

The Wonderland Of Patent Ineligibility As Litigation Defense

Law360, New York (June 5, 2015, 10:19 AM ET) --

For accused infringers in software patent cases, the year since the U.S. Supreme Court's decision in *Alice Corp. v. CLS Bank Int'l* has been like a fantasy. Just as Lewis Carroll's famous character Alice follows a white rabbit down a rabbit hole into Wonderland, so too have accused infringers followed Alice into a new and curious world. In the post-Alice world, district courts are considering and granting pretrial motions to invalidate software patents for lack of patent eligibility at a legendary rate.

One must wonder, however, whether this world is just a fantasyland because Congress apparently never authorized patent ineligibility as a litigation defense. Section 282(b) of title 35 enumerates the defenses that may be raised in any action involving the validity or infringement of a patent. Curiously, patent eligibility under 35 U.S.C. § 101 (the basis raised in *Alice*) is not among them. Whether Section 101 is a proper litigation defense under the statute appears to hinge on whether patent eligibility is a "condition for patentability." But neither the Supreme Court nor the Federal Circuit have definitively answered this riddle. No published district court opinion post-Alice directly addresses this question either. Consequently, district courts have used *Alice* to invalidate software patents based on a litigation defense whose statutory basis is nonexistent.



Lewis E. Hudnell III

35 U.S.C. § 282(b)

Of the defenses authorized by Section 282(b), only those recited in parts (b)(2) and (b)(4) arguably cover patent eligibility, which state in relevant part:

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: ...

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability, ...

(4) Any other fact or act made a defense by this title.[1]

Part (b)(4) does not appear to apply because the language of Section 101 does not demarcate any fact or act as a litigation defense.[2] On its face, part (b)(2) also does not apply. The only grounds specified in part II of title 35 as a condition for patentability are Sections 102 and 103, which are titled "Conditions for patentability; novelty" and "Conditions for patentability; non-obvious subject matter," respectively,[3] not Section 101, which is titled "Inventions Patentable." [4]

The Supreme Court

The Supreme Court has never explicitly stated that patent eligibility is a “condition for patentability.” Rather, it has recognized that Section 101 is a general statement of the type of subject matter eligible for patent protection, whereas the specific conditions of patentability follow in later sections.[5] At most, the Supreme Court has suggested that “utility” is “condition of patentability.”[6] In *Graham v. John Deere*, the Supreme Court explained in dicta that the original Patent Act of 1793 had only two conditions of patentability — novelty and utility — and that the 1952 Patent Act codified a third condition of patentability — nonobviousness:

The [1952 Patent] Act sets out the conditions of patentability in three sections. An analysis of the structure of these three sections indicates that patentability is dependent upon three explicit conditions: novelty and utility as articulated and defined in §101 and §102, and nonobviousness, the new statutory formulation, as set out in §103.[7]

Graham, however, is silent as to whether patent eligibility is also a condition of patentability, and therefore a defense under section 282(b).

Five of the six Supreme Court cases addressing patent eligibility before *Alice* — *Gottschalk v. Benson*,[8] *Parker v. Flook*,[9] *Diamond v. Chakrabarty*,[10] *Diamond v. Diehr*,[11] and *Bilski v. Kappos*[12] — all arose in the administrative context, and therefore do not address whether section 101 is a proper litigation defense. Although the sixth, *Mayo Collaborative Services v. Prometheus Labs. Inc.*,[13] and *Alice* arose from litigation, these opinions also do not address this particular issue.

The Federal Circuit

Although the Federal Circuit has considered whether Section 101 is a condition of patentability, its opinions are varied. For example, in *Aristocrat Tech. v. Int’l Game Tech.*,[14] Judge Richard Linn posits that “[i]t has long been understood that the Patent Act sets out the conditions for patentability in three sections: sections 101, 102, and 103,” relying on the same dictum from *Graham* cited above.[15] In analyzing whether improper revival could be raised as a defense under section 282(2), Judge Linn suggests that patent eligibility is a Section 282 defense: “[s]ection 282(2), by virtue of its applicability to ‘condition[s] for patentability,’ relates only to defenses of invalidity for lack of utility and eligibility, novelty, and nonobviousness, and does not encompass a defense based upon the alleged improper revival of a patent application.”[16]

