Aatrix, Berkheimer And The Future Of Patent Eligibility

By **Robert Maier and Jonathan Cocks** (September 28, 2018)

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One of the hottest and most controversial topics in patent law in recent years has been the question of patentable subject matter: Exactly what innovations can be patented?

Under the current state of the law, the two-part Alice/Mayo test is used to evaluate a patent claim's subject matter eligibility under 35 U.S.C. § 101. This test first asks whether the claim is "directed to a patent-ineligible concept." If answered in the affirmative, this does not mean that a claim is necessarily rejected; the test next asks whether the claim's "additional elements 'transform the nature of the claim' into a patent-eligible application."[1]

Ultimately, all inventions incorporate these concepts at least on some level, and it can be difficult to determine whether a given patent claims eligible subject matter — a point repeatedly acknowledged by the Federal Circuit and the patent bar in their cries for help in recent years.[2]

While district courts have in the past often resolved these questions as a matter of law, at the motion to dismiss or summary judgment stage, the Federal Circuit has recently reined in a court's ability to do so. The Federal Circuit's decisions in Aatrix Software Inc. v. Green Shades Software Inc.[3] and Berkheimer v. HP Inc.[4] now require that underlying considerations in the Alice/Mayo test require determination as questions of fact. Though the Federal Circuit framed each of the Aatrix and Berkheimer decisions as mere restatements of existing precedent, they signal potential ramifications for future § 101 cases, and highlight a spectrum of views across the Federal Circuit.

Berkheimer v. HP

In Berkheimer v. Hewlett-Packard Co., Steven E. Berkheimer filed suit against HP, alleging infringement of a patent relating to digital processing and archiving of files in a digital asset management program. HP moved for summary judgment, claiming that Berkheimer's invention was patent-ineligible under 35 U.S.C. § 101. The district court granted HP's motion, finding Berkheimer's patent invalid as a matter of law.[5] On appeal, the Federal Circuit vacated the grant of summary judgement for the claims held ineligible under § 101 and remanded for further proceedings.

The patent at issue in Berkheimer (U.S. Patent No. 7,447,713; hereinafter "the '713 patent") contained claims directed to a "method of archiving an item in a computer processing system" which involved four steps: (1) "presenting" an item such as a document to a "parser;" (2) "parsing" the item into a plurality of "multi-part object structures," which are given searchable information tags; (3) comparing the object structures to those "previously stored in the archive;" and (4) presenting object structures that have been identified as varying from a predetermined standard or user defined rule for "manual reconciliation."[6] In their motion for summary judgement, HP argued that the '713 patent was ineligible under Alice because it is directed to an abstract idea, namely "reorganizing data (e.g., a document file) and presenting the data for manual reconciliation."[7]

Berkheimer argued that based on the Federal Circuit's 2016 decision in Enfish LLC v. Microsoft Corp., "any improvement to computer functionality itself bypasses the Alice step 1 abstract idea ineligibility exception."[8] The district court rejected this interpretation, instead characterizing Enfish as holding only that some improvements in computer-related technology are not abstract, and further distinguished the disputed patent claims as lacking "specific, concrete, nonconventional improvements" that were considered relevant in Enfish.

Then moving on to step two of Alice, Berkheimer argued that the claims include an "inventive concept," based on solving a problem necessarily rooted in computer technology that is beyond conventional computing, and further that the claims were written with the requisite degree of specificity.[9] The court was unpersuaded, and found the claims covered only "well-understood, routine, and conventional" computer functions written "at a relatively high level of generality." Having failed the Alice/Mayo test, the court determined as a matter of law that the '713 patent claims were invalid under § 101, and subsequently granted the motion for summary judgement.

