

*Chasing the White Rabbit: Business Method Patents and the
Continued Search for Clarity Under Alice*

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If there's one thing that's certain in business, it's uncertainty.

Stephen Covey

Introduction

In 2014, the question of whether business method and software patents constitute patentable subject matter climaxed with the Supreme Court's 2014 decision in *Alice v. CLS Bank. Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014). Consistent with its prior ruling in *Bilski*, the Court affirmed that the asserted patent claims were unpatentable. One of the significant takeaways from *Alice* lies in its firm assertion of a two-part test for analyzing § 101 claims. *Id.* at 2355. Shortly after *Alice*, federal courts and the U.S. Patent and Trademark Office began invalidating business-method patents in droves. Steven Seidenberg, *Business-method and software patents may go through the looking glass after Alice decision*, A.B.A. J. (Feb. 1, 2015) http://www.abajournal.com/magazine/article/business_method_and_software_patents_may_go_through_the_looking_glass_after. Decisions from both courts and patent examiners have demonstrated inconsistent reasoning in invalidating these patents with often limited analysis, and subsequently, patent lawsuits have significantly decreased. *Id.*; see also Scott Alter, *One Year After Alice: Was It The Right Medicine?*, LAW360 (June 18, 2015) <http://www.law360.com/articles/654471?sidebar=true>. As the quest for the patent world's elusive white rabbit continues, this article discusses the uphill battle plaintiffs have faced in patent lawsuits since *Alice* and identifies common takeaway points emphasized by courts along the way.

I. Business Method Patents 101

A. The History of Business Method Patents

Before analyzing the implications of *Alice*, it is important to begin by considering the history of the patents at issue. Business method patents formalize and protect new methods of conducting business, which inventors can then sell or license to market intermediaries, or entrepreneurs. David F. Spulber, *Should Business Method Inventions Be Patentable?*, 3 J. LEGAL ANALYSIS 265, 271 (2011). These patents are not explicitly recognized or defined in the Patent Act—which points to the root of their troubles—but section 101 is instructive for determining whether an invention is patent eligible. *See Alice*, 134 S. Ct. at 2354. According to the Act, “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent thereof, subject to the conditions and requirements of this title.” 35 U.S.C. § 101. Several Supreme Court decisions have also expanded upon the Act by identifying three implicit exceptions to § 101’s broad patent-eligibility: “laws of nature, natural phenomena, and abstract ideas are not patentable.” *See, e.g., Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980); *Bilski v. Kappos*, 561 U.S. 593, 601-02 (2010); *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2116 (2013). In promulgating this exclusionary principle, the Court has reiterated its concern that patent law not inhibit further discovery by monopolizing or “improperly tying up the future use of” these fundamental basics of human ingenuity. *See Alice*, 134 S. Ct. at 2354 (citing *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1301 (2012)).

Simultaneously, courts weigh this principle of exclusion against the threat of swallowing patent law in its entirety. *Alice*, 132 S. Ct. at 2354. All inventions, to some degree, “embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas.” *Mayo*, 132 S. Ct. at 1293. Therefore, courts cannot invalidate inventions merely because they invoke abstract concepts and the like. *Alice*, 134 S. Ct. at 2354. As a result, courts must discern between patents that only claim the fundamental

basics of human ingenuity and those that fuse such basics into something more, worthy of patent eligibility. *Id.*

B. The *Alice* Decision

The *Alice* decision reflects the apex of a long history of case law attempting to fill in the gaps between the language of § 101 and the three judicially created exceptions. *See* Brian H. Lawrence, *Clarifying Patent Law's Role in Financial Service: Time to Settle the "Bill"ski?*, 22 FED. CIRCUIT B.J. 319, 322 (2012). In this case, the Supreme Court considered the patentability of an invention enabling a computerized scheme for mitigating "settlement risk," the risk that only one party to an agreed-upon financial exchange will satisfy its obligation. *Alice*, 134 S. Ct. at 2352. Specifically, Alice Corporation owned patents designed to use a computer system as a third-party intermediary to facilitate the exchange of financial obligations between two parties. *Id.* The intermediary constructs "shadow" account ledgers that mirror the balances of parties' bank accounts in the real world. *Id.* As the transactions occur, the intermediary updates the shadow credit and debit records in real time and instructs the corresponding financial institutions to carry out the "permitted" transactions consistent with the updated shadow records. *Id.* After a divided Federal Circuit affirmed the lower court's finding of patent ineligibility—ten judges issued five separate opinions—the Supreme Court granted *certiorari*. *Id.* at 2353.

