

One Year After Alice: Was It The Right Medicine?

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One year ago, the U.S. Supreme Court decided *Alice v. CLS Bank*.^[1] Immediately, many in the patent community feared that the ambiguous language in that case would lead to unpredictable applications of 35 U.S.C. §101 and the loss of patent protection for many valuable inventions.^[2] To better determine whether these concerns were coming to fruition and to study how *Alice* was being interpreted by courts and the U.S. Patent and Trademark Office, the American Bar Association's Section of Intellectual Property Law formed the "Post-Alice Task Force," consisting of over 60 attorneys with a wide variety of viewpoints and experiences. As discussed below, the task force has found that *Alice* has resulted in lower courts and patent examiners concluding that a significant percentage of patents and applications are invalid for lack of patent eligibility under §101, often with nothing more than conclusory statements and little (if any) substantive analysis.



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In effect, the ambiguity in *Alice* appears to have been amplified by the lower courts and the USPTO, which have been quick to cut down wide swaths of patents and applications, arguably without employing a consistent or well-defined approach. As a result, where innovative technical concepts might have existed within patents evaluated under the precepts of *Alice*, they are often glossed over and not given due consideration.

This movement away from findings of patent eligibility appears to stem, in part, from contentions that numerous patents (especially software/business method patents asserted by so-called patent trolls) lack novelty, nonobviousness, and/or are indefinite and should never have issued. Yet instead of directly addressing those legal precepts, *Alice* and its progeny have, in large part, invalidated patents under §101 by selectively using some of the principles and policies underlying these defenses.^[3] Such an approach, however, fails to use the full framework, developed over decades of decisions,^[4] that exists in analyses that directly address, e.g., novelty and nonobviousness.^[5] As a result, what has emerged under *Alice* is arguably more of an "I know it when I see it"^[6] test for patent invalidity that lacks the level of guidance or predictability found in other patent defenses. Thus, *Alice* may limit, rather than "promote[,] the Progress of Science and the useful Arts." ^[7]

At the same time, it is clear that software patents are not dead, and the pendulum may yet swing back. When considering the effects of *Alice* over the course of its first year, one might ask whether the

precepts of Alice are the right medicine for resolving perceived issues with “bad” patents and/or abuses of our patent system, or whether other policies may more appropriately address those negative aspects of our patent system without unnecessarily invalidating what may otherwise be “good” patents on valuable technology.

The Alice Decision

To understand where we’ve been, it’s helpful to briefly consider Alice itself. The patented invention in Alice used a computer to settle obligations between two parties to reduce settlement risk. To ensure the patent did not preempt uses of a patent-ineligible concept (in this case, an “abstract idea”), the Supreme Court adopted a two-part test (hereafter, “the test”) from an earlier decision.[8] Though the court recognized that “all inventions ... embody, use,” etc. patent-ineligible concepts, part 1 of the test contains a requirement to determine whether the claims at issue are “directed” to an abstract idea. In finding the claims at issue directed to an abstract idea, the court compared the claims to those it had previously held patent-ineligible,[9] and stated that “[i]n any event, we need not labor to delimit the precise contours of the ‘abstract ideas’ category in this case,” providing little guidance on how to apply this part of the test, including how to determine the appropriate contours of an abstract idea for a given invention.

If a claim is deemed “directed to” an abstract idea under part 1 of The test, the next step asks whether the claim has something “significantly more” than just the abstract idea, requiring the presence of an “inventive concept.”[10] For the claims at issue, the court in Alice found that the functions performed at each step were “purely conventional,” and therefore the claims were not patent-eligible. In making this assertion, no prior art or other considerations that typically accompany a novelty or nonobviousness analysis were present (including a showing of relevant prior art). A single sentence briefly mentioned that the claims were viewed “as a whole,” though no further analysis was provided in that regard.

The Federal Circuit Responds

There have been six precedential decisions from the Federal Circuit since Alice addressing patent eligibility for software/business method-related inventions.[11] All of these explicitly or implicitly applied the test, and five of the six held the patent invalid. Except in one decision directly focusing on invalidation via preemption, the decisions finding the claims invalid asserted the claims (or pertinent portions thereof) were “conventional” or of “ancient lineage” in part 2 of the analysis. However, only one of those decisions cited any prior art,[12] and even in that case, no analysis or further discussion was set forth in that regard. In addition, three of the five decisions holding the patent invalid affirmed the lower court’s dismissal of the case on the pleadings under §101, whereas in contrast, a 2013 a Federal Circuit decision indicated that such dismissals were “rare.”[13]

DDR Holdings v. Hotels.com[14] was the only decision to find the claims at issue patent-eligible under §101, making it a pivotal case for those arguing an application or issued patent is patent eligible. In DDR’s patent, a user first activates (clicks on) a hyperlink/advertisement on a host site page that has a particular look and feel. Rather than being taken to the advertising merchant’s website, the system generates a composite webpage with the same look and feel as the host website and the third party’s product information is displayed on the composite page. This allows the host website to retain control of the user’s activities.

