Time For High Court To Clarify Presumption Of Patent Validity

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In Microsoft Corp. v. i4i LP, 564 U.S. 91 (2011), the U.S. Supreme Court considered the role of the presumption of validity for patents, codified in 35 U.S.C. § 282. The Supreme Court's discussion of this presumption clarified that it applies not only to validity challenges under 35 U.S.C. §§ 102, 103 and 112, but also to patent-eligibility challenges under 35 U.S.C. § 101. But despite this clear guidance from the highest court, a divergent concurring opinion by Federal Circuit Judge Haldane Robert Mayer in Ultramercial Inc. v. Hulu LLC, 772 F.3d 709 (Fed. Cir. 2014), has resulted in confusion and division in the lower courts. In Broadband iTV Inc. v. Hawaiian Telcom Inc. et al., No. 16-1241 (cert petition filed April 13, 2017) ("BBiTV"), the Supreme Court is being asked to clarify this confusion and confirm that the statutory presumption of validity set forth in Section 282 in fact applies to Section 101, like it applies to other challenges to patent validity. The failure of the Federal Circuit to correct the confusion caused by Judge Mayer's concurrence has resulted in the need for the Supreme Court to intervene.

Section 282 and i4i

35 U.S.C. § 282 provides in relevant part:

(a) IN GENERAL.—A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

In Microsoft Corp. v. i4i LP, 564 U.S. 91 (2011), the Supreme Court considered the significance of the statutory presumption of validity codified in 35 U.S.C. § 282(a). It explained that, under § 282, "'[a] patent shall be presumed valid' and '[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.'" i4i, 564 U.S. at 95, 100 (quoting § 282(a)). Although the ultimate question of patent validity is a legal one, "[i]n evaluating whether [35 U.S.C. §§ 101, 102, 103] and other statutory conditions have been met, PTO examiners must make various factual determinations." Id. at 96. "[T]he same factual questions underlying the PTO's original examination of a patent application will also bear on an invalidity defense in an infringement action" before a district court. Id. at 97. The Supreme Court held that, in light of the statutory presumption of validity, a party asserting an invalidity defense bears the burden of proving invalidity and that the evidence in support of the defense must be clear and convincing. Id. at 95, 105 n.7.

Based on this discussion in i4i, it is clear that the statutory presumption of validity under Section 282 does in fact apply to Section 101, since the legal conclusions associated with a finding of patent-eligibility and resulting in the issuance of a U.S. patent are based on underlying factual findings. As with invalidity challenges based on §§ 102, 103, and 112, parties making validity challenges under § 101 must overcome that presumption of validity. 564 U.S. at 100; accord CLS Bank Int'l v. Alice Corp. Pty. Ltd., 717 F.3d 1269, 1284 (Fed. Cir. 2013) (Lourie, J., concurring) ("that presumption applies when § 101 is raised as a basis for invalidity in district court proceedings"), aff'd, 134 S. Ct. 2347 (2014). Nonetheless, many lower courts have expressly failed to apply the presumption of validity to challenges under Section 101 after the Supreme Court's decision in Alice v. CLS Bank Int'l, 134 S. Ct. 2347 (2014). These lower courts have followed, either directly or indirectly, the statement in a concurring opinion by Judge Mayer that "no presumption of eligibility attends the section 101 inquiry." Ultramercial, 772 F. 3d at 717. Although the Federal Circuit has never adopted that errant opinion, it has also consistently failed to correct opinions from the district court that have applied that lower standard for patent-eligibility challenges.

The BBiTV Petition

The BBiTV petition for a writ of certiorari presents three issues to the U.S. Supreme Court. The first issue, which is relevant here, is:

1. Whether the statutory presumption of validity set forth in 35 U.S.C. § 282 applies to claims challenged under 35 U.S.C. § 101, as set forth by this Court in Microsoft Corp. v. i4i L.P., 564 U.S. 91 (2011), when the ultimate legal conclusion relies upon underlying findings of fact, such as whether the additional novel and non-obvious elements of the claims are merely well-understood, routine, and conventional or whether they add an inventive concept.

