

Six years after *Alice*, are we any closer to clarity on patent eligibility?

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In June 2014, the Supreme Court decided *Alice v. CLS Bank* and fundamentally altered the scope of patent eligible subject matter.¹ The impact was profound. In the year following *Alice*, there were more than 90 district court decisions involving the question of patent eligible subject matter, which was previously viewed as a relatively obscure defense.

In the same one-year period, the Federal Circuit decided 22 cases involving patent eligibility and found the asserted patents invalid 21 times. The U.S. Patent and Trademark Office (“USPTO”) also saw a tremendous increase in rejections under Section 101 of the Patent Act, 35 U.S.C.A. § 101.

Post-*Alice* motions to dismiss were generally seeing a high success rate.

More than six years later, *Alice* continues to cast its shadow on the patent landscape. We discuss how the law has evolved since *Alice*, and the current practical impact on patent applicants and litigants today.

THE ALICE TEST

Alice was the fourth case in a five-year period in which the Supreme Court addressed the threshold issue of subject matter eligibility.² In *Alice*, the court applied the two-step test it set out two years earlier in *Mayo Collaborative Servs. v. Prometheus Labs. Inc.*³ to the field of computer-related inventions.

The first step asks whether the claim is directed to a law of nature, a natural phenomenon or an abstract idea. If not, the claim is patent eligible. Otherwise, the inquiry shifts to the second step which asks whether the elements of the claim, alone or in combination, show an “inventive concept” that renders the claim patent eligible.

With respect to computer-related inventions, the *Alice* court made it clear that the recitation of a generic computer to perform a known method does not amount to an inventive concept.

While the *Alice* test appears facially simple, it has presented significant challenges in its application, and has resulted in a fundamental shift in the patent landscape.

THE SHIFTING TIDES IN DISTRICT COURT PRACTICE

In the wake of *Alice*, defendants began challenging the validity of asserted patents in early motions to dismiss.

Typically, motions to dismiss face steep hurdles since the motion is limited to the pleadings, allegations in the pleadings must be taken as true, and any disputed questions of fact must be viewed in favor of the non-moving party.

Because the question of patent eligibility was initially viewed purely as a question of law, however, motions to dismiss on this issue were being considered at the preliminary stages of the litigation.

Although there were jurisdictional differences in outcomes, post-*Alice* motions to dismiss were generally seeing a high success rate. From June 2014 through June 2018, district courts found asserted claims ineligible 68% of the time.⁴

This success empowered defendants, who previously had little recourse early in a patent case (other than settlement), and had a significant practical impact on patent litigation. New patent cases dropped precipitously — from 5833 patent cases filed in 2015 down to 3590 in 2018.⁵

The potential for a defendant to end a patent case at the pleadings stage, and at relatively modest cost, was highly disruptive to many high volume plaintiff’s litigation models, which relied on the specter of high litigation costs to leverage early settlements. Indeed, new case filings from high volume non-practicing entities fell more than 50% from 3064 new cases in 2015 to just 1360 in 2018.

This shift, however, was short lived. The ability to invalidate a patent claim early in a case was significantly diminished by the Federal Circuit’s 2018 decisions in *Berkheimer v. HP Inc.*⁶ and *Aatrix Software Inc. v. Green Shades Software Inc.*⁷

Berkheimer confirmed that patent eligibility is properly viewed on a claim-by-claim basis. As a result, it may not be sufficient to consider only a “representative” independent claim if narrower claims include limitations that are meaningful to the analysis.

More significantly, the *Berkheimer* court held that “[w]hether a claim recites patent eligible subject matter is a question of law which may contain disputes over underlying facts.”⁸

Specifically, the court held that “[w]hether something is well-understood, routine, and conventional to a skilled artisan at the time of the patent is a factual determination” and that this question “goes beyond what was simply known in the prior art.”⁹

Although *Berkheimer* was decided on a motion for summary judgement, the Federal Circuit quickly extended its rationale to motions to dismiss in *Aatrix*.¹⁰

While acknowledging that “patent eligibility can be determined at the Rule 12(b)(6) stage,” the court warned that “[t]his is true only when there are no factual allegations that, taken as true, prevent resolving the eligibility question as a matter of law.”

Further, *Aatrix* reiterated that the second step of *Alice* can present “subsidiary fact questions which must be resolved...”¹¹ Thus, patent eligibility was transformed from a pure legal question to a mixed question of law and fact, a critical distinction given the procedural limitations in the context of motions to dismiss.

A recent quantitative analysis of Federal Circuit decisions addressing patent eligibility since *Alice* illustrates that patent owners face a steep challenge on appeal.

After *Aatrix*, well-plead allegations in a complaint that the asserted patent claims recite elements or combinations of elements that were not “well-understood, routine, and conventional to a skilled artisan at the time of the patent” could be found sufficient to defeat a motion to dismiss.

Not surprisingly, plaintiffs adapted quickly. In the 18-month period following *Aatrix*, decisions granting motions to dismiss based on patent eligibility grounds dropped from a 70% success rate to 45%.¹² In certain jurisdictions highly favored by patent plaintiffs, such as Texas’ eastern and western districts, the success rate of motions to dismiss based on *Alice* has been far lower.