In a unanimous finding that Alice's invention is not patent eligible, the Court articulated a two-part test for determining patent eligibility for claims: (1) "determine whether the claims at issue are directed to one of those patent-ineligible concepts," and if so, (2) "examine the elements of the claim to determine whether it contains an 'inventive concept' sufficient to 'transform' the claimed abstract idea into a patent-eligible application." *Id.* at 2355-57 (citing *Mayo*, 132 S. Ct. at 1294). With respect to Alice's inventions, the Court first concluded that the idea of intermediated settlement, or "the use of a third party to mitigate settlement risk," constituted a basic and well-established economic concept in the commerce system. *Compare id.* at 2356, *with Bilski*, 561 U.S. at 611 (rejecting as patentable the concept of hedging because it

constitutes “a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class”). Second, the Court concluded that the invention amounted to nothing more “than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer.” *Id.* at 2360. In citing to an assortment of precedent, ultimately the Court concluded that Alice did not provide “enough” to transform its abstract idea into an invention worthy of patent protection. *Id.*

II. What are the big picture effects of *Alice*?

Alice narrowed the lens with which we analyze § 101 claims for subject-matter eligibility, but broadly speaking, the opinion also created new trends in the greater patent world. Although the two-step test stemmed from *Mayo*, *Alice* took that precedent a step further. *See Mayo*, 132 S. Ct. at 1296-97. Where *Mayo* applied the framework to a process applying natural laws, *Alice* made it clear that this framework would also apply to § 101 analyses of abstract ideas, particularly those implemented in technological or computerized environments. *See Alice*, 134 S. Ct. at 2358 (“if a patent’s recitation of a computer amounts to a mere instruction to ‘implemen[t]’ an abstract idea ‘on...a computer,’ that addition cannot impart patent eligibility”). Consequently, this language has had a sobering effect on patent examiners with the task of interpreting this ambiguous language and plaintiffs considering section 101 issues in their respective cases.

A. The USPTO’s Tough New Stance

Just six days after the *Alice* decision, the U.S. Patent and Trademark Office (“USPTO”) modified its guidelines by creating stricter standards for patent review in light of the opinion. In a memorandum to its “Patent Examining Corps,” the Office outlined the opinion and explicitly recognized that although it previously only used the two-step test to review claims involving laws of nature, it would now apply the test to claims involving abstract ideas pursuant to *Alice*. Memorandum from the United States Patent and Trademark Office to the Patent Examining Corps (June 25, 2014) *available at*

http://www.uspto.gov/sites/default/files/patents/announce/alice_pe_c_25jun2014.pdf. The USPTO also circulated a “quick reference sheet” in December of 2014 including boilerplate denial language¹ and a flow chart for determining subject matter eligibility consistent with the holding in *Alice*. Memorandum from the United States Patent and Trademark Office to the Patent Examining Corps (Dec. 16, 2014) available at http://www.uspto.gov/sites/default/files/documents/sme_memo_20141216.pdf. Given the USPTO’s heightened scrutiny, the Office has granted far fewer business method and software-related patents. Seidenberg, *Through the Looking Glass*, *supra*, at 2.

In addition, the “Post-Alice Task Force,” formed by the American Bar Association’s Section of Intellectual Property Law, has found that patent examiners have not consistently applied *Alice* in reviewing claims for patentability. Alter, *One Year After Alice*, *supra*, at 5. The task force reviewed all of the patent applications with an office action that both cited § 101 and were issued in the end of November 2014. *Id.* “Of the 161 identified office actions, 74 of those did not address the [*Alice*] test at all, and, somewhat surprisingly, 41 of those 74 applied *Bilski v. Kappos* or other pre-*Alice* formulations.” *Id.* Of the 87 office actions that did address *Alice*, the task force determined that 63 percent of those actions

¹ Patent claims rejected pursuant to *Alice* are met with the following form language: “[c]laim [1] rejected under 35 U.S.C. 101 because the claimed invention is directed to a judicial exception (i.e., a law of nature, a natural phenomenon, or an abstract idea) without significantly more.” Memorandum from the United States Patent and Trademark Office to the Patent Examining Corps (Dec. 16, 2014) available at http://www.uspto.gov/sites/default/files/documents/sme_memo_20141216.pdf. Patent examiners are required to “elaborate” upon the lacking “additional elements that are sufficient to amount to significantly more than the judicial exception,” but the suggested reasoning for articulating such shortcomings merely repeats the fact that these inventions are not “enough.” *Id.* For example, if, hypothetically, a claim constituted “an abstract idea with additional generic computer elements,” examiners are instructed to “explain that the generically recited computer elements do not add a meaningful limitation to the abstract idea because they would be routine in any computer implementation.” *Id.* Although these rejections technically address *Alice*, they provide little substantive analysis of value.