It discussing part 2 of the test, the court found the claims differed from previous decisions involving a computer and the internet because, unlike inventions that merely use a computer to implement pre-

Internet business practices, “the claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.”[15] The court further noted that the claims recite an invention that is not a “routine or conventional use of the internet,”[16] since clicking a hyperlink normally would send a user to the advertiser’s webpage rather than a hybrid one. However, neither the majority nor the dissent (who argued the claims were directed to conventional technology) cited evidence or used any discernable methodology for showing the technology at issue was or was not “conventional.”

Not surprisingly, practitioners are watchfully eyeing upcoming patent-eligibility cases such as Planet Blue v. Activision from the Central District of California,[17] which is pending at the Federal Circuit.[18] The patent in that decision relates to automated lip-syncing for animation, which would not generally be considered a “business method”-type invention. In addition, a petition for certiorari has been filed in Ultramercial v. Hulu[19], which is one of the aforementioned Federal Circuit decisions finding the claims at issue patent-ineligible.

Alice Propagates Downward

To study how Alice has been applied at the district courts, the Post-Alice Task Force studied the 85 district court cases that substantively applied Alice.[20] Across all the cases, the defendants successfully used Alice to invalidate all the claims at issue in 68 percent of these cases, and in a significant number of cases, did so on the pleadings. Not surprisingly, some forums (like the District of Delaware) invalidated patent claims under Alice at a higher rate than others (like the Eastern District of Texas). But perhaps more interesting is the task force’s specific findings regarding how Alice was applied.

The task force found that, looking across all the cases in which no claim survived the §101 challenge, the district courts cited evidence to support its conclusion that the claims were directed towards an abstract idea (part 1 of the test) in only 20 cases, or only 34 percent of the time. This observation is particularly interesting considering that the Supreme Court itself made a point in part 1 of citing evidence to support its conclusions in Alice.[21] Regarding part 2 of the test, the district courts cited evidence to support the conclusion that the claims did not recite anything “significantly more” than the abstract idea (e.g., that the claims merely recited “conventional” technology) in only 18 cases, or only 31 percent of the time. Overall, the task force has found a lack of consistency across the district courts, which may lead to additional forum shopping. For example, and perhaps not surprisingly, plaintiffs may consider filing patent actions in venues more willing to uphold their patents over Alice-based challenges.

As for the USPTO, the task force partnered with Reed Tech to pull all of the patent applications having an office action that (1) cited §101 and (2) issued during the last two weeks of November 2014. Of the 161 identified office actions, 74 of those did not address the test at all, and, somewhat surprisingly, 41 of those 74 applied *Bilski v. Kappos* or other pre-Alice formulations.

Returning to the 87 office actions that addressed the test, the task force concluded that 63 percent of those office actions were “boilerplate” rejections that did not specifically address the claim limitations at issue. As a result, it appears that, in November 2014, there were a fair number of examiners who did not apply Alice or who simply used Alice to reject the claims without any substantive analysis. It is important to note that the patent office had released its interim guidance[22] in December 2014 and only trained its examiners on that guidance relatively recently. Future studies planned by the task force may reveal a more predictable application of Alice by examiners, so please stay tuned!

In addition, the task force was asked to score the district court decisions and office actions on how

faithfully Alice was applied. Cases and office actions receiving higher scores generally analyzed each step in the test with a detailed analysis of the facts, the claims and other § 101 decisions. In contrast, those cases and office actions receiving lower scores score often presented only summary conclusions, issued boilerplate rejections, or ignored limitations or entire claims. Overall, the task force identified several cases and office actions at either end of the scoring spectrum and a range of cases and office actions falling in the middle. On average, the scores (on a 1 to 5 scale) for both district courts and examiners were mediocre, with the district courts scoring slightly better than the examiners, as shown below:

Task Force Scores:		
District Court upholding at least one claim	District Court invalidating all claims	Office Action rejecting claims
Average Score: 3.81	Average Score: 3.86	Average Score: 3.39

While these task force findings suggest that Alice may be successfully and arguably duly eliminating certain patents and application (e.g., cases receiving higher scores) they may also be undermining potentially valuable innovations without an appropriate level of investigation (e.g., cases receiving lower scores). The overall mediocre scores support the conclusion that these decision-makers have failed to find any consistency with how Alice should be applied.

