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PATENTS

Here We Go Round the Merry-Go-Round: How a § 101 Denial May Inform a Subsequent Motion



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With the explosion of 35 U.S.C. § 101 challenges since *Alice v. CLS Bank*,¹ litigants and courts are well familiar with its applicable two-part inquiry. Overlaying and shaping the *Alice* inquiry, however, are (1) the parties' evidentiary burdens in addressing the *Alice* inquiry, and (2) the standard of review for the particular motion raising the § 101 challenge.

Although the general standard of review for each type of motion is well established, district courts dis-

agree regarding whether, within the procedural context of each type of motion, a defendant must establish its § 101 challenge by a clear and convincing standard of proof or some lesser standard. With the courts' differing stances informing both the analysis and the resulting decision, the next question becomes what a denial of any of these motions tells us about a subsequent § 101 challenge in the same case.

To address these issues, this article describes U.S. Supreme Court and U.S. Court of Appeals for the Federal Circuit discussions of the burden of proof for § 101 challenges. With that foundation, this article discusses how courts have applied these burdens in the context of Federal Rule of Civil Procedure 12 and summary judgment motions, and then addresses the practical effect of those orders.

The article concludes by offering considerations for bringing a subsequent § 101 challenge and/or preserving the issue in the case of the defendant, as well as considerations for affirmatively raising the issue in the case of the patentee.

I. Background: Conflicting Dicta on the Standard of Proof

The general burden and standard of proof for each type of procedural motion are well established. A Rule 12(b)(6) or 12(c) motion is limited to the pleadings and those documents that are either incorporated into the complaint or subject to judicial notice. The court must accept all "well-pleaded facts as true," and the movant must establish that "there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law."²

For a summary judgment motion, the court views the facts in a light most favorable to the non-movant, and the movant must establish the lack of a genuine issue of material fact supporting the claim at issue.³ But overly-

¹ *Alice Corp. Pty Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2014 BL 170103, 110 U.S.P.Q.2d 1976 (2014) (88 PTCJ 513, 6/20/14)

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² *Ashcroft v. Iqbal*, 556 U.S. 662, 679 (2009).

³ Fed. R. Civ. P. 56(a).

ing these general standards is the substantive burden of proof on a § 101 challenge, and on this, district courts have not reached consensus. This lack of consensus is due, in large part, to conflicting statements by the Supreme Court and Federal Circuit that suggest either a clear and convincing or preponderance standard of proof for § 101 challenges.

A. Supreme Court: *Microsoft v. i4i*

Microsoft v. i4i addressed whether an invalidity defense must be established by clear and convincing evidence in light of 35 U.S.C. § 282, which states in relevant part that “[a] patent shall be presumed valid” and that the “burden of establishing invalidity . . . shall rest on the party asserting such invalidity.”⁴ Holding that it does, the Court explained that a patent is presumed valid because the PTO is “presumed to do its job.” In particular, the PTO issues a patent only after examining whether it meets the prerequisites for issuance, and after making various factual determinations regarding “the state of the prior art in the field and the nature of the advancement embodied in the invention.”⁵ The Court further explained that by stating that a patent is “presumed valid,” § 282 imports the common law meaning requiring clear and convincing evidence.⁶

Although *i4i* suggests that the clear and convincing standard applies broadly to invalidity defenses, Justice Breyer’s concurrence, joined by Justices Scalia and Alito, advocated for a narrower view. In particular, the concurrence emphasized that “the evidentiary standard of proof applies to questions of fact and not to questions of law,” and that “[m]any claims of invalidity rest . . . not upon factual disputes, but upon how the law applies to facts as given.”⁷ The concurrence concluded, “By preventing the ‘clear and convincing’ standard from roaming outside its fact-related reservation, courts can increase the likelihood that discoveries or inventions will not receive legal protection where none is due.”⁸ Thus, this concurrence in *i4i* raised a question about how broadly the clear and convincing standard applies where the invalidity challenge raises both questions of fact and questions of law.

