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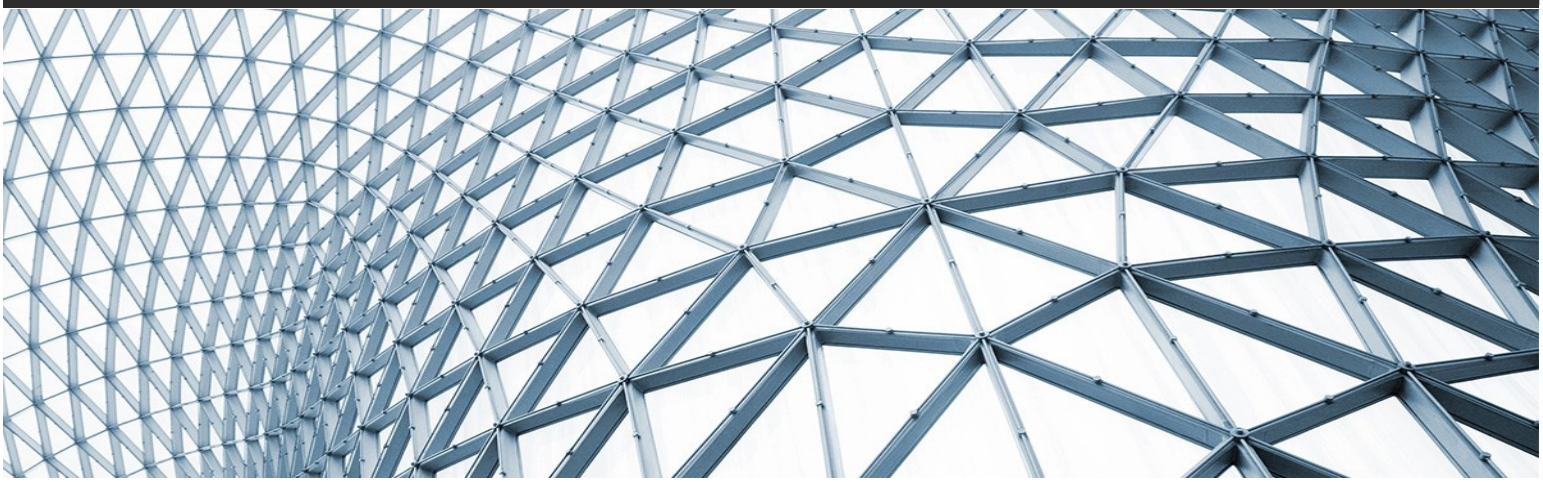
Federal Circuit Appears to Settle Question of Patent-Eligibility Presumption



By James J. DeCarlo and Vishesh Narayen | September 5, 2019 | New Jersey Law Journal

The U.S. Supreme Court's 2014 decision in *Alice Corp. v. CLS Bank International*, 573 U.S. 208 (2014), triggered a veritable tsunami of successful challenges to patent-eligibility and breathed new life into a mostly dormant 35 U.S.C. §101. The last few years have seen the pendulum swinging back, with the U.S. Court of Appeals for the Federal Circuit upholding patent claims as eligible under Section 101 more frequently than in the years immediately post-*Alice*. Changes in the procedural landscape for eligibility challenges have also somewhat stemmed the tide of patents found ineligible under Section 101.

Still, until recently, an important question remained open: does the presumption of patent *validity* under 35 U.S.C. §282 also include or require a presumption that claims are patent-*eligible* under Section 101? On June 25, 2019, in *Cellspin Soft v. Fitbit*, 927 F.3d 1306, 1319 (Fed. Cir. 2019), the Federal Circuit addressed the issue in a unanimous and precedential decision, clarifying that issued U.S. patents should indeed be accorded a presumption of eligibility.