On appeal, the Federal Circuit held that: "claims 1-3 and 9 are directed to the abstract idea of parsing and comparing data; claim 4 is directed to the abstract idea of parsing, comparing, and storing data; and claims 5-7 are directed to the abstract idea of parsing, comparing, storing, and editing data."[10] Berkheimer argued that the claims were not abstract because the "parsing" limitation "roots the claims in technology and transforms the data structure from source code to object code." But the court focused on the question of whether this transformation "improves computer functionality in some way," and concluded that Berkheimer had provided no evidence on this point.[11]

In considering step two of the Alice/Mayo test, the Federal Circuit determined that the district court's conclusion, that the claims were "well-understood, routine, and conventional," was factual, and not properly determined as a matter of law. The Federal Circuit noted that, while the inquiry into § 101 patent eligibility is determined as a matter of law, there may be "underlying factual questions to the § 101 inquiry," including here regarding whether the particular technology in claims 4-7 of the '713 patent were truly well-understood, routine, and conventional.[12]

The Federal Circuit thereafter denied the petition for rehearing en banc, noting "[i]f there is a genuine dispute of material fact, Rule 56 requires that summary judgment be denied" and that "[the] evidence did not address whether the additional limitations were well understood, routine, and conventional. Based on this evidence, HP fell short of establishing that it was entitled to summary judgment that claims 4-7 are ineligible, a defense it bore the burden of proving."[13]

Based on the improvements outlined in the specifications, the court considered there to be a factual dispute about whether or not the patent claimed well-understood, routine and conventional activities. The court thus held that, when considering step two of the Alice/Mayo test, determining whether a claim involves an inventive concept, by considering whether a claim element or combination is well-understood, routine and conventional, is a question of fact.[14]

Aatrix Software v. Green Shades Software

In Aatrix Software Inc. v. Green Shades Software Inc., a case sharing many similarities with Berkheimer, Aatrix filed suit alleging infringement of two patents which claim systems and methods for designing, creating, and importing data into a viewable form on a computer. Green Shades filed a motion to dismiss under Rule 12(b)(6), arguing that the claims were patent-ineligible under § 101. The district court dismissed the suit, holding that the asserted claims were directed to only intangible embodiments or abstract ideas and were thus patent-ineligible.

The Federal Circuit reversed, finding that the two-step Alice/Mayo test should have been considered, and though determination of eligibility under § 101 is a question of law, there are "subsidiary fact questions which must be resolved en route to the ultimate legal determination." Here, the court decided that when considering whether an abstract concept can still be patent-eligible subject matter, it would necessarily have to address questions of fact.

Judge Jimmie Reyna concurred with the decision to vacate and remand the case on the motion to dismiss, but dissented from the majority's use of factual evidence in evaluating patent-eligibility under § 101. In his dissent, Judge Reyna argued that the § 101 inquiry is a legal analysis, and thus can be resolved on a motion to dismiss, and that the majority now "attempts to shoehorn a significant factual component into the Alice § 101 analysis."[15]

In the decision denying the petition for rehearing en banc, which mirrors the decision issued in Berkheimer,[16] the Federal Circuit in Aatrix[17] similarly reasserted that it would not consider step two of the Alice/Mayo test to be solely a matter of law, re-emphasizing that there may be underlying factual disputes in a § 101 inquiry which cannot be resolved at the motion to dismiss or summary judgement stage. The court stated, "Berkheimer and Aatrix stand for the unremarkable proposition that whether a claim element or combination of elements would have been well-understood, routine, and conventional to a skilled artisan in the relevant field at a particular point in time is a question of fact."[18] Though this holding was framed as unremarkable[19] and narrow,[20] Judge Reyna again dissented, stating that "[t]he court's vote to deny en banc review of Aatrix and Berkheimer is a declaration that nothing has changed in our precedent ... I disagree. I believe that, at minimum, the two cases present questions of exceptional importance that this court should address and not avoid."[21]

Analysis

In both Aatrix and Berkheimer, petitions for rehearing en banc were denied in nearly identical opinions issued on the same day. These cases establish that the two-step analysis under § 101 may involve underlying issues of fact to be decided by a factf-inder instead of by courts, and both opinions suggest that the prior precedent has always included a concern for underlying factual considerations within the Alice/Mayo analysis. These cases present a uniform statement of the law — what Aatrix determined in the motion to dismiss context, Berkheimer established for motions for summary judgement.