B. Federal Circuit: *Ultramercial I and II*

The Federal Circuit’s two decisions in *Ultramercial Inc. v. Hulu, LLC* (“*Ultramercial I*” and “*Ultramercial II*”)⁹ provide differing dicta on both sides. *Ultramercial I* appeared to answer the question by applying *i4i* to hold that the clear and convincing burden of proof applies to § 101 challenges. *Ultramercial I* explained that “when a patent issues, it does so after the Patent Office assesses and endorses its eligibility under § 101, just as it assesses and endorses its patentability under the

other provisions of Title 35.”¹⁰ Applying this standard, *Ultramercial I* held that a Rule 12(b)(6) motion should be granted where “the only plausible reading of the patent must be that there is clear and convincing evidence of ineligibility.”¹¹

Ultramercial I was subsequently vacated by the Supreme Court and is not binding precedent.¹² Further, on remand from the Supreme Court, *Ultramercial II* made no mention of the standard of proof.¹³ Instead, in a concurring opinion, Judge Mayer opined that no presumption of eligibility should attach “[b]ecause the PTO has for many years applied an insufficiently rigorous subject matter eligibility standard.”¹⁴ Judge Mayer further reasoned:

Although the Supreme Court has taken up several section 101 cases in recent years, it has never mentioned—much less applied—any presumption of eligibility. The reasonable inference, therefore, is that while a presumption of validity attaches in many contexts, no equivalent presumption of eligibility applies in the section 101 calculus.^[15]

II. The District Courts Sort Through These Statements

Given these statements by the Supreme Court and Federal Circuit, district courts have come to different conclusions on the standard of proof for § 101 challenges, whether brought as a Rule 12 or summary judgment motion.

A. Rule 12 Motions

For Rule 12 motions, some courts read 35 U.S.C. § 282 strictly and *Ultramercial I* persuasively to find that all types of motions, including Rule 12 motions, require a defendant to establish a § 101 challenge by clear and convincing evidence.¹⁶ Thus, as stated in *Ultramercial I*, on a Rule 12 motion a defendant must show that “the only plausible reading of the patent must be that there is clear and convincing evidence of ineligibility.”¹⁷ In other words, the defendant must “prove a negative, i.e., to show that no plausible construction exists”¹⁸—an admittedly difficult burden.

Other courts have rejected the clear and convincing standard of proof on Rule 12 motions because no evidence outside the pleadings is considered and patent-

¹⁰ 722 F.3d at 1342, 107 U.S.P.Q.2d at 1199.

¹¹ *Id.* at 1338, 107 U.S.P.Q.2d at 1196.

¹² *WildTangent, Inc.*, 134 S. Ct. 2870.

¹³ *Ultramercial II*, 772 F.3d at 716-17, 112 U.S.P.Q.2d at 1755.

¹⁴ *Id.* at 720, 112 U.S.P.Q.2d at 1758 (Mayer, J., concurring).

¹⁵ *Id.* at 720-21, 112 U.S.P.Q.2d at 1758.

¹⁶ See, e.g., *Netflix, Inc. v. Rovi Corp.*, 114 F. Supp. 3d 927, 938, 2015 BL 228261 (N.D. Cal. 2015); *DataTern, Inc. v. Microstrategy, Inc.*, No. 1:11-cv-11970-FDS, No. 1:11-cv-12220-FDS, 2015 BL 288638 (D. Mass. Sept. 4, 2015); *BASCOM Glob. Internet Servs., Inc. v. AT & T Mobility LLC*, 107 F. Supp. 3d 639, 645, 2015 BL 150891 (N.D. Tex. 2015).

¹⁷ *Ultramercial I*, 722 F.3d at 1138.

¹⁸ *Data Distribution Techs., LLC v. BRER Affiliates, Inc.*, No. 1:12-cv-04878-JBS/KMW (D.N.J. Aug. 19, 2014); see also *A Pty Ltd. v. Google, Inc.*, No. 1:15-cv-00157-RP (W.D. Tex. Oct. 8, 2015) (“While Defendant seeks to invalidate the entirety of the ‘572 Patent, it has not met its burden to show, as a matter of law, that every possible plausible construction of each of the forty-nine claims asserted therein render the patent ineligible.”).

⁴ *Microsoft Corp. v. i4i LP*, 131 S. Ct. 2238, 2242, 2011 BL 151820, 98 U.S.P.Q.2d 1857, 1859 (2011) (82 PTCJ 182, 6/10/11).

⁵ *Id.*

⁶ *Id.* at 2245-46, 98 U.S.P.Q.2d at 1862.

⁷ *Id.* at 2253, 98 U.S.P.Q.2d at 1867 (Breyer, J., concurring).