Background

In the wake of *Alice*, the question of an eligibility presumption had deeply divided district courts, with courts that declined to apply a presumption frequently citing to Judge Rader's concurring opinion in *Ultramercial v. Hulu,* 772 F.3d 709 (Fed. Cir. 2014), which stated that "no presumption of eligibility attends the section 101 inquiry." *Id.* at 717. For example, in *Wireless Media Innovations v. Maher Terminals,* 100 F. Supp. 3d 405 (D.N.J. 2015), then-Judge Linares of the District of New Jersey noted the lack of any "authoritative law binding the [c]ourt" and therefore "adopt[ed] Judge Mayer's approach" by declining to afford the plaintiff's asserted patents a presumption of eligibility. *Id.* at 411.

Courts favoring a presumption of eligibility, on the other hand, often relied on Judge Lourie's concurring opinion in *CLS Bank International v. Alice Corp. Pty.*, 717 F.3d 1269 (Fed. Cir. 2013), which stated: "as with obviousness and enablement, [the] presumption [of validity] applies when [Section] 101 is raised as a basis for invalidity in district court proceedings." *Id.* at 1284. In *Scibetta v. Slingo*, No. 16-8175, 2018 WL 466224 (D.N.J. Jan. 17, 2018), the District of New Jersey's Judge Vazquez quoted this language from Judge Lourie's concurring opinion in finding that a presumption of eligibility applies in Section 101 challenges. *Id.* at *9.

Until the decision in *Cellspin*, however, no precedential opinion from the Federal Circuit squarely addressed this question.

The *Cellspin* Decision

The case began with Cellspin Soft's suits against Fitbit and numerous other defendants for alleged infringement of four patents, all of which generally relate to "connecting a data capture device, e.g., a digital camera, to a mobile device so that a user can automatically publish content from the data capture device to a website." *Cellspin*, 927 F.3d at 1309. The defendants moved the district court to dismiss Cellspin's complaints on the ground that the asserted claims of all four patents recited patent-ineligible subject matter under Section 101. *Id.* at 1309, 1312. Applying the two-step framework for analyzing patent-eligibility articulated in *Alice* and *May Collaborative Services v. Prometheus Laboratories*, 566 U.S. 66 (2012), the district court granted the defendants' motions, agreeing that the claims were directed to the abstract idea of "acquiring, transferring, and publishing data and multimedia content on one or more websites" and recited no inventive concept. *Id.* at 1312-13; *Cellspin v. Fitbit* ("*District Court Op.*"), 316 F. Supp. 3d 1138, 1148-55 (N.D. Cal. 2018).

Several defendants subsequently sought attorney fees, which the district court awarded upon finding the cases "exceptional" under 35 U.S.C. §285. *Cellspin*, 927 F.3d at 1313-14; *Cellspin v. Fitbit* ("*Fees Order*"), No. 4:17-CV-5928, 2018 WL 3328164 (N.D. Cal. July 6, 2018). In doing so, the district court faulted Cellspin for "aggressively" pursuing over a dozen simultaneous suits out of the gate rather than first filing a "test case" to adjudicate the validity of its patents. *Cellspin*, 927 F.3d at 1314; *Fees Order*, at *4. The court rejected Cellspin's argument that it need not file a test case because its patents were presumptively valid, holding that "[a]lthough issued patents are presumed valid, they are not presumed eligible under Section 101." *Fees Order*, at *4; *Cellspin*, 927 F.3d at 1314.

On appeal to the Federal Circuit, Cellspin challenged both the district court's Section 101 ruling and its attorney fee award. In a unanimous opinion by Judge Lourie, the panel, which included Judges O'Malley and Taranto, explained that the district court misapplied Federal Circuit precedent in finding Cellspin's patents ineligible under Section 101. *Cellspin*, 927 F.3d at 1309. At step one of the *Alice-Mayo* patent-eligibility framework, the court agreed that the claims were directed to an abstract idea, namely "capturing and transmitting data from one device to another." *Id.* at 1315. However, at step two, the court concluded that the district court erred in finding that the claims lacked an inventive concept. *Id.* at 1316-19. The panel noted that Cellspin's complaint offered "specific, plausible factual allegations about why" aspects of the claims were inventive, and found that the district court erred in discounting these allegations at the pleading stage. *Id.* The court held that there was "no basis, at the pleadings stage," to conclude that the allegedly inventive aspects of the claims "were well-known or conventional as a matter of law" and accordingly vacated the district court's dismissal of Cellspin's complaint *Id.* at 1318, 1320.

