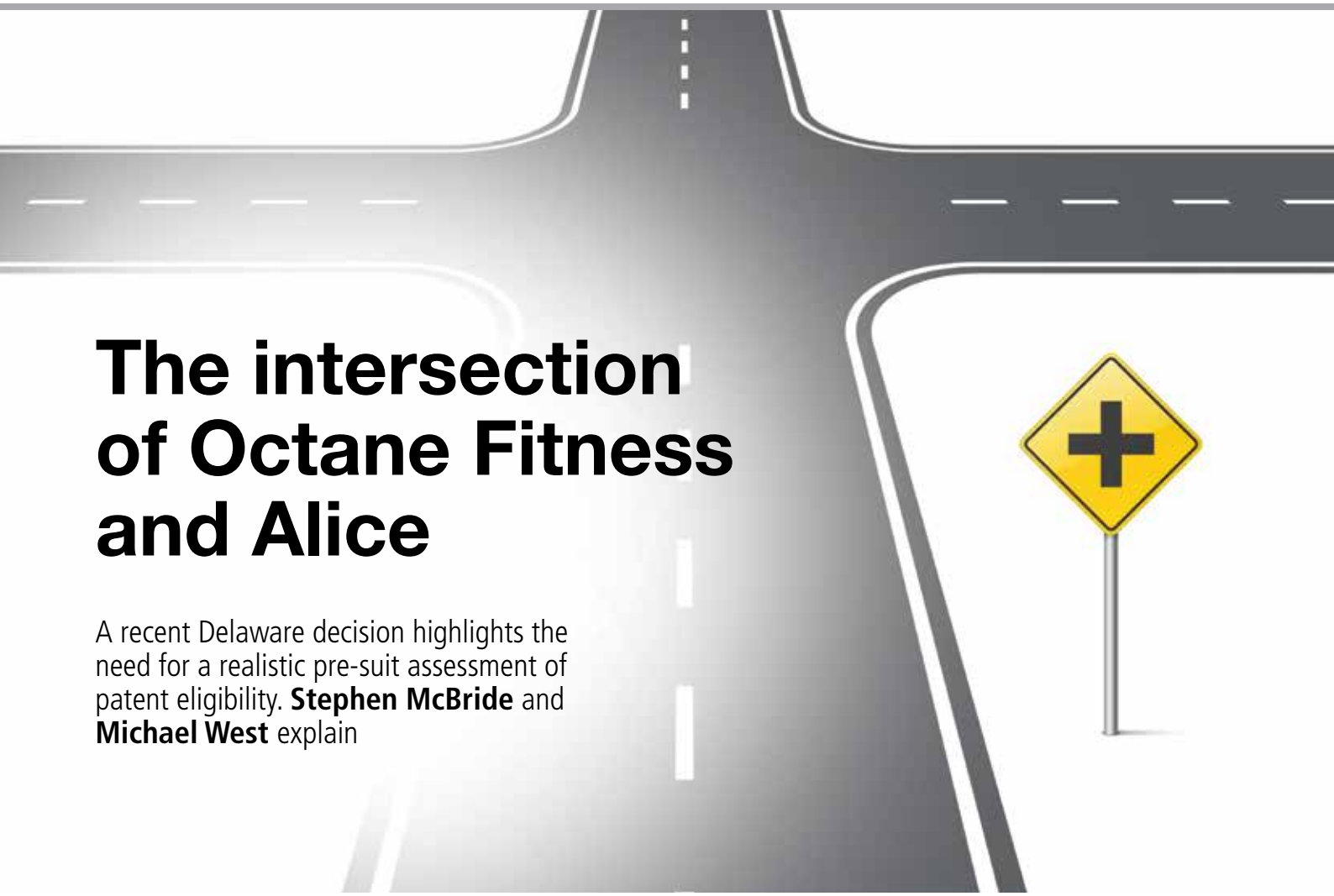

The intersection of Octane Fitness and Alice

A recent Delaware decision highlights the need for a realistic pre-suit assessment of patent eligibility. **Stephen McBride** and **Michael West** explain