Conclusion

Even a year after Alice, it is still unclear whether the § 101 analysis articulated therein is an appropriate methodology for addressing issues with, e.g., patent trolls and with patents that would not otherwise pass muster under other sections of the patent statute.[23] In view of other recent and pending Supreme Court decisions and legislation, an important question remains outstanding: Are there other solutions better tailored to address what may be ailing the patent system that would better “promote the Progress of Science and useful Arts”? Again, stay tuned.

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[1] 134 S.Ct. 2347 (2014).

[2] See, e.g., News Center, Stanford Law School, June 19, 2014, <https://www.law.stanford.edu/news/clsbank-ruling-a-big-deal-for-valley-software-patents> (quoting Stanford law professor Mark Lemley as expecting that Alice will “invalidate the majority of all software patents in force today.”).

[3] See, e.g., *id.* at 2357 (“[W]e must examine the elements of the claim to determine whether it contains an ‘inventive concept.’”).

[4] Not only are there more decisions to inform and guide the §102 or 103 analysis, those decisions are arguably more consistent and provide more reliable guidance than case law developed under the patent eligibility statute (35 U.S.C. § 101).

[5] Not considered here is the more fundamental question of whether notions of novelty and nonobviousness should even be the purview of a patent-eligibility analysis.

[6] For example, one district court judge commented that the Alice Test is more like an “I know it when I see it” test. Ruling on Defs.' Motion. for Judgment. on the Pleadings Based on Unpatentability Under 35 U.S.C. §101 at 8, *McRO, Inc. v. Namco Bandai Games Am., Inc.*, No. 2:12-cv-10322-GW-FFM (C.D. Cal. Sept. 22, 2014), ECF No. 365 (citing *Jacobellis v. Ohio*, 378 U.S. 184, 197 (1964) (Stewart, J. concurring)).

[7] U.S. Cons., Art. I § 8, cl. 8.

[8] Specifically, the earlier decision was *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012).

[9] *Alice*, 134 S.Ct. at 2356 (“It follows from our prior cases [] that the claims at issue here are directed to an abstract idea”).

[10] See *id.* at 2355.

[11] *Digitech v. EFI*, 758 F.3d 1344 (Fed Cir. 2014); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350 (Fed. Cir. 2014); *Ultramercial v. Wildtangent* 772 F.3d 709 (Fed. Cir. 2014); *DDR Holdings v. Hotels.com*, 773 F.3d 1245 (Fed. Cir. 2014); *Content Extraction v. Wells Fargo* 776 F.3d 1343 (Fed. Cir. 2014); *OIP Technologies v. Amazon.com*, No. 2012-1696, 2015 WL 3622181 (Fed. Cir. 2015).

[12] See *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350 (Fed. Cir. 2014).

[13] *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1338 (Fed. Cir. 2013) (“it will be rare that a patent infringement suit can be dismissed at the pleading stage for lack of patentable subject matter”), cert. granted, judgment vacated sub nom. *WildTangent, Inc. v. Ultramercial, LLC*, 134 S. Ct. 2870 (2014).
[14] 773 F.3d 1245 (Fed. Cir. 2014).

[15] *Id.* at 1257.

[16] *Id.* at 1259.

[17] 2:14-cv-00336 (C.D. Cal).

[18] Appeal docketed, Appeal Nos. 2015-1080, -1081, -1082, -1083, -1084, -1085, -1086, -1087, -1088, -1089, -1090, -1092, -1093, -1094, -1095, -1096, -1097, -1098, -1099, -1100, -1101 (Fed. Cir.).

[19] Appeal docketed, No. 14-1392.

[20] These cases were collected through June 10, 2015. Additional cases have issued subsequent to writing and submitting this article, which the Task Force will analyze for future discussion.

[21] *Alice*, 134 S. Ct. at 2355 (citing *Emery, Speculation on the Stock and Produce Exchanges of the*

United States, in 7 Studies in History, Economics and Public Law 283, 346–356 (1896)); *Bilski v. Kappos*, 561 U.S. 593, 611 (2010) (citing D. Chorafas, Introduction to Derivative Financial Instruments 75–94 (2008); C. Stickney, R. Weil, K. Schipper, & J. Francis, Financial Accounting: An Introduction to Concepts, Methods, and Uses 581–582 (13th ed. 2010); S. Ross, R. Westerfield, & B. Jordan, Fundamentals of Corporate Finance 743–744 (8th ed. 2008)).

[22] 2014 Interim Guidance on Patent Subject Matter Eligibility, 79 Fed. Reg. 74,618 (Dec. 16, 2014).

[23] One noteworthy data point is the case of *Intellectual Ventures I v. Symantec*, where two patents were found valid and infringed (despite arguments that the patents were anticipated and/or obvious) and defendant's subsequent motion for invalidity under §101 was granted. No. 10-1067-CPS, 2015 WL 1843528 (D. Del. April 22, 2015).