The petition raises this question based on the following clear errors included as part of the district court analysis, that were not addressed by panel or en banc determinations.

First, contrary to § 282 and i4i's express holding, the district court expressly "assume[d]" that "a presumption of eligibility" does not apply to challenges under § 101 in light of what it viewed to be "the most recent available guidance from the Federal Circuit" — Judge Mayer's concurring opinion in Ultramercial Inc. v. Hulu LLC, 772 F.3d 709 (Fed. Cir. 2014). This is clear error, yet has been repeated by countless other district courts without clear guidance from the Federal Circuit.

Second, the district court failed to recognize that its factual determinations needed to be supported with evidence and that it could not resolve disputed facts against the nonmovant. Thus, it improperly weighed facts against the nonmovant in violation of this court's clear holding in Anderson v. Liberty Lobby Inc., 477 U.S. 242, 249 (1986), and it progeny. See, e.g., Tolan v. Cotton, 134 S. Ct. 1861, 1863 (2014) (per curiam) (reversing where lower court failed to follow "the axiom" set forth in Anderson that "[t]he evidence of the nonmovant is to be believed, and all justifiable inferences are to be drawn in his favor").

Third, the district court's improper factual findings against the nonmovant petitioner BBiTV actually contradicted its other corresponding findings with regard to §§ 102 and 103. See Petition, Statement of the Case, Section E.

The Lower Court's Confusion Is Pervasive

The district court in BBiTV is not the only district court to have erroneously held that the presumption of validity does not apply to patent-eligibility challenges. Amidst the general confusion as to how to apply the patent-eligibility analysis, district courts are currently split as to whether patents are entitled to a presumption of validity (i.e., eligibility) under § 101. See, e.g.,:

- CG Technology Development LLC v. Bwin.Party (USA), Inc., No. 2:16-cv-00871-RCJ-VCF, 2016 U.S. Dist. LEXIS 144079, at *9 (D. Nev. Oct. 18, 2016) ("as several courts have noted, there is uncertainty as to whether a presumption of invalidity or a clear and convincing standard applies in § 101 challenges");

- Diamond Grading Technologies LLC v. American Gem Society, No. 2:14-cv-01161, 2016 U.S. Dist. LEXIS 134671, at *11–13 (E.D. Tex. Sept. 12, 2016) (explaining that "[t]he

Supreme Court and the Federal Circuit have not decided whether and to what extent the presumption of validity applies to § 101" and recommending briefing on whether the presumption applies), adopted (Sept. 29, 2016);

- Front Row Technologies LLC v. NBA Media Ventures LLC, Nos. CIV 10-0433 et al., 2016 U.S. Dist. LEXIS 116591 (D.N.M. Aug. 30, 2016) ("District courts have interpreted the recent Supreme Court and Federal Circuit decisions in four primary ways" regarding the presumption of validity and the clear and convincing evidence standard);

- In re Activity Tracking Devices, Systems, and Components Thereof, No. 337-TA-963, 2016 ITC LEXIS 324, at *4 (I.T.C. April 4, 2016) ("the law remains unsettled as to whether the presumption of patent validity under 35 U.S.C. § 282 applies to subject matter eligibility challenges under 35 U.S.C. § 101");

- In re TLI Communications. LLC Patent Litigation, 87 F. Supp. 3d 773, 797 n.48 (E.D. Va. 2015) ("neither the Supreme Court nor the Federal Circuit has revisited the standard of proof applicable to § 101 challenges since [i4i and a]s a result of this deafening silence, district courts, not surprisingly, are split over the standard of proof applicable to § 101 challenges"), aff'd, 823 F.3d 607 (Fed. Cir. 2016) (without commenting on the presumption);

- Intellectual Ventures I LLC v. Symantec Corp., 100 F. Supp. 3d 371, 379 (D. Del. 2015) ("District Courts, including this District, have taken varying approaches" to the presumption of validity), aff'd-in-part and rev'd-in-part, Nos. 2015-1769 et al. (Fed. Cir. Sept. 30, 2016) (without commenting on the presumption), en banc rehearing denied (Jan. 11, 2017).