Conversely, in *Myspace Inc. v. Graphon Inc.*, Judge S. Jay Plager acknowledges that Congress specified the defenses in any action involving the validity of a patent as “any ground specified in part II of this title as a condition of patentability” and named only two Patent Act sections “conditions for patentability” — Sections 102 and 103.[17] Judge Plager also suggests that courts could avoid the “murky morass” of Section 101 jurisprudence by insisting that “litigants initially address patent invalidity issues in terms of the conditions of patentability defenses as the statute provides, specifically §§ 102, 103, and 112.”[18]

Former Chief Circuit Judge Randall Rader more directly addresses the issue of whether Section 101 is a proper litigation defense, albeit in dissent, in the Federal Circuit’s highly fractured *CLS Bank Int’l v. Alice Corp.* decision.[19] For Judge Rader, the answer is simple: “[w]hen all else fails, consult the statute!”[20] As Judge Rader observes, “the statute [Section 282] does not list Section 101 among invalidity defenses to infringement.”[21] In fact, in Judge Rader’s view, the Supreme Court long ago held that Section 101 is not a condition of patentability.[22]

Yet, perhaps the most curious collection of disparate views on whether Section 101 is a condition of patentability are the Federal Circuit’s three *Ultramercial* decisions. The Federal Circuit twice reversed a district court dismissal of patent claims relating to distributing copyrighted material over the Internet for

lack of patent eligibility. The Supreme Court vacated and remanded both decisions for further consideration in light of Mayo and Alice, respectively.[23] Ultimately, the Federal Circuit affirmed the dismissal in light of Alice.[24]

In *Ultramercial I*, Judge Rader labels Section 101 as a “coarse eligibility filter” and distinguishes between this threshold inquiry, and the substantive conditions of patentability, such as novelty, nonobviousness, and adequate disclosure.[25]

In *Ultramercial II*, Judge Rader again distinguishes between Section 101’s “coarse eligibility filter” and the substantive conditions of patentability.[26] Judge Rader even notes that the patentee could have argued that Section 101 is not an infringement defense but did not.[27]

By *Ultramercial III*, Alice was decided and Judge Rader had resigned. He was replaced on the *Ultramercial III* panel by Judge Haldane Robert Mayer, who in his concurrence characterizes Section 101 as a “primal inquiry” that must be addressed at the outset of litigation and that “bears some of the hallmarks of a jurisdictional inquiry.”[28] Judge Mayer further rejects the notion that Section 101 is merely a “coarse eligibility filter.”[29] Interestingly, Judge Mayer expresses a similar view in dissent in *Myspace*, which criticizes the “coarse eligibility label” Judge Rader places on section 101 in *Ultramercial I*. [30]

The District Courts

After Alice, numerous district courts have adopted the view that Section 101 challenges may be raised at the outset of litigation.[31] But surprisingly, no published district court decision post-Alice squarely addresses the threshold issue of whether Section 101 is a proper litigation defense. One district court acknowledges in a footnote that Section 101 is not among the defenses listed in section 282(b).[32] But otherwise, district courts post-Alice have so far overlooked Congress’ apparent will on this issue.

The Patent Trial and Appeal Board

On the other hand, the Patent Trial and Appeal Board has repeatedly rejected the contention that a Section 101 challenge may not be raised in a covered business method review — the primary America Invents Act proceeding used to challenge software patents.[33] Under the AIA, only the defenses listed in Sections 282(b)(2) and (b)(3) can be raised in a CBM.[34] To find that Section 101 is a condition of patentability under Section 282(b)(2), the PTAB principally relies on the legislative and rule making history of the AIA and *Graham, Mayo and Dealertrack Inc. v. Huber*. [35] Even assuming that the AIA legislative and rule making history contemplate that Section 101 ineligibility may be raised in a CBM, which some scholars argue that it cannot,[36] this history does not apply to actions in court. Moreover, as noted above, neither *Graham* nor *Mayo* specifically address whether patent eligibility is a condition of patentability. *Dealertrack* also did not decide that patent eligibility is a condition of patentability but instead relies on dictum from *Aristocrat* that, in turn, relies on the dictum from *Graham* noted above, which is inconclusive.[37]

Conclusion

Given the flood of patent eligibility challenges in district court post-Alice, the courts will eventually confront and decide whether Congress authorized patent ineligibility as a litigation defense under Section 282(b). But until then, the basis for asserting this defense remains a wonder.

—By Lewis E. Hudnell III, Hudnell Law Group PC

Lewis Hudnell is the founding principal of Hudnell Law Group in Silicon Valley, California.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] 35 U.S.C. § 282(b).

[2] See 35 U.S.C. §101 (“Whoever invents or discovers. . . may obtain a patent therefor . . .”).