A recent ruling from Delaware underscores the need for plaintiffs to exercise caution when alleging infringement claims that may be ineligible under *Alice*. In *Finnavations LLC v Payoneer Inc*, No 1-18-cv-00444 (D Del 2018), the court granted defendant Payoneer's 12(b)(6) motion to invalidate Finnavation's patent under 35 USC 101.[1] What makes *Finnavations* interesting is that the court subsequently awarded Payoneer attorneys' fees under 35 USC § 285 based solely on the substantive weakness of Finnavation's *Alice* defence without any evidence that Finnavations had otherwise acted unreasonably.[2]

Under § 285, there are two requirements for awarding attorney fees: 1. that the case is "exceptional" and 2. that the party seeking fees is a "prevailing party."[3] Before *Octane Fitness*, the Federal Circuit had held that a case was exceptional only if there had been materially inappropriate conduct by a party or the case was both objectively baseless and brought in subjective bad faith.[4] In *Octane Fitness*, the Supreme Court of the US abandoned this standard, holding that an "exceptional" case is "simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."[5] Thus, under *Octane Fitness*, an objectively weak claim can be exceptional without any subjective bad faith.

Finnavations illustrates this change in the law. In opposing Payoneer's motion to dismiss, Finnavations pointed to several facts supporting the reasonableness of its position. For example, during prosecution, the examiner had made several *Alice* rejections and the applicant's amendments and arguments had overcome these rejections.[6] Based on the applicant's arguments, the US Patent and Trademark Office (USPTO) issued a Notice of Allowance explicitly finding that the claims were eligible for patenting under §101.[7] Further, during the course of the litigation, the USPTO allowed a related patent with substantially identical claims, again after explicitly considering *Alice* issues.[8]

"*Finnavations* illustrates how the bar for an exceptional case finding has changed in light of *Octane Fitness*."

Finnavations pointed to these facts as evidence that it reasonably believed its claims were patent eligible.[9] The court disagreed, stating that it had "rarely been more confident in the patent ineligibility of a set of claims or more confident in the unreasonableness of a plaintiff's decision to sue on a patent."[10] The court emphasised that regardless of the USPTO proceedings, plaintiffs have a duty to critically assess the merits of their case prior to suit. Allowance of a patent, even over the same issue in dispute in the litigation, does not relieve a patent holder from independently evaluating the strength of their patents prior to filing their complaint.[11] The objective weakness of the asserted claims, coupled with the need for deterring future weak claims, was basis enough for the court to declare the case exceptional.[12]

The court's ruling gave little or no weight to the presumption of validity, stating that "the issuance of a patent cannot and should not be a licence to sue with abandon."[13] Most courts directly considering this issue have agreed, holding that the presumption of validity does not apply to § 101 decisions[14] – even though neither the Supreme Court nor the Federal Circuit has explicitly ruled on the issue.[15]

In many cases, there is some logic in disregarding the presumption of validity during litigation. In most cases, patent owners who rely on a presumption of validity during litigation are addressing different issues than the issues addressed at the USPTO – for example, addressing prior art that was not presented before the USPTO.

"Plaintiffs need to objectively analyse the strengths of their eligibility arguments under current law prior to suit."

In the § 101 context, numerous patents currently being litigated were prosecuted before *Alice* or the examiner failed to explicitly address § 101. Where the issue being litigated was not raised or addressed during prosecution, or was addressed using a standard that is no longer good law, a blanket presumption of validity may not be entitled to much weight.