included the boilerplate rejections identified in the subsequently released USPTO memorandum, and they did not specifically identify the limitations at issue in the claim. *Id.* Therefore, the majority of patent examinations in November 2014 either did not apply *Alice* at all or used the opinion to deny patentability with conclusory, vague statements; but it is worth nothing that this trend could change in 2015 since the USPTO's more substantive guidance did not reach examiners until December 2014. *Id.*

B. A Decrease in Litigation

Patent lawsuits have also seen a significant decline in the last year. In 2014, the number of filed patent suits decreased by thirteen percent, a drop partially attributed to the *Alice* decision. Vin Gurrieri, *Patent Lawsuits Took First Dive In Years, Report Says*, LAW360 (May 20, 2015) <http://www.law360.com/articles/658268/patent-lawsuits-took-first-dive-in-years-report-says>. This ebb in litigation reflects a marked change in light of the booming patent activity over the last five years. *Id.* A 2015 Patent Litigation Study done by PricewaterhouseCoopers LLP concluded that about 5,700 patent cases were filed last year, in comparison to the record-high 6,500 cases filed in 2013. *Id.* This year's study also reflects the first time that the study has recorded declining figures since 2009. *Id.* Furthermore, the decline in patent litigation could continue to drop considering that only one fourth of the 2015 Patent Litigation Study covered cases post-*Alice*. *Id.* These figures could accelerate once the opinion takes full effect. *Id.*

Of the cases that have come to fruition, courts have begun to determine patent eligibility earlier in the litigation process. Seidenberg, *Through the Looking Glass, supra*, at 2. Several courts have invalidated patents as ineligible subject matter on motions to dismiss, rather than waiting until summary judgment to render such decisions. *Id.* In the Eastern District of Texas, Judge Rodney Gilstrap created a new procedure requiring patent defendants to ask for his permission before filing an early invalidity motion. Ryan Davis, *Judge Gilstrap Requires Permission To File Alice Motions*, LAW360 (June 9, 2015) http://www.law360.com/ip/articles/665542?nl_pk=e09139fa-7d18-

[42ba-be7a-1280d89a60b0&utm_source=newsletter&utm_medium=email&utm_campaign=ip](#). Before construing patent claims, Judge Gilstrap requires defendants to request permission for invalidity motions under *Alice* “by filing a five-page letter brief.” *Id.* Plaintiffs can respond with a five-page answering brief within fourteen days, and then defendants may file a three-page reply within five days after that. *Id.* With the busiest patent docket in the country, Judge Gilstrap characterized the number of *Alice* motions as ever-increasing,” and predicted that such motions could become standard procedure in all cases given these early trends. *Id.*

C. Effect on NPE Litigation

The ability to assert patent invalidity early on in litigation has also affected certain non-practicing entities, those often referred to as “patent trolls.” Seidenberg, *Through the Looking Glass, supra*, at 2. Patent trolls are people or entities who have no affiliation with the inventors or inventive entity, rather they purchase patents without any intention of producing the patented product or using the patented method. David Applegate, *Who Are Patent Trolls And What Will H.R. 9 Do About Them?*, FORBES (May 29, 2015) <http://www.forbes.com/sites/econostats/2015/05/29/who-are-patent-trolls-and-what-will-h-r-9-do-about-them/>. Patent trolls may use discrepancies between litigation and settlement costs in attempts to leverage settlements from defendants. Seidenberg, *Through the Looking Glass, supra*, at 2. Once patent trolls threatened companies with either the purchase of a license or a patent lawsuit, defendants would often purchase licenses to spare the cost in legal fees required to fight infringement allegations. *Id.* But given *Alice*, companies may be less likely to settle or buy licenses from patent trolls knowing that there may be a greater chance of an invalidity finding on their patents via a dispositive motion.