Some district courts have made the same error as the district court in BBiTV, holding that the presumption does not apply based on Judge Mayer's concurring opinion in Ultramercial. See, e.g.:

- TNS Media Research LLC v. TRA Global Inc., No. 1:11-cv-04039, 2016 U.S. Dist. LEXIS 21218, at *28 (S.D.N.Y. Feb. 22, 2016) ("The presumption of validity — and its concomitant clear and convincing evidence standard — does not apply to section 101 claims."), vacated (Nov. 29, 2016);

- Modern Telecom Systems LLC v. Juno Online Services, No. SA CV 14-0348-DOC (ANx), 2015 U.S. Dist. LEXIS 33835, at *16–17 (C.D. Cal. March 17, 2015) ("As Judge Mayer points out in his concurring opinion in Ultramercial, ... 'while a presumption of validity attaches in many contexts, no equivalent presumption of eligibility applies in the section 101 calculus.'");

- Wireless Media Innovations LLC v. Maher Terminals LLC, 100 F. Supp. 3d 405, 411 (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."), aff'd without opinion, No. 2015-1634 (Fed. Cir. Feb. 8, 2016).

Other district courts have followed the lead of other erroneous district court decisions, further perpetuating the error. See, e.g.:

- Tranxition Inc. v. Lenovo (U.S.) Inc., No. 3:12-cv-01065-HZ, 2015 U.S. Dist. LEXIS 89593, at *10 (D. Or. July 9, 2015), on appeal, No. 15-1907 (Fed. Cir. argued Oct. 4, 2016) ("the Federal Circuit has explained that the presumption of validity is now 'unwarranted' when 'assessing whether claims meet the demands of Section 101.'") (quoting Ultramercial presumably without recognizing the quote as coming from Judge Mayer's concurrence and citing Modern Telecom, 2015 U.S. Dist. LEXIS 33835 and Wireless Media, 100 F. Supp. 3d 405), aff'd without deciding, No. 15-1907, en banc rehearing denied (Fed. Cir. Feb. 7, 2017).

As these samplings of cases illustrate, there is a real and significant divide in the lower courts that needs to be addressed.

The Federal Circuit Continues to Dodge the Issue

Because the Federal Circuit has repeatedly refused to take up this issue, its affirmance in BBiTV and other cases may be interpreted as sanctioning, sub silentio, the practice of not applying a presumption of eligibility. Without the Supreme Court's intervention, lower courts will continue to invalidate patents under § 101 without adhering to the presumption of validity standard mandated by Congress in § 282 and the Supreme Court in i4i.

Both the Supreme Court and the Federal Circuit have been asked to address the role of the presumption of validity in the context of § 101, see, e.g., Content Extraction & Transmission LLC v. Wells Fargo Bank, No. 2013-1588, en banc rehearing denied (Fed. Cir. Mar. 12, 2015), No. 14-1473, cert denied (S. Ct. Oct. 5, 2015) and Tranxition Inc. v. Lenovo (U.S.) Inc., No. 15-1907, en banc rehearing denied (Fed. Cir. Feb. 7, 2017).

First reports on the oral argument in Tranxition offered hope that the Federal Circuit would finally clear up the confusion caused by Judge Mayer's concurrence in Ultramercial.[1]

In that oral argument Lenovo tried to encourage the court to follows Judge Mayer's divergent teachings:

Judge Jimmie Reyna: So if we're looking at Section 101, in terms of questioning whether some presumption exists, are we to say that a presumption of validity exists, or perhaps a presumption of eligibility?

