

## Federal Circuit Reverses Rule 12(b)(6) Dismissal on Section 101 Grounds Due to Factual Allegations

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The decision of the US Court of Appeals for the Federal Circuit in *Aatrix Software, Inc. v. Green Shades Software, Inc.* clarified that although Section 101 of the US Patent Act is ultimately a question of law, it may involve subsidiary fact questions that may preclude a Section 101 decision at the pleadings stage. As such, parties to patent proceedings should consider their long-term strategies for Section 101 challenges under Federal Rule of Civil Procedure 12(b)(6).

In *Aatrix Software, Inc. v. Green Shades Software, Inc.*,<sup>[1]</sup> the Federal Circuit reversed and remanded the district court's Rule 12(b)(6) dismissal on Section 101 grounds because the complaint's factual allegations, accepted as true, prevented resolving the eligibility question as a matter of law.

Plaintiff Aatrix Software, Inc. asserted patents directed to systems and methods for designing, creating, and importing data into a viewable form on a computer so that users can manipulate the form data and create viewable forms and reports. When defendant Green Shades Software, Inc. moved to dismiss the US District Court for the Middle District of Florida case under Rule 12(b)(6) on the grounds that the asserted patents were ineligible under Section 101 of the US Patent Act (35 USC § 101), Aatrix argued that the motion should be denied as premature in the absence of claim construction.

The district court granted Green Shades' motion and held every claim ineligible under Section 101. Aatrix moved for reconsideration and for leave to amend the complaint, which the district court denied because amendment would be futile. Aatrix appealed, and on February 18 the Federal Circuit reversed.

### The Majority Opinion

As an initial matter, the Federal Circuit held that the district court erred in holding that one of the asserted claims was ineligible solely because it is directed to "an intangible embodiment."<sup>[2]</sup> Because the claim recited a data processing system that required computer operating software, a means for viewing and changing data, and a means for viewing forms and reports, it was "very much a tangible system."<sup>[3]</sup>

But the heart of the Federal Circuit's opinion lies in its treatment of the Section 101 decision at the Rule 12(b)(6) stage. The Federal Circuit explained that "[w]hile the ultimate determination of eligibility under Section 101 is a question of law, like many legal questions, there can be subsidiary fact questions which must be resolved en route to the ultimate legal determination."<sup>[4]</sup> According to the court, the "subsidiary fact question[]" for the district court was "[w]hether the claim elements or the claimed combination are well-understood, routine, conventional activity" under the second step of the *Alice/Mayo* test.<sup>[5]</sup> As for the patents at issue in *Aatrix*, "that question cannot be answered adversely to the patentee based on the sources properly considered on a motion to dismiss, such as the complaint, the patent, and materials subject to judicial notice."<sup>[6]</sup>

The court explained that Aatrix's second amended complaint contained "concrete allegations" that the claimed invention was "not well-understood, routine, or conventional activity" and offered "improvement to the functioning of the computer."<sup>[7]</sup> The Federal Circuit was "shown no proper basis for rejecting those allegations as a factual matter."<sup>[8]</sup>

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Because the court concluded *Aatrix* was entitled to file its proposed second amended complaint, the court declined to address whether the district court should have held claim construction proceedings prior to granting the motion to dismiss.<sup>[9]</sup> But the court forewarned that “the need for claim construction might be apparent just from the claim terms themselves, to arrive at ‘a full understanding of the basic character of the claimed subject matter.’”<sup>[10]</sup>

## The Opinion: Concurring in Part and Dissenting in Part

Judge Jimmie V. Reyna wrote separately, concurring in part and dissenting in part. Judge Reyna agreed that the district court erred in concluding that claim 1 of the asserted patent was directed to an abstract idea because the patent lacked a “tangible embodiment.”<sup>[11]</sup> But Judge Reyna disagreed “with the majority’s broad statements on the role of factual evidence in a § 101 inquiry.”<sup>[12]</sup>

For Judge Reyna, the Federal Circuit’s “precedent is clear that the § 101 inquiry is a legal question.”<sup>[13]</sup> According to Judge Reyna, the majority’s emphasis on “subsidiary fact questions” would permit “a plaintiff facing a 12(b)(6) motion [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.”<sup>[14]</sup> Judge Reyna further warns that same risk extends to summary judgment proceedings “despite the majority’s attempt to cabin its opinion to [Rule] 12(b)(6).”<sup>[15]</sup>