Because vacatur of the district court's Section 101 ruling meant that the defendants were no longer prevailing parties under Section 285, the court also vacated the district court's fee award. *Id.* at 1319. "In the interest of judicial economy," the court went further and turned its attention to "certain errors in the district court's attorney fees analysis that could remain on … remand." *Id.* Addressing the district court's

reasoning that "Cellspin should have filed a 'test case' before asserting its patents here," the court noted that issued patents are "presumptively valid" and explained that "[t]o the extent the district court departed from this principle by concluding that issued patents are presumed *valid* but not presumed *patent eligible*, it was wrong to do so," *id.*, thus clearly endorsing a presumption of patent-eligibility under Section 101.

Commentary and Conclusions for Practitioners

With its focus on "specific, plausible factual allegations" at step two of the *Alice* analysis, *id.* at 1317-18, the *Cellspin* decision further reshapes the shifting procedural landscape for patent eligibility challenges under Section 101. As some commentators have recognized, the *Cellspin* decision "continues the trend" of cases that have made "*Alice* challenges more difficult for accused infringers to win early in a case." *Fed. Circ. Ruling May Mean Higher Bar for Alice Motions*, Law360 (June 28, 2019).

Cellspin's endorsement of an eligibility presumption also appears at first glance to be an unqualified win for patent owners, arming them with another tool for overcoming or staving off eligibility challenges by accused infringers. Indeed, commentators have "chalk[ed] up" the *Cellspin* decision as "a win for patentees." *CAFC: Patents Enjoy a Presumption of Subject Matter Eligibility*, Lexology (July 1, 2019). Others have opined that there is "no longer a debate" over an eligibility presumption. *Federal Circuit Elucidates Berkheimer and Aatrix; Patents Presumed Eligible*, Lexology (July 1, 2019). Still others predict that "[t]he success rate for *Alice* motions could drop even further" due to the decision in *Cellspin*. *Quick Alice Wins Dwindling In Wake Of Berkheimer Ruling*, Law360 (July 25, 2019).

But there may be more to the *Cellspin* decision than meets the eye. The court's endorsement of an eligibility presumption arose, somewhat unusually, in the context of addressing the propriety of attorney fees under Section 285, rather than in a discussion of the merits of the defendants' Section 101 challenge. *See Cellspin,* 927 F.3d at 1319. The court vacated the district court's fee award solely due to the absence of a "prevailing party" under Section 285 and expressly noted that it was addressing the eligibility-presumption question "[i]n the interest of judicial economy," as it could remain an "issue[] on remand." *Id.* The unusual posture of the court's discussion naturally begs the question whether district courts or future Federal Circuit panels might treat *Cellspin*'s endorsement of an eligibility presumption as dicta rather than binding and authoritative. *See Nat'l Am. Ins. Co. v. United States*, 498 F.3d 1301, 1306 (Fed. Cir. 2007) ("Dicta, as defined by this court, are statements made by a court that are unnecessary to the decision in the case[.]"). On the other hand, even if considered dicta, the court's pronouncement may be given persuasive weight, given the absence of any other precedential opinion from the Federal Circuit addressing the issue. Only time will tell how the Court's endorsement of an eligibility presumption will impact future Section 101 challenges.

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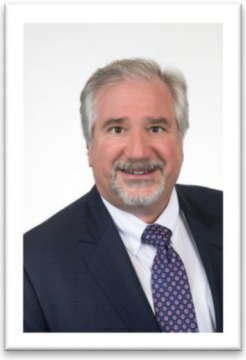

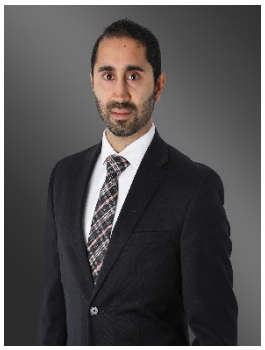

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