Revisiting his dissent in the earlier Aatrix decision, Judge Reyna's dissent in Aatrix and Berkheimer re-establishes his opposition to the court's emphasis on factual considerations in the § 101 analysis. Judge Reyna argued that these two decisions are contrary to well-established precedent, and "alter the § 101 analysis in a significant and fundamental manner by presenting patent eligibility under § 101 as predominately a question of fact."[22] In the only other separate opinion, Judge Alan Lourie concurred with the denials for rehearing en banc, stating that there were plausible underlying factual issues to be considered, but further that the court is "bound to follow the script that the Supreme Court has written for us in § 101 cases," and that the law of § 101 "needs clarification by higher authority, perhaps Congress."[23]

The Federal Circuit's shift in focus in the § 101 analysis from a predominantly legal analysis to one that emphasizes underlying factual considerations may have profound implications. A court's deference to factual considerations will tend to favor a patent holder at the summary judgment stage and can be even more significant for avoiding judgment at the motion to dismiss stage. A patent holder opposing a § 101 motion may now seek to "simply amend its complaint to allege extrinsic facts that, once alleged, must be taken as true, regardless of its consistency with the intrinsic record,"[24] and thereby avoid dismissal. Indeed, the elevated importance of fact issues as part of step two of the Alice/Mayo test could result in an increase in § 101 cases proceeding through to trial (or pretrial settlements) that may have otherwise been filtered out at earlier stages of litigation. In light of these decisions, district courts may be more reluctant to address the § 101 analysis upfront, instead reserving judgment until any potential factual issues have been fully fleshed out and resolved through expert discovery.

It is important to note, however, that while Aatrix and Berkheimer present a unified position claiming the importance of underlying factual concerns in the § 101 analysis, these two per curiam opinions may represent only a segment of the opinions held by the Federal Circuit judges. The opinions came as a concurrence by Judge Kimberly Moore and joined by Judges Timothy Dyk, Kathleen O'Malley, Kara Farnandez Stoll and Richard Taranto. Judge Lourie offered a separate concurrence joined by Judge Pauline Newman, and Judge Reyna penned the lone dissent. But though Judges Sharon Prost, Raymond Chen, Todd Hughes and Evan Wallach were present, they did not reveal how their votes fell. Within the Federal Circuit itself, there are clearly a number of different views across the spectrum on this interpretation of the § 101 analysis, and the fact that four judges declined to join any of the written opinions may suggest that there are even more differences of opinion.[25] On this spectrum, apparently none of these judges agreed with Judge Reyna's biting dissent at one extreme, which criticized the court's decision as "contrary to that well-established precedent" and whose "consequences ... are staggering and wholly unmoored from our precedent."[26] And yet, to the other extreme, Judge Moore's concurrence which plainly described the

court's precedent as consistently involving factual questions and "unsurprising," was also left without majority approval.

Judge Lourie's opinion seems to fall somewhere between these two extremes and may perhaps represent the most likely consensus view — a seeming cry for help, some guidance either from Congress or from the U.S. Supreme Court, as to the state of § 101 jurisprudence. His dissent notes that "[e]ven if [the decision] was decided wrongly, which I doubt, it would not work us out of the current § 101 dilemma." The concurrence further notes that "[i]ndividual cases, whether heard by this court or the Supreme Court, are imperfect vehicles for enunciating broad principles because they are limited to the facts presented. Section 101 issues certainly require attention beyond the power of this court."

Indeed, these types of calls for help have materialized in other cases since, even acknowledging Judge Lourie's comments in Aatrix and Berkheimer. In another recent Federal Circuit decision Interval Licensing LLC v. AOL Inc., an opinion by Judge Plager echoed this call for help and frustration expressed by Judge Lourie.[27] Though concurring in judgement, Judge S. Jay Plager stated he did so "even though the state of the law is such as to give little confidence that the outcome is necessarily correct," and dissented from the court's "continued application of this incoherent body of doctrine."[28] While acknowledging the broader legal community's criticism of the current § 101 doctrine generally, Judge Plager noted that the Supreme Court would not have incentive to step in to attempt to address these issues, and welcomed Judge Lourie's call for help to Congress, further calling for quick resolution of this issue.[29] Judge Plager's critique of the general § 101 landscape seems to represent the increasingly consistent view of the Federal Circuit that this area of law needs further clarification; in a telling analogy to the tale "The Emperor's New Clothes" by Hans Christian Andersen, Judge Plager wrote of the state of the § 101 jurisprudence: "This emperor clearly has no clothes; we need not wait for our children to tell us this."

