

ALICE SENDS BUSINESS METHOD PATENTS DOWN THE RABBIT HOLE

Mark H. Remus

Katten Muchin Rosenman LLP

On June 19, 2014, the Supreme Court issued its long-awaited decision in *Alice Corp. Pty Ltd. v. CLS Bank Int'l*.¹ The *Alice* decision set forth the test for determining if patents directed to business methods define patentable subject matter. Nearly one year later, *Alice* has had a profound impact on the value and enforceability of business method patents. Courts are striking down business method patents in record numbers and they are doing so even earlier in litigation.

I. The Alice Test For Patentable Subject Matter

The *Alice* test has two prongs: (1) determine if the claim is directed to an abstract idea and (2) if the claim is directed to an abstract idea, determine if any elements in the claim add “significantly more” than the abstract idea.²

With respect to the first prong, the *Alice* court refused to “delimit the precise contours” of what constitutes an abstract idea.³ The Court left it up to the district courts and the Federal Circuit to determine whether a claim is directed to an abstract idea.

The Supreme Court did not provide much more guidance with respect to the second prong. The Court explained that the claim must contain an “inventive concept” sufficient to transform the abstract idea into a patent-eligible invention.⁴ The Court focused on ensuring that the claim does not preempt or monopolize the underlying abstract idea.⁵ With respect to computer-implemented inventions, “if a patent’s recitation of a computer amounts to a mere instruction to ‘implement’ an abstract idea ‘on . . . a computer’ (citation omitted), that addition cannot impart patentability.”⁶ One consideration for whether a claim adds “significantly more” is to determine if the method can be performed by a human with pen and paper. If so, the method is likely patent ineligible.

¹ 134 S.Ct. 2347 (2014).

² *Id.* at 2355.

³ *Id.* at 2357.

⁴ *Id.*

⁵ *Id.* at 2357-58.

⁶ *Id.*

On the particular facts of the *Alice* case, the Court found that claims directed to a method of using a computer to coordinate intermediated settlement were not drawn to patent eligible subject matter.⁷ Intermediated settlement was a well-known financial concept. The claims simply used a computer to implement that well-known concept, which did not transform the abstract idea of intermediated settlement into a patentable invention. While the *Alice* decision did not provide a lot of practical guidance, the one thing that *Alice* did make clear is that simply implementing an abstract idea on a computer does not add “significantly more” to the claim.

The *Alice* court’s test for patentable subject matter created more questions than it answered. What exactly is an abstract idea? How does one determine if a claim is directed to an abstract idea? What is “significantly more”? The Supreme Court left it to the lower courts to answer these questions. Over the past year, the Court of Appeals for the Federal Circuit and the district courts have not provided, and likely will not provide, bright-line answers to any of these questions. Instead, the line between patentable and unpatentable subject matter will have to be divined from the patchwork of different rulings from the courts. Regardless of where that line is drawn, however, the line has clearly moved in favor of unpatentability, as shown by the statistics and decisions discussed below.

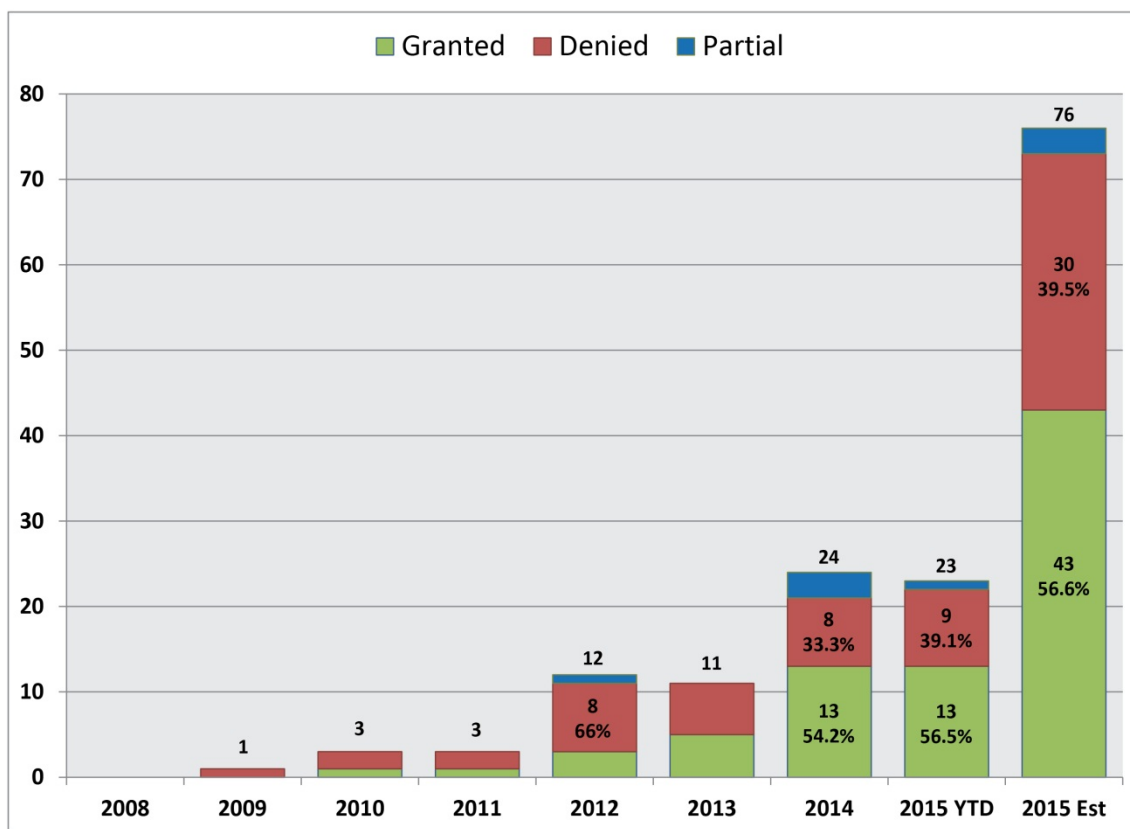
II. The Rise Of Rule 12 Motions To Dismiss