⁸ *Id.*

⁹ *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 2013 BL 164761, 107 U.S.P.Q.2d 1193 (Fed. Cir. 2013) (86 PTCJ 455, 6/28/13) (vacated on other grounds by *WildTangent, Inc. v. Ultramercial, LLC*, 134 S. Ct. 2870 (2014); *Ultramercial II*, 772 F.3d 709, 112 U.S.P.Q.2d 1750 (Fed. Cir. 2014) (89 PTCJ 166, 11/21/14).

ability is a “threshold inquiry” raising a question of law.¹⁹ For example, one court reasoned that by applying the clear and convincing standard to Rule 12 motions, “the Court would effectively create a near impossible threshold for a defendant to clear when assessing a patent’s subject matter under the test articulated by *Alice*,” which would defeat the purpose of addressing § 101 challenges early in litigation.²⁰ Courts applying this lesser standard still place a burden of establishing patent ineligibility under § 101 on the defendant pursuant to the general Rule 12 standard, and will often state that the patent is construed in a light most favorable to the patentee at the pleadings stage.²¹

Finally, there are other courts that either avoid the issue or do not address it at all. For example, some courts acknowledge the split, yet do not take a side by finding that the defendant has established ineligibility under any standard.²² Other courts do not address or apply any burden specific to the § 101 analysis, and instead simply recite the defendant’s basic burden on a Rule 12 motion.²³ Given that the Rule 12 burden does not allow the court to consider evidence outside the pleadings, this latter analysis would appear to mirror those cases that reject the clear and convincing standard of proof for Rule 12 motions raising a § 101 challenge.

B. Summary Judgment

For summary judgment, some courts state generally that the defendant must establish invalidity by clear and convincing evidence.²⁴ This arguably broad application of the heightened standard of proof contrasts with those courts that reject the clear and convincing evidentiary standard for Rule 12 motions yet recognize that it applies to issues of fact raised on summary judgment.²⁵ In these latter cases, courts are careful to delineate that

¹⁹ *Shortridge v. Found. Constr. Payroll Serv.*, No. 3:14-cv-04850-JCS (N.D. Cal. Apr. 14, 2015) (quoting *Modern Telecom Sys. LLC v. Earthlink, Inc.*, No. 8:14-cv-00347-DOC-AN, 2015 BL 74241 (C.D. Cal. Mar. 17, 2015)); see, e.g., *Affinity Labs of Texas, LLC v. DirecTV, LLC*, 109 F. Supp. 3d 916, 933, 2015 BL 228296 (W.D. Tex. 2015) (rejecting the “only plausible reading” standard from *Ultramercial I*, and instead distinguishing between questions of fact and questions of law).

²⁰ See, e.g., *Wireless Media Innovations, LLC v. Maher Terminals, LLC*, 100 F. Supp. 3d 405, 411, 2015 BL 112746 (D.N.J. 2015).

²¹ See, e.g., *Shortridge*, No. 3:14-cv-04850-JCS (N.D. Cal. Apr. 14, 2015).

²² See, e.g., *Opentv, Inc. v. Apple Inc.*, No. 5:15-cv-02008-EJD, 2016 BL 23670 (N.D. Cal. Jan. 28, 2016); *In re TLI Commc’ns LLC Patent Litig.*, 87 F. Supp. 3d 773, 798, 2015 BL 112746 (E.D. Va. 2015); *Intellectual Ventures I LLC v. Symantec Corp.*, 100 F. Supp. 3d 371, 380, 2015 BL 114435 (D. Del. 2015).

²³ See e.g., *Motivation Innovations, LLC v. Petsmart, Inc.*, No. 1:13-cv-00957-SLR, 2016 BL 7301 (D. Del. Jan. 12, 2016) (applying general Rule 12 standard in granting motion); *C. R. Bard, Inc. v. Angiodynamics, Inc.*, No. 1:15-cv-00218-SLR (D. Del. Jan. 12, 2016) (applying general Rule 12 standard in denying motion).

²⁴ See, e.g., *Tenon & Groove, LLC v. Plusgrade S.E.C.*, No. 1:12-cv-01118-GMS, 2015 BL 64969 (D. Del. Mar. 11, 2015); *DataTern*, No. 1:11-cv-11970-FDS, No. 1:11-cv-12220-FDS, 2015 BL 288638.