Recent Application

A most recent case at the Federal Circuit shows a further application of these principles. In TS Patents LLC v. Yahoo! Inc.,[30] TS asserted four patents against Yahoo, each of which relate to remote hosting and computer operations that allow multiple users to work online on a central network platform.[31] Yahoo moved to dismiss the complaint on the basis that each asserted claim is invalid under 35 U.S.C. § 101 because, so Yahoo argued, they are directed to an abstract idea. The district court, following the Alice/Mayo test, agreed, held the claims invalid, and dismissed the complaint. At step two, the district court determined that the claimed elements and arrangements are all "conventional" and "generic."[32] Specifically, the court noted, "[t]he limitations of the asserted claims [do] not provide an 'inventive concept' sufficient to transform these claims into patentable subject matter."[33] On appeal, the Federal Circuit affirmed without opinion.

In its August 2018 en banc petition,[34] TS requested reconsideration in view of the recent Federal Circuit decisions in Berkheimer[35] and Aatrix.[36] Specifically, TS argued that the panel should not have upheld the lower court's dismissal, because Federal Circuit precedent limits judges' ability to dismiss certain patents at the pleading stage.[37] TS further alleged that the Federal Circuit panel's ruling conflicted with both Berkheimer and Aatrix. Relying on Berkheimer, TS argued that determining "whether or not a specific technical improvement is 'routine and conventional' is a question of fact and that factual assertions made in the complaint should be presumed true at the pleading stage."[38]

On Sept. 25, 2018, the Federal Circuit denied TS' petition for rehearing en banc, closing the door on any immediate clarification of Berkheimer or Aatrix.

Conclusion

The Federal Circuit in Aatrix and Berkheimer may have limited the role of district courts in determining patent eligibility cases. Though these two cases provide some additional guidance, there appears to still be a wide range of viewpoints within the Federal Circuit as to the correct approach to § 101. However, consensus is apparently building across the Federal Circuit in at least one respect: for the notion that Supreme Court or legislative fixes are in order. It remains to be seen whether or when the Supreme Court

or Congress will answer the call, but, in the meantime, practitioners, patent holders and judges will all be left to continue to grapple with these complex issues.

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[1] Alice Corp. Pty. v. CLS Bank Int'l, 134 S. Ct. 2347 (2014) (quoting Mayo Collaborative Servs. v. Prometheus Labs., Inc., 566 U.S. 66, 78 (2012)).

[2] Ryan Davis, Patent System in 'Crisis Mode,' Ex-Fed. Circ. Chief Says, Law360 (Jul. 13, 2017, 10:06 PM), https://www.law360.com/articles/944213; see also, Ryan Davis, Fed. Cir. Judges' Plea to Reps Shows Patent-Eligibility Angst, Law360 (Jun. 4, 2018, 7:47 PM), https://www.law360.com/articles/1049274; see also, Ryan Davis, Experts Look to Congress to Stem Patent-Eligibility 'Chaos', Law360 (Apr. 20, 2018, 7:14 PM), https://www.law360.com/articles/1035947; see also, Ryan Davis, USPTO Chief's Call for New Path on Patents Draws Cheers, Law360 (Apr. 12, 2018, 10:52 PM), https://www.law360.com/articles/1032718.

[3] 890 F.3d 1354 (Fed. Cir. 2018).

[4] 890 F.3d 1369 (Fed. Cir. 2018).

[5] Berkheimer v. Hewlett-Packard Co., 224 F.Supp.3d 635 (N.D. Ill. 2016), aff'd in part, vacated in part sub nom. Berkheimer v. HP Inc., 881 F.3d 1360 (Fed. Cir. 2018).