III. A Closer Look: How have the courts interpreted *Alice*?

A. Certain Patents Now at a Greater Risk of Invalidity

1. *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.* (Fed. Cir. 2014)

As of July 2015, the Federal Circuit has referenced *Alice* in sixteen cases, invalidating the patents in all but one. The court's wave of rejection began just weeks after the Supreme Court decided *Alice*. See *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.*, 758 F.3d 1344, 1351 (Fed. Cir. 2014). In *Digitech*, the patent at issue described a method for "generating a device profile that is specifically tied to a digital image processing system and is integral to the transformation of a digital image." *Id.* at 1350. Because the method described a process of organizing information via "mathematical correlations" without any connection to a specific structure or machine, the court held that the patent claimed an abstract idea. *Id.* Additionally, the court cited to pre-*Alice* case law while criticizing the lacking "additional limitations" necessary to render a basic method of using a mathematical formula patent eligible. *Id.* at 1351 (citing *Parker v. Flook*, 437 U.S. 584, 595 (1978) ("[i]f a claim is directed essentially to a method of calculating, using a mathematical formula, even if the solution is for a specific purpose, the claimed method is nonstatutory.")).

Although the opinion mentioned the *Alice* test, the court did not apply the test in a straightforward manner. The opinion concluded by stating that a finding of sweeping abstractness eliminates the need to determine "whether tying the method to an image processor would lead [one] to conclude that the claims are directed to patent eligible subject matter in accordance with the Supreme Court's *Mayo* test." *Id.* But that is exactly what *Alice* requires; if a claim constitutes an abstract idea, or any other patent-ineligible concepts, courts should then proceed to step two of the test to determine whether any additional elements of the claim exist to transform the method into patent-eligible subject-matter. See *Alice*, 134 S. Ct. at 2355. Ultimately, the *Digitech* opinion

foreshadowed the inconsistent application of *Alice* and the potential fate of certain method patents going forward.

2. *I/P Engine, Inc. v. AOL Inc.* (Fed. Cir. 2014)

Next, the Federal Circuit invalidated a patent describing a system for filtering information related “to a user’s [internet] query using combined content and collaborative data” without employing the *Alice* test at all. *I/P Engine, Inc. v. AOL Inc.*, 576 F. App’x 982, 994 (Fed. Cir. 2014). The court found the patent invalid as obvious, however Judge Mayer’s concurring opinion encouraged an initial assessment of § 101 requirements “at the outset of litigation.” *Id.* at 996. Instead, “if this determination had been made in the first instance as directed by the Supreme Court, unnecessary litigation, and nearly two weeks of trial and imposition on citizen jurors, could have been avoided.” *Id.* at 992. Judge Mayer still found the patent invalid under *Alice* since the claim failed to improve either the functioning of the computer itself or any other technology or technical field, although the Judge did not explicitly define which patent-ineligible concept the claim fell under pursuant to step one of the *Alice* test. *Id.* at 994-95. Thus, *I/P Engine* demonstrates a judicial inclination toward deciding validity as early as possible, and another uneven application of *Alice*.

3. *Planet Bingo, LLC v. VKGS LLC* (Fed. Cir. 2014)

The first case to perform “a straightforward application” of the *Alice* test analyzed a claim for computer-aided systems and methods of managing the game of bingo. *Planet Bingo, LLC v. VKGS LLC*, 576 F. App’x 1005, 1006 (Fed. Cir. 2014). Nonetheless, Planet Bingo’s claims still failed to rise to the level of patent-worthy subject matter. First, the Federal Circuit found that the claims amounted to abstract ideas. *Id.* at 1008. Similar to the abstract idea of hedging risk during “consumer transactions”—which the Supreme Court once found invalid in *Bilski*—Planet Bingo’s claims sought to reduce the risk of tampering and other security risks during the purchase of bingo tickets. *Id.* Second, the abstract claims at issue failed to “transform” the method into

patent-eligible subject-matter. *See Alice*, 134 S. Ct. at 2357. Planet Bingo tried to argue that the patents recited “significantly more” than an abstract idea due to the claim’s “complex computer code with three distinct subparts.” *Planet Bingo*, 576 F. App’x at 1008. However, the court determined that the claims only cited conventional computer functions like “storing, retrieving and verifying a given set of bingo numbers against a winning set of bingo numbers.” *Id.* at 1009. Accordingly, the invention lacked an “inventive concept” sufficient to render the claim patent-eligible. *Id.*

4. *buySAFE, Inc. v. Google, Inc.* (Fed. Cir. 2014)