Moreover, as a procedural matter, Judge Reyna pointed out that the so-called “new” allegations and evidence in the proposed second amended complaint were just that: proposed allegations.<sup>[16]</sup> As such, the majority did not have a basis on appeal to “prejudge whether the Second Amended Complaint survives a Rule 12(b)(6) motion to dismiss in the first instance, particularly when the defendant, Greenshades, has had no opportunity to present arguments with respect to the new pleading.”<sup>[17]</sup>

## Future Implications

Since *Alice/Mayo* in 2014, Rule 12(b)(6) motions on Section 101 grounds have been used extensively. Whereas 2014 saw only two Section 101 challenges at the 12(b)(6) stage, 2016 saw 76 and 2017 saw 73, with each of the latter years resulting in a grant rate of approximately 51.3% and 50.7%, respectively.<sup>[18]</sup> Following the Federal Circuit’s decision in *Aatrix*, parties should strongly consider their long-term strategy for such challenges.

For example, plaintiffs may benefit from including Section 101-related factual allegations in a complaint to defend against subject-matter eligibility challenges at the pleading stage. Such allegations may include that the claimed invention is “not well-understood, routine, or conventional activity,” as in *Aatrix*. Other potential “subsidiary fact questions” for Section 101 may include (1) whether the claims “solve a technological problem,” (2) whether the claimed method is implemented with generic computer technology, or (3) whether a proposed new application or computer-implemented function is “an improvement to the capability of the system as a whole.”

Defendants should consider highlighting a complaint’s Section 101 factual allegations as inconsistent with the plain language of the patent itself.<sup>[19]</sup> For example, a defendant might argue that the patent’s specification specifically recognizes that the purported invention merely implements “well-understood, routine, or conventional activity” in a generic technological environment. Alternatively, if there were a reasonable risk that the court would find the complaint’s allegations sufficient at the pleading stage, a later motion at the summary judgment stage could be more successful when expert reports and declarations as well as inventor testimony might provide a stronger basis for a Section 101 decision as a matter of law.

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[1] [No. 2017-1452, slip op.](#) (Fed. Cir. Feb. 14, 2018).

[2] *Id.* at 6.

[3] *Id.* at 6-7.

[4] *Id.* at 11.

[5] *Id.* at 11-12.

[6] *Id.* at 12.

[7] *Id.*

- [8] *Id.*
- [9] *Id.*
- [10] *Id.*
- [11] *Id.* at 1 (Reyna, J., concurring in part, dissenting in part).
- [12] *Id.* at 2.
- [13] *Id.*
- [14] *Id.*
- [15] *Id.* at 3.
- [16] *Id.* at 3-4.
- [17] *Id.* at 4.
- [18] See DocketNavigator, [Motion Success by Year: Motion to Dismiss – Failure to State a Claim \(Fed. R. Civ. P. 12\(b\)\(6\)\) and Patent Ineligible Subject Matter](#) (last visited Feb. 17, 2018; subscription required).

[19] Although generally a court cannot look beyond the pleadings in deciding a Rule 12(b)(6) motion, other documents may be considered part of the pleadings if they are attached to, referenced by, or relied upon in the complaint. *See, e.g., Rhodes Pharms. L.P. v. Indivior, Inc.*, No. 16-cv-1308, 2018 WL 326405, at \*6 (D. Del. Jan. 8, 2018) (stating that Third Circuit law permits a court to rely on an exhibit attached to the complaint and all reasonable inferences that may be drawn from it in ruling on a motion to dismiss); *Midwest Innovative Prods., LLC v. Kinamor, Inc.*, No. 16 CV 11005, 2017 WL 2362571, at \*1 (N.D. Ill. May 31, 2017) (explaining that “documents that are attached to the complaint, documents that are central to the complaint and are referred to in it, and information that is properly subject to judicial notice” may be considered on a motion to dismiss under Seventh Circuit law); *Pylant v. Cuba*, No. 3:14-CV-0745-P, 2015 WL 12753669, at \*2 (N.D. Tex. Mar. 6, 2015) (applying Fifth Circuit law where “the courts consider attachments to a motion to dismiss as part of the pleadings when the operative pleading—whether a complaint or counterclaim—refers to the attached documents and they are central to a claim”); *RPost Holdings, Inc. v. Trustifi Corp.*, No. CV 10-1416 PSG SHX, 2010 WL 4025754, at \*1 (C.D. Cal. Oct. 12, 2010) (explaining that under Ninth Circuit law, “documents which are not physically attached to a pleading may be considered on a Rule 12(b)(6) motion to dismiss if their contents are alleged in a complaint and no party questions their authenticity”).

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