For example, U.S. District Judge Alan Albright of the Western District of Texas has expressly noted that it is a “rare case[] where it is appropriate to resolve Section 101 eligibility of the patents-in-suit as a Rule 12(b) motion to dismiss.”¹³

While *Berkheimer/Aatrix* do not impact the merits of whether a patent claim may be found ineligible, the significantly lower rate of success in dismissing cases at the pleadings stage was a major blow to defendants and patent plaintiffs have taken notice.

After steady year-to-year declines in new case filings from 2015 through 2019, new patent case filings are up significantly through the first three quarters of 2020.

FEDERAL CIRCUIT: CONSISTENT IN OUTCOMES, YET DIVIDED ON PHILOSOPHY

A recent quantitative analysis of Federal Circuit decisions addressing patent eligibility since *Alice* illustrates that patent owners face a steep challenge on appeal.¹⁴ This study reported that over 82% of challenged patent claims at the Federal Circuit were found ineligible under *Alice* step 1. The step 2 inquiry did little to improve the odds of a claim’s survival.

Those Federal Circuit decisions which reached step 2 only found the challenged claims to be patent eligible 3.6% of the time. Collectively, after applying both steps of the *Alice* standard, the Federal Circuit invalidated patent claims at a rate of approximately 80%.

Although the results at the Federal Circuit have been largely consistent, this issue is not well settled. There is substantial variation among the voting records of the individual judges on the Federal Circuit on this issue.

Moreover, decisions invalidating a patent often include dissents or concurrences noting that the outcome may not be desirable but is the result dictated by the *Alice* standard, which the court is bound to follow.

The difficulty with the application of the *Alice/Mayo* test and the division in the Federal Circuit is highlighted by the Federal circuit’s response to en banc petitions. In 2019, the court denied Athena Diagnostics’ petition for en banc rehearing related to Athena’s patent for a medical-diagnostic method.¹⁵

Although the panel decision finding Athena’s claims ineligible was upheld, and en banc review was denied, there was little argument from the judges that claims to medical diagnostics, such as those in issue, *should* be patent eligible.

The denial of en banc review in *Athena* spurred eight separate opinions (four concurring, four dissenting), several of which pointing to the need for Congress or the Supreme Court to correct what they perceive to be a broken or unmanageable standard.

A year after *Athena*, the still-divided Federal Circuit again declined en banc review on the issue of patent eligibility for a method of manufacturing a drive shaft to reduce vibrations in a petition from American Axle.¹⁶

The petition was denied in a 6-6 vote and resulted in five separate opinions. Highlighting the difficulty at the Federal Circuit, Judge Pauline Newman’s dissent begins with the ominous warning that “[t]he court’s rulings on patent eligibility have become so diverse and unpredictable as to have a serious effect on the innovation incentive in all fields of technology.”

Despite clear frustration and division, the Federal Circuit is bound by Supreme Court precedent and change in this

area — if it is to come — will need to come either from the Supreme Court or Congress.

PATENT APPLICANTS HAVE ALSO FELT THE IMPACT OF ALICE

Prior to *Alice*, a patent applicant in the computer-related arts could generally avoid a subject matter eligibility rejection by reciting elements of computer hardware or tangible storage media in a claim.

The rationale was that recitations to computer hardware cast the claim as a “machine” and recitations of “computer-readable medium” were claims to an article of “manufacture,” both of which are categories of patent eligible subject matter under 35 U.S.C.A. § 101.

Alice expressly rejected this idea. Suddenly, patent applicants in the computer arts were facing a high rate of subject matter eligibility rejections for claims that had long been considered patent eligible.

There appears to be little interest at the high court to further clarify the *Alice* test.

The USPTO recently published a report on the impact of *Alice* (“the *Alice* Report”) and the findings were dramatic.¹⁷

The *Alice* Report reviewed subject matter eligibility rejections at the USPTO in two key areas: (1) the percentage of first office action subject matter eligibility rejections, and (2) the degree of uncertainty in the patenting process, which captures variations across examiners in the proportion of rejections for patent-ineligible subject matter.

The *Alice* Report shows an approximate 31% increase in subject matter eligibility rejections for *Alice*-related technologies in the eighteen months following the *Alice* decision. There was also a substantial increase in the level of uncertainty in issuing first office action rejections for subject matter eligibility for *Alice*-related technologies.

The USPTO surmised that much of this uncertainty resulted from the lack of a clearly articulated standard in *Alice* that could be evenly applied by patent examiners.

In the wake of the *Alice* decision, the USPTO issued Preliminary Examination Instructions. More substantive guidance was provided in December 2014. However, this internal guidance had little, if any, effect on the high rate of subject matter eligibility rejections in *Alice*-related technologies.

The *Alice* Report illustrates that first action rejections in *Alice*-related technologies remained over 30%. Starting in 2018, following the nomination of Andrei Iancu as the Director of the USPTO, the USPTO issued several memoranda on subject matter eligibility which dramatically reduced subject-matter eligibility rejections.