²⁵ See, e.g., *Modern Telecom Sys. LLC v. Lenovo (U.S.) Inc.*, No. 8:14-cv-01266-DOC-JEM, 2015 BL 398256 (C.D. Cal. Dec. 2, 2015); *Listingbook, LLC v. Mkt. Leader, Inc.*, No. 1:13-cv-00583-LCB-JEP, 2015 BL 374508 (M.D.N.C. Nov. 13, 2015) (explaining that clear and convincing standard applies only to dis-

puted issues of fact and not how the law applies to the facts); *Affinity Labs of Tex.*, 109 F. Supp. 3d at 932-34 (same).

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III. The Standards of Proof and the Effect of a Denial on a Subsequent Motion

Where the court denies a Rule 12 motion, it is most often because the motion is premature and/or requires claim construction, leaving open the filing of a subsequent motion by the defendant. Rule 12 motions are most often denied without prejudice, which is a function of the standards applied at the pleadings stage. For example, where the court applies the clear and convincing standard as articulated by *Ultramercial I*, a denial means only that the defendant has not established that “the only plausible reading of the patent [is] that there is clear and convincing evidence of ineligibility.” In other words, unless there is only one plausible reading of the patent, the court has not determined which, among several plausible interpretations, is the proper reading of the patent. And even where the court does not apply the clear and convincing standard of proof, the patent is viewed in a light most favorable to the plaintiff, leaving open for later analysis the actual scope of the patent.

puted issues of fact and not how the law applies to the facts); *Affinity Labs of Tex.*, 109 F. Supp. 3d at 932-34 (same).

²⁶ See *01 Communique Lab., Inc. v. Citrix Sys., Inc.*, No. 1:06-cv-00253-SL (N.D. Ohio Dec. 21, 2015).

²⁷ See, e.g., *Wireless Media Innovations, LLC v. Maher Terminals, LLC*, 100 F. Supp. 3d 405, 411, 2015 BL 112746 (D.N.J. 2015) (“With no authoritative law binding the Court as to an applicable standard, the Court adopts Judge Mayer’s approach and will not afford Plaintiff’s Patents the presumption of subject matter eligibility.”); *Tranxition, Inc. v. Lenovo (U.S.) Inc.*, No. 3:12-cv-01065-HZ, 2015 BL 221127 (D. Or. July 9, 2015) (declining to apply presumption of eligibility in § 101 challenge).

²⁸ See, e.g., *SimpleAir, Inc. v. Google Inc.*, No. 2:14-cv-00011-JRG (E.D. Tex. Sept. 25, 2015) (stating general burden on summary judgment and addressing *Alice* inquiry without applying any heightened evidentiary burden); *Maxus Strategic Sys., Inc. v. Aquamin LLC*, No. 1:11-cv-00073-LY (W.D. Tex. Aug. 18, 2015) (stating general burden on summary judgment and stating that eligibility is a question of law); *Motio, Inc. v. BSP Software LLC*, No. 4:12-cv-00647-ALM, 2016 BL 385 (E.D. Tex. Jan. 4, 2016) (stating general summary judgment burden).

But litigants may still learn much from a denial, especially given that patentable subject matter is ultimately a question of law for the court to determine. As a result, one district court has suggested that its legal findings are decided as a matter of law, noting that “[i]t is within this Court’s province to make findings when deciding the legal question of whether the basic character of the claimed subject matter is patent ineligible.”²⁹ Where the court rejects the clear and convincing standard of proof for Rule 12 motions or is careful to delineate between questions of fact and issues of law on summary judgment, litigants may be better able to discern what findings the court will likely apply going forward. In comparison, where the court applies the clear and convincing burden of proof broadly, it may be less clear whether and how evidence presented on a subsequent motion might change the analysis.

Whatever the standard applied, there are instances where courts appear to make express findings in denying a motion. For example, the court may make a finding in favor of the defendant that the claims are directed to an abstract idea (*Alice* step one), yet find that claim construction is necessary to address the inventive concept inquiry (*Alice* step two).³⁰ Thus, on a subsequent motion, the defendant need only address this latter inquiry.

Other times, the findings are favorable to the patentee and against the defendant (e.g., that the claims are directed to a patent-eligible concept, or that the claims contain an inventive concept). Courts may include such language in favor of the patentee especially on a Rule 12 motion where claim construction is unnecessary,³¹ or, more often, on summary judgment where the court has construed the claims.³² At the very least, such dispositive language suggests that the patentee could have brought its own § 101 motion (a rare occurrence), and provides the parties a clear indication as to how the court will likely view a subsequent motion, regardless of the standard of proof. Further, where the court has construed the claims and then denies a motion for summary judgment, the arguments and analysis at trial would be the same so long as there are no disputes of fact relevant the § 101 analysis.