Just one week after *Planet Bingo*, the Federal Circuit reviewed another exercise of the *Alice* test with respect to “methods and machine-readable media encoded to perform steps for guaranteeing a party’s performance of its online transaction.” *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1351, 1354 (Fed. Cir. 2014). As the abstract claims in both *Bilski* and *Alice* mirrored long-established “fundamental economic practices,”² the court compared the methods to the creation of a contractual relationship, or “a ‘transaction performance guaranty,’” undoubtedly “of ancient lineage.” *Id.* at 1355 (citing Willis D. Morgan, *The History and Economics of Suretyship*, 12 CORNELL L.Q. 153 (1927)). After establishing that the claims amounted to abstract ideas, the court also determined that the claims lacked any “inventive concept” to cross the patentability threshold. *Id.* The fact that the claims included generic computer functionality required “no further detail.” *Id.* “That a computer receives and sends the information over a network - with no further specification - is not even arguably inventive.” *Id.* In explicitly applying the two-part test, this decision reflected the court’s frustration with patents attempting to limit their use to computers or “technological environment[s].” *See id.*

² *See, e.g., Bilski*, 561 U.S. at 611; *Alice*, 134 S. Ct. at 2356-57.

5. *Ultramercial, Inc. v. Hulu, LLC.* (Fed. Cir. 2013-2014)

The effects of *Alice*'s strict framework are perhaps best illustrated in light of *Ultramercial*. *Ultramercial, Inc. v. Hulu, LLC.*, 772 F.3d 709, 715-16 (Fed. Cir. 2014). Ultramercial owned “a method for distributing copyrighted media products over the Internet where the consumer receives a copyrighted media product at no cost in exchange for viewing an advertisement, and the advertiser pays for the copyrighted content.” *Id.* at 712. Before *Alice*, the method survived a Federal Circuit appeal because the method did not pose a risk of preempting all forms of Internet advertising; the invention reflected a practical application of the general idea of advertising, and the claims provided an improvement to prior technology. *See Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1354 (Fed. Cir. 2013). However, after the Supreme Court vacated and remanded the case in light of *Alice*, Ultramercial's claims were not so lucky.

On appeal following *Alice*, the Federal Circuit invalidated Ultramercial's patents. *Ultramercial*, 772 F.3d at 712. Consistent with *Alice*, the court first determined that the method was directed to an abstract idea, with no concrete or tangible form, where an advertisement is used as an exchange or currency. *Id.* at 714. Ultramercial failed on step two of *Alice* where its claims instructed practitioners to implement the abstract idea using “routine, conventional activity.” *Id.* at 715. The company attempted to argue that the addition of novel “or non-routine components” sufficiently transformed the claimed invention into something concrete, but the court found this unpersuasive. *Id.* The court even tried to find patentability using the machine-or-transformation test (“MORT”),³ but concluded that the claims were only tied to “a

³ The MORT test analyzes § 101 process claims by considering whether: “(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008). Although once considered the exclusive test for analyzing such claims (*see id.* at 966), the MORT test is now characterized as “a useful and important clue...for determining whether some claimed inventions are processes under § 101.” *See Bilski*, 561 U.S. at 604.

general purpose computer.” *Id.* at 716. Again, the court reiterated that the Internet cannot save patents, here in the context of the MORT test. *Id.* Predictably, Ultramercial has since sought Supreme Court review, namely due to the ambiguity seeping through the patent world due to *Alice*. Matthew Bultman, *Ultramercial Asks High Court To Clarify Alice Ruling*, LAW360 (May 26, 2015) <http://www.law360.com/articles/659627/>. The company’s petition aptly decried the fact that “computer implemented innovation may not withstand the undeserving scrutiny it is facing at this time.” *Id.*

B. Yet Some Claims Have Survived

1. *DDR Holdings, LLC v. Hotels.com, L.P.* (Fed. Cir. 2014)

The Federal Circuit continued to reject certain claims through 2014 and 2015,⁴ but one claimed method successfully survived federal appellate review. *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245 (Fed. Cir. 2014). In *DDR*, the plaintiff owned patents claiming “systems and methods of generating a composite web page that combines certain visual elements of a ‘host’ website with content of a third-party merchant.” *Id.* at 1248. Prior art systems permitted third-party merchants to redirect the host website’s visitors away to their own

