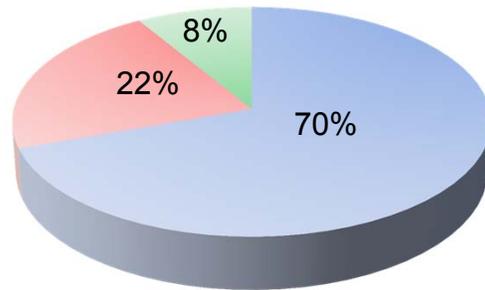


## 45 Post-*Alice* District Court Decisions: Procedural Mechanism





## 23 Post-*Alice* District Court Decisions: Rule 12 Motions



■ 16 decisions: granted a Section 101 motion and rejected the challenged claims as not patent-eligible.

■ 5 decisions: denied a Section 101 motion.

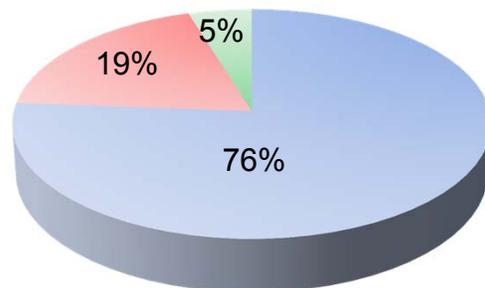
■ 2 decisions: granted-in-part a Section 101 motion and rejected some, but not all, of the claims at issue as not patent eligible.

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## 21 Post-*Alice* District Court Decisions: Motions for Summary Judgment



■ 16 decisions: granted a Section 101 motion and rejected the challenged claims as not patent-eligible.

■ 4 decisions: denied a Section 101 motion.

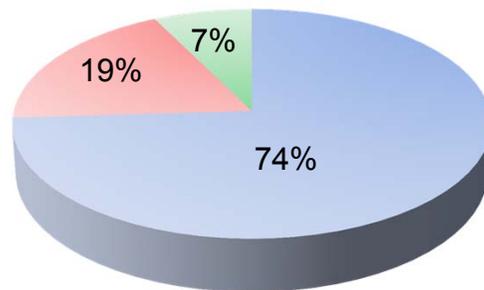
■ 1 decision: granted-in-part a Section 101 motion and rejected some, but not all, of the claims at issue as not patent eligible.

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## 27 Post-*Alice* District Court Decisions: Patent Assertion Entities



- 20 decisions: granted a Section 101 motion and rejected the challenged claims as not patent-eligible.
- 5 decisions: denied a Section 101 motion.
- 2 decisions: granted-in-part a Section 101 motion and rejected some, but not all, of the claims at issue as not patent eligible.

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## Application of *Alice* by the Federal Circuit

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## Federal Circuit Decisions Post-Alice

### Section 101 Cases Applying Alice:

Case	Outcome	PAE involved?
<i>Content Extraction &amp; Trans. LLC v. Wells Fargo Bank</i> , 2014 U.S. App. LEXIS 24258 (Fed. Cir. Dec. 23, 2014)	All claims invalidated (summary judgment granted)	Yes
<b><i>DDR Holdings, LLC v. Hotels.com</i>, 773 F.3d 1245 (Fed. Cir. Dec. 5, 2014)</b>	<b>All claims survived (judgment as a matter of law denied)</b>	Yes
<i>Ultramercial, Inc. v. Hulu, Inc.</i> , No. 2010-1544, 2014 WL 5904902 (Fed. Cir. Nov. 14, 2014)	All claims invalidated (motion to dismiss granted)	No
<i>Buysafe, Inc. v. Google, Inc.</i> , 765 F.3d 1350 (Fed. Cir. Sept. 3, 2014)	All claims invalidated (judgment on the pleadings granted)	No
<i>Planet Bingo, LLC v. VKGS LLC</i> , 576 Fed. App'x 1005 (Fed. Cir. Aug. 26, 2015)	All claims invalidated (summary judgment granted)	No
<i>Digitech Image Tech. v. Elecs. For Imaging, Inc.</i> , 758 F.3d 1344 (Fed. Cir. July 11, 2014)	All claims invalidated (summary judgment granted)	Yes



## Notable Fed. Cir. Cases Applying Alice

### DDR Holdings, LLC v. Hotels.com (Holding):

- One patent was found invalid under Section 102(a), but a second patent was found valid under Section 101.
  - “Distinguishing between claims that recite a patent-eligible invention and claims that add too little to a patent-ineligible abstract concept can be difficult, as the line separating the two is not always clear. At one time, a computer-implemented invention was considered patent-eligible so long as it produced a ‘useful, concrete and tangible result.’”
  - The asserted claims “involve both a computer and the Internet. But these claims stand apart [from claims held not patent eligible under Section 101 in other cases] because they do not merely recite the performance of some business practice known from the pre-Internet world along with the requirement to perform it on the Internet. **Instead, the claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.**”



## Notable Fed. Cir. Cases Applying *Alice*

### DDR Holdings, LLC v. Hotels.com (Holding):

- “We caution, however, that not all claims purporting to address **Internet-centric challenges are eligible for patent.**” Rather, unlike some claims that “broadly and generically claim ‘use of the Internet,’” DDR’s asserted claims “specify 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.”
- “It is also clear that the claims at issue do not attempt to preempt every application of the idea of increasing sales by making two web pages look the same, or of any other variant suggested by [the defendants]. Rather, they recite a specific way to automate the creation of a composite web page by an ‘outsourced provider’ that incorporates elements from multiple sources in order to solve a problem faced by websites on the Internet.”



## Notable Fed. Cir. Cases Applying *Alice*

### DDR Holdings, LLC v. Hotels.com (Dissent):

- Judge Mayer dissented, arguing that DDR’s asserted claims fell outside the scope of Section 101.
  - The asserted claims “simply describe an abstract concept—that an online merchant’s sales can be increased if two web pages have the same ‘look and feel’—and apply that concept using a generic computer.”
  - “DDR’s claims do, in fact, simply take a well-known and widely-applied business practice and apply it using a generic computer and the Internet. The idea of having a ‘store within a store’ was in widespread use well before the dawn of e-commerce.”
  - “DDR’s patents fall outside section 101 because they simply ‘tak[e] existing information’— the visual appearance of a host merchant’s website—and use conventional technology to ‘organiz[e] this information into a new form.’”

## Conclusion



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### **Impact of *Alice***

- Apparent increased frequency in which courts invalidate claims as not patent-eligible.
- In 20 out of 27 decisions (74%) involving patent assertion entities, all challenged claims were invalidated under Section 101.
- In 17 out of 24 decisions (71%) not involving patent assertion entities, all challenged claims were invalidated under Section 101.
- To date, Section 101 challenges arise in Rule 12 motions at roughly the same frequency as in motions for summary judgment.

 Thank you.

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