After the USPTO issued two key updated guidelines: the “Memorandum — Revising 101 Eligibility Procedure in view of *Berkheimer v. HP Inc.*,” issued in April of 2018 (“*Berkheimer* Memo”),¹⁸ and “The 2019 Revised Patent Subject Matter Eligibility Guidance,” issued in January of 2019 (“2019 PEG”),¹⁹ first action patent eligibility rejections in *Alice*-related technologies fell to less than 20%.

The uncertainty level in first action subject matter rejections also fell dramatically in both *Alice*-related technologies and other technologies.

Although patent applicants have certainly welcomed the lower rejection rates and improved certainty at the patent office, there remains concern that the examination guidelines at the patent office may not be fully aligned with Federal Circuit and Supreme Court precedent.

Since the Federal Circuit has stated that courts are not bound by USPTO guidelines, especially in the context of subject matter eligibility, there remains a risk that patents issued under the current guidelines may still be invalidated under *Alice* in subsequent litigation.²⁰

CHANGE IS NOT ON THE HORIZON

There appears to be little interest at the high court to further clarify the *Alice* test. Indeed, the court has not taken any cases on this issue since *Alice*. This drought is not because of a lack of interest from litigants.

Since June 2014, there have been approximately fifty petitions for certiorari raising questions under the *Mayo/Alice* patent eligibility standard. Each of these petitions was denied. While there are new petitions pending, including from American Axle, so far the court has proven reluctant to revisit this issue.

The prospects for change in the near future in Congress seem equally dim. Congress is aware of the problems introduced by *Alice*, but has not found a way forward to address this issue. On May 22, 2019, a number of Senators and Congressman released a bipartisan, bicameral draft bill to reform Section 101 of the Patent Act.

These efforts stalled in May of this year, however, after various stakeholders failed to compromise on language for the bill. At this time, there is no pending legislation that addresses the scope of patent eligibility or the standard set out in the *Alice* decision.

CONCLUSION

Alice initially provided a potent weapon for defendants, but that impact has been tempered as the law evolved to limit the likelihood of success of motions to dismiss. While patent eligibility remains a robust defense, it is now less likely to be a vehicle to end a patent case early.

At the patent office, revised guidelines at the USPTO have resulted in more predictability and lower rejection rates,

but there remains a concern that newly issued patents may be susceptible to challenges in litigation despite the issue being resolved in the patent office and the patent enjoying a presumption of validity.

There is still tremendous uncertainty in this area and both patent owners and defendants in patent cases would benefit from additional clarity on this pivotal issue. However, because the interests of various stakeholders are not aligned, a legislative solution has so far proven to be elusive.

Notes

- ¹ *Alice Corp v. CLS Bank Int'l*, 573 U.S. 208 (2014).
- ² See e.g., *Bilski v. Kappos*, 561 U.S. 593 (2010), *Mayo Collaborative Servs. v. Prometheus Labs Inc.*, 566 U.S. 66, (2012), *Ass'n for Molecular Pathology v. Myriad Genetics Inc.*, 569 U.S. 576 (2013).
- ³ 566 U.S. 66 (2012).
- ⁴ <https://bit.ly/36Vr4cr>
- ⁵ LEX MACHINA PATENT LITIGATION REPORT, February 2020
- ⁶ *Berkheimer v. HP Inc.*, 881 F.3d 1360 (Fed. Cir. 2018).
- ⁷ *Aatrix Software Inc. v. Green Shades Software Inc.*, 882 F.3d 1121 (Fed. Cir. 2018).
- ⁸ *Berkheimer v HP Inc.*, 881 F.3d at 1368.
- ⁹ *Id.* at 1369.
- ¹⁰ *Aatrix Software* at 1121 (Fed. Cir. 2018).
- ¹¹ *Id.* at 1128.
- ¹² "Quick Alice Wins Dwindling In Wake Of Berkheimer Ruling," Davis, LAW360, July 25, 2019, <https://bit.ly/36Vr4cr>.
- ¹³ *Aeirtas LLC v. Sonic Corp.*, 20-cv-103, order issued (W.D. Tex. Mar. 14, 2020).
- ¹⁴ "Lessons From a Quantitative Analysis of the Federal Circuit's Section 101 Decisions Since Alice," Gerst et al., September 2, 2020, published via IP WATCHDOG. <https://bit.ly/2lx5dzP>

¹⁵ *Athena Diagnostics v. Mayo Collaborative Servs.*, 927 F.3d 1333 (Fed. Cir. 2019).

¹⁶ *American Axle & Mfg. Inc. v Neapco Holdings LLC*, 966 F.3d 1347 (Fed. Cir. 2020).

¹⁷ <https://bit.ly/32RvbEX>

¹⁸ See <https://bit.ly/3nu69Ub> for analysis of the Berkheimer Memo.

¹⁹ See <https://bit.ly/38K2sG1> for analysis on the 2019 PEG.

²⁰ *Cleveland Clinic Found. v. True Health Diag. LLC*, 760 F. App'x 1013 (Fed. Cir. 2019) (non-precedential decision).

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