⁴ See, e.g., *Content Extraction and Transmission LLC v. Wells Fargo Bank, Nat. Ass’n*, 776 F.3d 1343, 1345, 1347-48 (Fed. Cir. 2014) (invalidating method claims describing ATM software that recognizes information written on scanned-in checks because the claim constituted an abstract idea and did not contain limitations meaningful enough to transform the claim into patent-eligible subject matter); *OIP Techs. Inc. v. Amazon.com, Inc.*, No. 2012-1696, 2015 WL 3622181, at *3 (Fed. Cir. June 11, 2015) (invalidating patent for method of price optimization in e-commerce environments that broadly attempts to preempt a basic economic practice using conventional computer activities); *Internet Patents Corp. v. Active Network, Inc.*, Nos. 2014-1048, 2014-1061, 2014-1062, 2014-1063, 2015 WL 3852975, at * 5-6 (Fed. Cir. June 23, 2015) (invalidating patents for concept of retaining lost information during the navigation of online forms where patents cited to abstract ideas using generic data collection procedures in a computerized environment).

merchant websites when users clicked on their advertisements. *Id.* But DDR’s patents resolved this issue for host websites by allowing users to view advertisements without having to leave their webpages. *Id.*

In analyzing the patents, the court considered whether the claims constituted patent-ineligible subject matter—step one of the *Alice* test—by comparing the patents in suit to claims previously deemed abstract. *Id.* at 1257-58. In doing so, the court implicitly acknowledged that DDR’s patents were directed to abstract ideas but instead focused on “identifying the precise nature of the abstract idea.” *See id.* (“we note that the ’399 patent’s asserted claims do not recite a mathematical algorithm. Nor do they recite a fundamental economic or longstanding commercial practice. Although the claims address a business challenge (retaining website visitors), it is a challenge particular to the Internet.”). After considering several representations of the method,⁵ ultimately the court determined that the patents described a unique abstract idea that warranted continuation to step two of the *Alice* framework. *Id.* at 1257.

With respect to *Alice* step two, the court centered its discussion on the patents’ ability to resolve issues specific to the world of computer networks. Before the claimed invention, host websites instantly lost web users to other sites when its visitors clicked third-party advertisements displayed on the page. *Id.* at 1257-58. Instead, the patented method uses a web server to direct visitors “to an automatically-generated hybrid web page” combining the visual elements of the host website with the advertised product information from the third-party merchant. *Id.*

⁵ The Federal Circuit described the nature of DDR’s abstract patents as less straightforward in comparison to *Alice* or other cases analyzing abstract ideas. *DDR Holdings*, 773 F.3d at 1257. Plaintiffs and defendants described the methods as “‘making two web pages look the same,’ ‘syndicated commerce on the computer using the Internet,’ and ‘making two e-commerce web pages look alike by using licensed trademarks, logos, color schemes and layouts.’” *Id.* Additionally, the dissent characterized the “patents as describing the entrepreneurial goal ‘that an online merchant’s sales can be increased if two web pages have the same ‘look and feel.’” *Id.*

at 1257. Although the dissent compares the method to the “store within a store’ concept,” like a warehouse store that has a separate kiosk for selling a third-party company’s vacation packages, the majority distinguished the two ideas given DDR’s use of the instantaneous transmission of *Internet* locations. *Id.* at 1258.

Additionally, the Federal Circuit distinguished DDR’s patents from the recently invalidated patents in *Ultramercial*. *Id.* at 1258. The plaintiff in *Ultramercial* argued that its claims were directed to a particular method of Internet advertising and media distribution previously unknown and unused; nonetheless, the court found that the claim still recited the abstract idea of providing “media content in exchange for viewing an advertisement” in addition to routine steps associated with Internet use. *Id.* In contrast, the claims in *DDR* were not so sweeping as to broadly claim Internet usage as a whole for the performance of its abstract business practice, and instead specified “how interactions with the Internet are manipulated to yield a desired result” overriding the conventional chain of events triggered by the click of a hyperlink. *Id.* Overall, the opinion provides a few useful legs for practitioners to stand on in arguing for the validity of their patents.

2. District Court Cases

Although *DDR Holdings* is the only post-*Alice* Federal Circuit case to date to result in finding patent-eligible claims in light of *Alice* challenges, plaintiffs have found success in a few district courts. In *Smartflash LLC v. Apple Inc.*, a federal district court in the Eastern District of Texas upheld the validity of “data storage and access systems for paying for and downloading digital content” for data including audio, video, text, software and games. *Smartflash LLC v. Apple Inc.*, No. 6:13CV447-JRG-KNM, 2015 WL 66117, at *1 (E.D. Tex. Feb. 13, 2015). The court strictly applied *Alice* and first determined that the invention recited abstract ideas because the claims’ purpose of “conditioning and controlling access to data based on payment” mirrored basic building blocks of the digital economy. *Id.* at 7-8. Regarding whether the claims added enough to transform the abstract idea into something more, the court rejected defendants’ “over-

generalized characterizations” of the invention and instead considered specific language in the claim. *Id.* at *8. The court was particularly persuaded by the method’s detail regarding its ability to read “status data” and evaluate this data consistent with “stored ‘use rules’” to determine the accessibility of previously stored content. *Id.* Nonetheless, the Texas federal district courts have often invalidated patent claims.⁶

