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Practice Update

ShoppersChoice: Federal Circuit Affirms Section 101 Rejection of Patent at Pleadings Stage – a Reminder for Patentees to Raise Issues of Fact at the Outset of Litigation

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The Federal Circuit recently affirmed a U.S. district court's holding ***at the pleadings stage*** that claims of a delivery notification patent were invalid under 35 U.S.C. § 101. The case is *Electronic Commc'n Tech., LLC v. ShoppersChoice.Com, LLC*, 958 F.3d 1178 (Fed. Cir. May 14, 2020) (*"ShoppersChoice"*). Since the Supreme Court's landmark decision in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208 (2014), defendants had widely asserted early challenges in litigation under 35 U.S.C. § 101. The Federal Circuit's decisions in *Berkheimer* and *Aatrix* in early 2018 tempered the effect of *Alice*, making it more difficult for defendants to challenge patentability early on and giving hope to patentees seeking to enforce their software patents against infringers. Yet *ShoppersChoice* serves as a reminder that successful §101 challenges can still be made via a motion to dismiss.

ECT sued ShoppersChoice in the Southern District of Florida for infringing Claim 11 of its patent related to an automated notification system containing a user option to communicate with a "delivery or pickup representative." After ShoppersChoice moved for judgment on the pleadings based on § 101 eligibility

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grounds, the district court, applying the holding and two-step analysis in *Alice*[1], found the relevant part of the patent invalid, stating that "business practices designed to advise customers of the status of delivery of their goods have existed at least for several decades, if not longer."

The Federal Circuit agreed, finding that the alleged innovations "amount to nothing more than the fundamental business practice of providing advance notification of the pickup or delivery of a mobile thing." ETC argued in its opening appellate brief that the claim was not abstract because it minimized the risks buyers face in receiving fake order and shipment notification emails (known as "phishing" emails) by providing authentication information for the buyer that the buyer had predefined, thus increasing the buyer's confidence that the email is authentic and the link is safe – a solution to a problem that was not available at the time of the claim's date of priority (2003). Nevertheless, the court found that the process of recording authentication information (*e.g.*, the customer's name, address, and phone number), and including that information in a subsequent communication with a customer, is abstract not only because it is a "longstanding commercial practice, but also because it amounts to nothing more than gathering, storing, and transmitting information."

The court then concluded that the claims do not include an inventive concept sufficient to transform that abstract idea into a patent-eligible application, because "claim 11 is specified at a high level of generality, is specified in functional terms, and merely invokes well-understood, routine, conventional components and activity to apply the abstract idea identified." Accordingly, the court found that the claim only entails "applying longstanding commercial practices using generic computer components and technology…"

Significantly, aside from generally stating that patent eligibility under § 101 "is an issue of law that

sometimes contains underlying issues of fact" (emphasis added) while laying out the framework under which § 101 issues are decided, citing *Berkheimer v. HP Inc.*[2], the Federal Circuit ***did not specifically address*** whether resolving the § 101 inquiry was premature at the pleadings stage due to the existence of any factual issues potentially affecting such inquiry or considering that claim construction had not taken place. This is likely due to the fact that ***ECT did not present any arguments relating to the existence of any factual issues*** in its appeal brief which might have affected the court's patent-eligibility analysis.

In *Berkheimer*, the Federal Circuit held that, at least in some cases, patent eligibility determinations under § 101 present genuine disputes over the underlying facts that ***cannot be resolved at the summary judgment stage***. Eight days later, the court decided *Aatrix Software, Inc. v. Green Shades Software, Inc.*[3], holding that the district court erred when it denied leave to amend a complaint without allowing claim construction and in the face of ***factual allegations in the amended complaint*** that, if accepted as true, established that the claimed invention contained inventive components and improved the workings of the computer. In reaching its decision, the court noted that patent eligibility can ***only be determined at the motion to dismiss stage*** when there are ***no factual allegations*** that prevent resolving the eligibility question as a matter of law.

Since *Alice,* hundreds of patentability challenges have been brought based on §101, over half of which have been made in early dispositive motions. *Berkheimer* and *Aatrix* have made it more difficult for defendants to challenge patentability early on, giving hope to patentees seeking to enforce their software patents against infringers.

ShoppersChoice represents a relatively uncommon (after *Berkheimer* and *Aatrix*) example of Federal Circuit affirmance of invalidating a patent on § 101 grounds at the pleadings stage before addressing

claim construction or factual evidentiary issues. It also serves to highlight the importance of raising factual disputes in opposing a motion to dismiss both at the trial stage and on appeal.

[1] *Alice* held that known ideas are abstract, and that the use of a conventional computer in the claims to implement the known idea does not make the claim patentable subject matter. *Alice* also requires a court presented with a § 101 eligibility challenge to apply a two-step analysis (1) determining whether the patent claims at issue are directed to an abstract idea, and, if the court determines that they are, (2) then evaluating whether the claims include additional elements that when considered alone or together recite significantly more than the abstract idea. 573 U.S. 208, 217-18 (2014).

[2] 881 F.3d 1360, 1365 (Fed. Cir. 2018).

[3] 882 F.3d 1121 (Fed. Cir. 2018).