[6] U.S. Patent No. 7,447,713 col. 47 l. 9-21 (filed Oct. 15, 2001).

[7] Berkheimer v. Hewlett-Packard Co., 224 F. Supp. 3d 635, 643 (N.D. Ill. 2016) (quoting Defendant's Brief at 1–2).

[8] Id. at 645 (quoting Pl.'s Not. Supplemental Authority at 1, ECF No. 165).

[9] Id. at 646 (quoting Pl.'s Resp. at 6.).

[10] Berkheimer v. HP Inc., 881 F.3d 1360, 1366 (Fed. Cir. 2018).

[11] Id. at 1367.

[12] Id. at 1369.

[13] Berkheimer v. HP Inc., 890 F.3d 1369, 1372 (Fed. Cir. 2018).

[14] Id. at 1374.

[15] Aatrix Software, Inc. v. Green Shades Software, Inc., 882 F.3d 1121, 1130 (Fed. Cir. 2018) (Reyna, J. concurring-in-part, dissenting-in-part).

[16] Berkheimer v. HP Inc., 890 F.3d 1369 (Fed. Cir. 2018).

[17] Aatrix Software, Inc. v. Green Shades Software, Inc., 890 F.3d 1354 (Fed. Cir. 2018).

[18] Id. at 1355.

[19] Id.

[20] Id. at 1359.

[21] Id. at 1362 (Reyna, J. dissenting). Judge Reyna went on to consider various questions now raised by the court's decision. E.g., id. at ("[T]o what extent will discovery be allowed to prove or disprove a fact that has been placed in contention? Does this new factual inquiry extend to other aspects of the § 101 inquiry, such as whether a claim is directed to an abstract idea or a natural phenomenon? Can expert opinion supplant the written description? Does the court or jury determine this factual issue? What deference is due to the fact finder?").

[22] Id.

[23] Id. at 1360 (Lourie, J. concurring).

[24] Aatrix Software, Inc. v. Green Shades Software, Inc., 882 F.3d 1121, 1130 (Fed. Cir. 2018).

[25] See Yar R. Chaikovsky et al., Berkheimer and Aatrix En Banc Denial: A Divided Federal Circuit on Alice Step Two (Jun. 4, 2018), https://www.paulhastings.com/publication-items/details/?id=66ffeb6a-2334-6428-811c-ff00004cbded.

[26] Aatrix Software, Inc. v. Green Shades Software, Inc., 890 F.3d 1354, 1362, 1365 (Fed. Cir. 2018) (Reyna, J., dissenting).

[27] Interval Licensing LLC v. AOL, Inc., No. 2016-2502, 2018 WL 3485608, at *9 (Fed. Cir. July 20, 2018) (Plager, J., dissenting-in-part).

[28] Id. at *14.

[29] Id. at *16 (Plager, J., dissenting-in-part) ("[T]here is no particular incentive for the Supreme Court to immerse itself again in this intellectual morass. The Court, unlike this court, is not called upon daily to address the consequences of an incoherent doctrine that has taken on a life of its own. It will take a special effort by the judges and the patent bar to gain the Court's attention.").

[30] 279 F.Supp.3d 968 (N.D. C.A. 2017).

[31] See, U.S. Pat. Nos. 9,280,547; 8,799,473; 8,713,442; and 8,396,891.

[32] TS Patents v. Yahoo! Inc., 279 F.Supp.3d 968, 988 (N.D. C.A. 2017).

[33] Id.

[34] TS Patents v. Yahoo! Inc., No. 17-2625 (Fed. Cir 2018).

[35] Berkheimer v. HP, Inc., 881 F.3d 1360 (Fed. Cir. 2018).

[36] Aatrix Software, Inc. v. Green Shades Software, Inc., 890 F.3d 1354 (Fed. Cir. 2018).

[37] Suzanne Monyak, Full Fed. Circ. Urged to Rehear Network IP Suit Against Yahoo, Law360 (Sep. 9, 2018, 9:15 PM), https://www.law360.com/articles/1080383/full-fed-circ-urged-to-rehear-network-ip-suit-against-yahoo.

[38] Id.