California federal district courts have also recognized the patentability of certain method claims after *Alice*. In *California Inst. Tech. v. Hughes Commc’ns Inc.*, a court refused to invalidate patent claims directed to a method of error correction called an irregular repeat and accumulate code. 59 F. Supp. 3d 974, 977-78 (C.D. Cal. 2014). First, the court found the claims directed to abstract ideas because their purpose of encoding and decoding data in order to achieve error correction recited basic concepts of coding data. *Id.* at 993. Second, the claims contained inventive concepts including narrowly defined mathematical algorithms tied to particular error correction processes. *Id.* at 994. Still, California’s district courts have not hesitated to invalidate certain patent claims under *Alice*. See, e.g., *McRO, Inc. v. Sega of America, Inc.*, No. 2:12-CV-10327, 2014 WL 4749601, at *1, *11 (C.D. Cal. Sept. 22, 2014) (holding unpatentable claims addressed to automatically animate “the lip synchronization and facial expressions of 3D characters” where the invention failed to add “an ‘inventive concept’ ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [abstract idea] itself.’”).

⁶ See, e.g., *Affinity Labs of Tex., LLC v. Amazon.com, Inc.*, No. 6:15-CV-0029-WSS-JCM, 2015 WL 3757497, at *1, *14 (W.D. Tex. June 12, 2015) (invalidating claims allowing users to “consume media on the go” by streaming media through the Internet where the patent cited to “conventional, well known and routine concepts, accomplished using computer hardware and software recited in ‘purely functional and generic’ terms”); *Kroy IP Holdings, LLC v. Safeway, Inc.*, No. 2:12-CV-800-WCB, 2015 WL 3452469, at *1, *13 (E. D. Tex. May 29, 2015) (invalidating method patent creating “incentive award programs over a computer network” where the patent recited tasks consistent with generic computer programming).

IV. *Alice* Takeaways

A. Specificity

After considering *Alice* and its progeny, there are a few identifiable issues that courts continue to raise. One of the fatal flaws of the patents at issue in *Bilski* and *Alice* was the breadth of each claim. See Rob Merger, *Go ask Alice - what can you patent after Alice v. CLS Bank?*, LAW360 (June 20, 2014) <http://www.scotusblog.com/2014/06/symposium-go-ask-alice-what-can-you-patent-after-alice-v-cls-bank/>. The petitioners in *Bilski* sought protection for a method of hedging the risk of price changes in the energy market, while *Alice* involved patents for a computerized method of reducing “settlement risk” in financial transactions. See *Bilski*, 561 U.S. at 599; *Alice*, 134 S. Ct. at 2351-52. The Court critiqued both inventions for attempting to patent long-established economic practices and has continued to apply this reasoning to other claims. See *Alice*, 134 S. Ct. at 2356; see also *buySAFE*, 765 F.3d at 1355; *CMG Fin. Servs., Inc. v. Pacific Trust Bank, F.S.B.*, 50 F. Supp. 3d 1306, 1325 (C.D. Cal. 2014) (“[t]hese claims merely recite basic, longstanding banking principles.”); *McRO, Inc. v. Sega of America, Inc.*, No. 2:12-CV-10327, 2014 WL 4749601, at *13 (C.D. Cal. Sept. 22, 2014) (“[t]his case illustrates the danger that exists when the novel portions of an invention are claimed too broadly.”); *Intellectual Ventures I LLC v. Capital One Bank (USA)*, No. 2014-1506, 2015 WL 4068798, at *6 (Fed. Cir. July 6, 2015) (invalidating a patent where “vague and generic descriptions” failed to raise an “inventive concept.”). Thus, future patents should seek specificity in claim drafting and avoid broad, comprehensive claims covering well-established practices. See Merger, *Go ask Alice, supra*, at 1.