Lenovo: Well ... certainly Your Honor is making a good point. Which is that [Section 282], I

don't believe, talks about a presumption of eligibility, it's a presumption of validity for the patent. ...

Judge Raymond Chen: There's a presumption of novelty. There's a presumption of nonobviousness. There's a presumption that there's written description support. There's a presumption of enablement. There's a presumption that the claims are reasonably clear enough to be definite. Why wouldn't there also be a presumption of eligibility?

Lenovo: Your Honor, I think all the ones that you just mentioned, again, the way I look at it is they are after you have figured out is this eligible or not. Once you've figured out this is eligible and now you've issued it as a patent, the rest of those things apply ...

Lenovo's counsel then demonstrated how the problem has invaded district court's analyses in the context of the presumption of validity:

Judge Sharon Prost: ... The district court concluded that there was no burden on you to establish by clear and convincing evidence that the patent was invalid, right? ... Well, you've gotta defend that, right?

Judge Chen: Yeah, you want us to be the first ones ever from the history of our court to say that we don't have to worry about the clear and convincing evidence standard. ...

Lenovo: ... The district court, following a lot of, some other district courts, did an evaluation of how other courts have been handling this question and concluded that . . . the clear and convincing of a standard didn't apply. But the court also said something I think more important, which is there's no factual disputes in this case. ... And his point is, the clear and convincing evidence standard is a factual standard. ...

Although the majority of the Tranxition panel appeared to believe that the presumption of validity does apply to challenges under Section 101, when the opinion was written, the panel dodged the issue:

Tranxition also argues that the district court erred in holding that the presumption of validity does not apply to challenges brought under 35 U.S.C. § 101 and failed to apply the clear and convincing evidentiary standard. In holding that the presumption of validity does not apply to challenges under § 101, the district court relied on a concurring opinion. See J.A. 8 (citing Ultramercial, 772 F.3d at 720 (Mayer, J., concurring). We are not persuaded that the district court was correct that a presumption of validity does not apply. We also do not address the proper evidentiary standard in this case as there do not appear to be any material facts in dispute. Moreover, under any applicable evidentiary standard, and regardless of the appropriate burden, the district court did not err in holding that the claims are patent-ineligible under § 101.

Tranxition Inc. v. Lenovo (U.S.) Inc., 664 Fed. Appx. 968, 972 n.1 (Fed. Cir. Nov. 16, 2016). Thereafter, the full court at the Federal Circuit denied certiorari, thus refusing to offer the much-needed clarity the lower courts desperately need.

Similarly, in other recent cases, panels at the Federal Circuit have avoided deciding this issue. See, e.g., Trading Technologies Inc. v. CQG Inc., No. 2016-1616, 2017 U.S. App. LEXIS 834, at *6 n.2 (Fed. Cir. Jan. 18, 2017) (nonprecedential) ("The parties dispute whether the district court erred in requiring proof of ineligibility under § 101 by clear and convincing evidence. Because our review is de novo, and because under either standard the legal requirements for patentability are satisfied, we need not address this dispute.")

Conclusion

The time has come for the Supreme Court to set the record straight and reaffirm that the statutory presumption of validity applies to patent-eligibility determinations under Section 101 as it previously stated in i4i. The BBiTV petition is the right vehicle for the court to do so.

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DISCLOSURE: Macedo and Hudak represent Broadband iTV Inc. in the Supreme Court with respect to its petition for certiorari in Case No. 16-1241, along with Paul Alston and John Rhee from Alston Hunt Floyd & Ing***.***

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http://www.insidecounsel.com/2016/10/13/software-patents-on-shaky-ground-with-federal-circ) (reporting “The district judge in that case assumed, as have many others, that the statutory presumption of patent validity and the burden of overcoming it by clear and convincing evidence don’t apply to Section 101 motions. Chief Justice Sharon Prost and Judge Raymond Chen didn’t sound so sure. “).