Yet, in *Finnavations,* the same *Alice* issue was repeatedly addressed and eventually resolved in the patentee's favour during prosecution. Finnavations successfully overcame numerous §101 rejections at the USPTO directed to the asserted patent, as well as on a related patent application with substantially identical claims. Nonetheless, Judge Andrews still found the case exceptional on the basis that Finnavations failed "to make an independent assessment based on an evaluation of the relevant law".[16]

Where Finnavations went wrong was in failing to offer a cogent explanation distinguishing its claims from *Alice* and related patents. Instead, Finnavations relied on objectively weak substantive arguments, eg, that the claims were not abstract because they improved computer functionality by changing an existing data structure to allow a user to include additional information in the data structure.[17] Finnavations also failed to effectively analogise favourable case law, citing Federal Circuit cases like *DDR Holdings* and *Enfish* without providing the meaningful analysis necessary to draw a favourable comparison to the asserted claims.[18]

Finnavations illustrates how the bar for an exceptional case finding has changed in light of *Octane Fitness*. *Octane Fitness* provides judges with the ability to deter objectively weak claims and defences through the use of § 285 without considering whether the party asserting the claim believed it was acting reasonably. In the context of *Alice*, weak patent eligibility arguments may be declared exceptional even where the same arguments have succeeded elsewhere and there is no evidence the case has otherwise been litigated in bad faith or an unreasonable manner. Plaintiffs need to objectively analyse the strengths of their eligibility arguments under current law prior to suit, understanding that at least in the § 101 context, the district court may not give any weight to the presumption of validity based on the USPTO's allowance of the asserted claims.

Footnotes

1. *Finnavations LLC v Payoneer Inc*, No 1-18-cv-00444, 2019 US Dist LEXIS 45306, *5 (D Del 18 March 2019).
2. Id at **4-5.
3. Id at *2.
4. See eg, *Brooks Furniture Mfg Inc v Dutailier Int'l Inc,* 393 F 3d 1378, 1381 (Fed Cir 2005).
5. Finnavations, 2019 US Dist.LEXIS 45306 at *2; citing *Octane Fitness LLC v ICON Health & Fitness Inc,* 134 S Ct 1749, 1756 (2014).
6. *Finnavations LLC v Payoneer Inc,* No 1-18-cv-00444, DI 30 ("Opp Br") at 9-11.
7. Id.
8. Id.
9. Id at 10-11.
10. *Finnavations*, 2019 US Dist LEXIS 45306 at *3.
11. Id at **3-4.
12. Id at *3, n3.
13. Id at *3.
14. See eg, *Cellspin Soft v Fitbit Inc,* No 4:17-cv-5928-YGR, 2018 US Dist LEXIS 112873, *10 (ND Cal July 6, 2018) ("Although issued patents are presumed valid, they are not presumed eligible under Section 101"); *Crypto Research LLC v Assay Abloy Inc* 236 F Supp 3d 671, 679 (ED NY 17 February 2017) ("This view is consistent with the weight of authority, which suggests that the presumption of validity does not apply in the Section 101 context."); *OpenTV Inc v Apple Inc* No 14-cv-01622-HSG, 2015 US Dist LEXIS 44856, *7 (ND Cal 6 April 2015) ("while a presumption of validity attaches in many contexts, no equivalent presumption of eligibility applies in the section 101 calculus").
15. In their concurrence in *CLS Bank Int'l v Alice Corp Pty,* 717 F 3d 1269 (Fed Cir 2013), Judges Lourie, Dyk, Prost, Reyna, and Wallach took the position that the "presumption applies when § 101 is raised as a basis for invalidity in district court proceedings." At 1284 to the contrary, Judge Mayer's concurrence in *Ultramercial Inc v Hulu LLC,* 772 F 3d 709, 720-21 (Fed Cir 2014) argued that no presumption should apply with respect to 101, albeit based on the fact that the USPTO had examined the relevant patents under pre-*Alice* standards. Id. The Supreme Court's later decisions in Alice and *Ultramercial* did not address this issue.
16. *Finnavations,* 2019 US Dist LEXIS 45306, at *4.
17. Opp Br at 13.
18. Id.

Authors


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