[3] See 35 U.S.C. §§102 and 103.

[4] See 35 U.S.C. § 101.

[5] See *Diamond v. Diehr*, 450 U.S. 175, 190 (1981) (citing Congressional hearing report stating that “[t]he conditions under which a patent may be obtained follow [section 101].”).

[6] *Graham v. John Deere*, 383 U.S. 1, 12 (1966).

[7] *Id.*

[8] 409 U.S. 63 (1972).

[9] 447 U.S. 584 (1978).

[10] 447 U.S. 303 (1981).

[11] 450 U.S. 175 (1982).

[12] 130 S. Ct. 3218 (2010).

[13] 132 S. Ct. 1289 (2012).

[14] *Aristocrat Tech. v. Int’l Game Tech.*, 543 F.3d 657 (Fed. Cir. 2008).

[15] *Id.* at 661; see also *id.* at n. 3 (“Although the Supreme Court in *Graham* referred only to the utility requirement aspect of section 101, as we often do, it is beyond question that section 101’s other requirement, that the invention be directed to patentable subject matter, is also a condition for patentability.”)

[16] *Id.* at 662.

[17] *Myspace, Inc. v. Graphon, Inc.*, 672 F.3d 1250, 1260 (Fed. Cir. 2012) (“The two sections of part II that Congress has denominated ‘conditions of patentability’ are § 102 (‘novelty and loss of right to patent’) and § 103 (‘nonobvious subject matter’).”).

[18] *Id.*

[19] *CLS Bank Int’l v. Alice Corp.*, 717 F.3d 1269 (Fed. Cir. 2013), *aff’d by Alice Corp. Pty. Ltd. v. CLS Bank Int’l.*, 134 S. Ct. 2347 (2014).

[20] *Id.* at 1335.

[21] *Id.*

[22] Id. (citing Diehr, 450 U.S. at 189-90 (citing In re Bergy, 596 F.2d 952, 963 (CCPA 1979) (Section 101 “was never intended to be a ‘standard of patentability,’ the standards, or conditions as the statute calls them, are in 102 and 103”))).

[23] See Ultramercial, LLC v. Hulu, LLC et al., 657 F.3d 1323 (Fed. Cir. 2011), vacated and remanded by WildTangent, Inc. v. Ultramercial, LLC, 132 S. Ct. 2431 (U.S. 2012); Ultramercial, Inc. v. Hulu, LLC et al., 722 F.3d 1335 (Fed. Cir. 2013), vacated and remanded by WildTangent, Inc. v. Ultramercial, LLC, 134 S. Ct. 2870 (U.S. 2014).

[24] Ultramercial, Inc. v. Hulu, LLC et al., 772 F.3d 709 (Fed. Cir. 2014).

[25] Id. at 1326.

[26] Id. at 1341.

[27] Id.

[28] Id. at 718 (Mayer, J., concurring).

[29] Id. at 720 (Mayer, J. concurring).

[30] Myspace, Inc. v. Graphon, Inc., 672 F.3d 1250, 1268 (Fed. Cir. 2012) (Mayer, J. dissenting).

[31] See, e.g., Shortridge v. Found. Constr. Payroll Serv., LLC, Case No. 14-cv-4850-JCS, 2015 U.S. Dist. LEXIS 49126, at *18-19 (N.D. Cal. Apr. 14, 2015).

[32] Intellectual Ventures I LLC v. Symantec Corp., C.A. No. 10-1067-LPS, C.A. No. 12-1581-LPS, 2015 U.S. Dist. LEXIS 52527, at *15 n.5 (D. Del. Apr. 22, 2015).

[33] See, e.g., Regions Financial Corporation et al. v. Retirement Capital Access Management Company, LLC, Case CBM2014-00012, Paper 28 at pp. 10-12 (PTAB Mar. 23, 2015).

[34] 37. C.F.R. §42.304.

[35] See, e.g., SAP America, Inc., v. Versata Development Group, Inc., CASE CBM2012-00001, Paper 36 at pp. 32-36 (PTAB Jan. 9, 2013); see also http://www.uspto.gov/blog/director/entry/ptab_and_patentability_challenges (last visited May 22, 2015).

[36] See <http://patentlyo.com/hricik/2014/02/exhaustive-properly-proceedings.html> (last visited May 22, 2015).

[37] Dealertrack, Inc. v. Huber, 674 F.3d 1315, 1330 n.3 (Fed. Cir. 2012).