²⁹ *Affinity Labs of Tex.*, 109 F. Supp. 3d at 933 n.8 (affirming F&R).

³⁰ See, e.g., *Data Distribution Techs., LLC*, No. 1:12-cv-04878-JBS/KMW (D.N.J. Aug. 19, 2014).

³¹ See, e.g., *Canrig Drilling Tech. Ltd. v. Trinidad Drilling L.P.*, No. 4:15-cv-00656 (S.D. Tex. Sept. 17, 2015) (denying a Rule 12(c) motion, finding that the claims “are not an attempt to patent the abstract idea of rotation, and therefore do not ‘risk disproportionately tying up the use of the underlying idea’”); *Mobile Telecomm. Techs., LLC v. Leap Wireless Int’l, Inc.*, No. 2:13-cv-00885-RSP (E.D. Tex. Sept. 23, 2015) (in denying Rule 12(c) motion, finding that both *Alice* inquiries support patentability).

³² See, e.g., *Cal. Inst. of Tech. v. Hughes Commc’ns Inc.*, 59 F. Supp. 3d 974, 1000-01, 113 U.S.P.Q.2d 2062 (C.D. Cal. 2014) (“Having considered the parties’ briefs and the papers filed therewith, the Court concludes that all asserted claims are patentable.”); *Intellectual Ventures I, LLC v. Motorola Mobility LLC*, 81 F. Supp. 3d 356, 369, 2015 BL 47335 (D. Del. 2015) (finding on summary judgment “that the asserted claims of the ‘450 patent are directed to patent-eligible subject matter”).

IV. Observations and Conclusion

Absent further guidance on the burden of proof for § 101 challenges, the varying approaches by district courts on the appropriate burden of proof is likely to continue. In bringing § 101 challenges, litigants should keep a close eye on the burdens applied by the court they are in front of and determine how such application may affect a current or subsequent § 101 challenge. By analyzing how the court’s analysis may differ on a subsequent § 101 challenge, litigants can best understand the meaning of a denial and adapt their arguments going forward.

Defendants should analyze how their arguments will differ at the Rule 12, summary judgment and trial stages. For example, to the extent the court applies the clear and convincing standard of proof at the Rule 12 stage, what are the plausible readings of the patent and how would a subsequent claim construction change the argument? Regardless of the burden of proof applied to a Rule 12 motion, is claim construction in dispute and if so, would it inform only one or both of the *Alice* inquiries? Where the court has denied a motion for summary judgment, are there factual issues for the court to resolve at trial or will the arguments and analysis be the same?

Patentees should also consider what issues are truly in dispute, and whether a counter-motion is prudent (especially in the case of a motion to dismiss if claim construction is not disputed, or on summary judgment after claim construction is decided). A patentee’s affirmative motion may assist in streamlining the issues before the court and in obtaining a clear finding of patentable subject matter.

And where the court denies a § 101 challenge, the parties should look for insight into whether any portions of the analysis would be the same for a subsequent motion, and whether the court has made any legal findings that would arguably carry over in a subsequent motion and/or dispose of the § 101 question. Where the parties’ evidence and arguments would not change on a subsequent motion or at trial, such determination will project the court’s ruling on any later motion.

Further, to the extent the court includes language suggesting a legal finding against the defendant, an argument can be made that such finding is the “final word” on the issue, not requiring the issue to be raised at trial to preserve the issue for appeal.³³ Given potential questions on the burden of proof, the procedural context in which the § 101 challenge is raised, and the possibility of factual issues impacting the analysis, raising the issue at trial would nonetheless pretermit any arguments of waiver.

³³ For example, in *ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509, 105 U.S.P.Q.2d 1190 (Fed. Cir. 2012) (85 PTCJ 131, 11/30/12), the Federal Circuit found no waiver of the defendant’s indefiniteness argument where the court denied defendant’s motion for summary judgment and the defendant did not properly raise it at trial. *Id.* at 517-18, 105 U.S.P.Q.2d at 1196. The Federal Circuit reasoned, “it is abundantly clear from the record that the district court did not intend to revisit the indefiniteness issue once it denied summary judgment. Given that indefiniteness is an issue of law, the district court regarded its ruling on summary judgment to be the last word on the matter until appeal.” *Id.*