B. Follow the Courts

In the same vein, courts also will not hesitate to compare claims to inventions previously reviewed by other courts. For example, in *Planet Bingo*, the Court likened a method of managing risk associated with purchasing bingo tickets with the abstract, unpatentable idea of hedging risk during financial transactions in *Bilski*. See *Planet Bingo*, 576 F. App’x at 1008. The Federal

Circuit drew the same comparison in *OIP Techs.* where a patent claiming a method of “offer based price optimization” was “similar to other ‘fundamental economic concepts’” deemed unpatentable abstract ideas. *OIP Techs., Inc. v. Amazon.com, Inc.*, No. 2012-1696, 2015 WL 3622181, at *3 (Fed. Cir. June 11, 2015); *see also Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 715 (Fed. Cir. 2015) (analyzing a method patent which recited the abstract concept of using advertising as an exchange or currency). Courts do not want to reinvent the wheel; case law surrounding *Alice* and § 101 analyses is clearly expansive, and the ability to rely on other opinions from higher courts lessens the burden on lower courts in analyzing these claims and reduces the risk of inconsistent rulings. *See e.g. Versata Dev. Grp. v. SAP America, Inc.*, No. 2014-1194, 2015 WL 4113722, at *49 (Fed. Cir. July 9, 2015) (declining to repeat the litany of “extensive [§ 101] discussion” but highlighting relevant case law “as a means of comparison to the invention and claims” in suit). Thus, it is important that new claims distinguish themselves as much as possible from patents already deemed invalid.

C. Highlight Patent Innovation

One way to avoid overly broad claims is to demonstrate how a claimed invention improves upon an existing process, another factor consistently sought by courts. For example, the *Alice* Court cited the *Diehr* decision favorably for its transformation of “a ‘well-known’ mathematical equation” into “something more.” *Alice*, 134 S. Ct. at 2354, 2358. Of particular interest to the Court was the invention’s ability to resolve “something ‘the industry ha[d] not been able to obtain.” *Id.* at 2358. Similarly, while analyzing *Alice* step two in *DDR Holdings*, the Federal Circuit explicitly noted that the valid patents’ use of a computer and the Internet transformed the claims beyond abstract ideas and well-known business practices by “overcom[ing] a problem specifically arising in the realm of computer networks.” *DDR Holdings*, 773 F.3d at 1257. A clear illustration of how a claimed invention actively improves upon a pre-established process can strengthen the likelihood of success on step two of the *Alice* test.

D. Consider the MORT test

Although the Supreme Court emphasized that satisfaction of the machine-or-transformation test alone is insufficient for claims to attain patentability, it can improve a claim's likelihood of overcoming an *Alice* challenge. See *Bilski*, 130 S. Ct. at 3227 (the MORT test is "not the sole test for deciding whether an invention is a patent-eligible 'process,' however it is a useful and important clue"). For example, in *Helios Software, LLC v. SpectorSoft Corp.*, a Delaware district court deemed method patent claims for exchanging data over the Internet patentable subject matter due to their satisfaction of the MORT test. C.A. No. 12-081-LPS, 2014 WL 4796111, at *17 (D. Del. Sept. 18, 2014). Several limitations were provided in order to transform the claims into patentable subject matter including the exchange of "data over different internet sessions to capture the content of an ongoing Internet communication session," "real-time data capture and transmission and reception using a computer," and "the ability to provide access configurations and communication protocols that control computer network access and monitor activity." *Id.* These limitations, in combination with concessions from both sides that humans alone cannot perform any of these limitations, were sufficient to convince the court to find patentability. *Id.* Thus, technical specificity in describing a claimed invention's limitations aids the likelihood of success in satisfying the machine-or-transformation test, which in turn prepares a prime argument for overcoming step two of the *Alice* test.

Conclusion

In summary, the patentability of business method and software patents is still uncertain; however, the *Alice* decision provides some insight for future practitioners. On one hand, the Supreme Court decision requires that § 101 analyses must consider (1) whether the claimed invention is directed to a patent-ineligible concept, and if so (2) whether the elements of the claim transform the nature of the claim into patent-eligible subject matter. *Alice*, 134 S. Ct. at 2355. Conversely, in some instances, the framework is inconsistently applied across courts, and the courts that *do* employ the *Alice* framework may invalidate the patents in suit with

limited reasoning. Regarding future claims, what we do know is that courts will compare new method claims to Supreme Court and Federal Circuit precedent. It is important that patent practitioners thoroughly and specifically distinguish patents from prior art and previously invalidated claims while highlighting how the claimed inventions will benefit the particular industry at large. Although *Alice* may have dissuaded some patent holders from pursuing litigation, the case law will continue to develop and be even more critical for patent drafters in their chase for the “white rabbit” of patentability.