Historically, the primary method of attacking the validity of a patent before trial was to file a motion for summary judgment. Rule 12 motions were reserved for procedural or jurisdictional defects. In recent years, however, the prevalence and success of Rule 12 motions to dismiss based on unpatentable subject matter has skyrocketed.

As shown in the chart below, in 2010-2011, defendants filed just three motions to dismiss per year based on unpatentable subject matter.⁸ By 2014, however, the year *Alice* was decided, defendants filed more than 20 such motions and courts granted over 50% of these motions to dismiss. This trend has continued in 2015. Defendants filed as many motions to dismiss in the four months of 2015 as they did in all of 2014, and courts granted over 55% of those motions. At this pace, defendants will file approximately 76 motions to dismiss in 2015 – a 25-fold increase since 2011.

⁷ *Id.* at 2359.

⁸ This analysis is based on data obtained from www.docketnavigator.com.



Many of the Rule 12 dismissals by district courts have not yet been reviewed by the Federal Circuit, so it is too early to tell if this trend will continue. Nevertheless, this dramatic increase in the number of Rule 12 motions, and the frequency with which courts are granting the motions, is the most direct and immediate consequence of *Alice*.

In view of this trend, both patent owners and accused infringers must take potential Rule 12 motions into account when preparing litigation strategy. The *Alice* framework frequently implicates claim construction issues, so an early Rule 12 motion forces the parties to take claim construction positions very early in the case. A patent owner must choose carefully between a claim construction that is broad enough to encompass the accused product, but not so broad that it preempts an entire abstract idea.

Most courts that have denied a motion to dismiss for lack of patentable subject matter did so because there was a factual question that could not be resolved at the pleading stage. To grant a Rule 12 motion, the court must find that there is no “plausible” construction of the claims that can save the patent. The “plausibility” question can raise unanswered factual questions in some instances. For example in *Card Verification Solutions LLC v. Citigroup Inc.*, the court denied a motion to dismiss for lack of

patentable subject matter.⁹ The court found that the claims were directed to the abstract idea of verifying a transaction, but there was an issue of fact with respect to whether any claim elements added “significantly more” to the abstract idea. According to the court, it was at least plausible that the claims required steps that could not be performed with pen and paper and thus were more than a mere “mental process.” The court could not resolve this factual question and therefore denied the motion to dismiss.

III. The PTAB – A Business Method Patent Death Squad

A Covered Business Method proceeding (“CBM”) can be used to challenge the patentability of an issued business method patent in the Patent Office. Unlike an Inter Partes Review (“IPR”), a CBM petition can raise section 101 challenges based on patentable subject matter. To date, approximately 75% of the claims challenged in a CBM have been found unpatentable under section 101. This is significantly higher than the approximately 50% rejection rate for other grounds of unpatentability, such as anticipation and obviousness. These statistics show that the Patent Office is applying the *Alice* standard strictly and invalidating business method patents in record numbers. Any owner of a business method patent who is looking to assert that patent against a competitor must be prepared for a possible CBM review. On the other hand, any company who is accused of infringing a business method patent should give serious consideration to filing a CBM petition.

IV. Lessons Learned In The First Year After *Alice*

In the absence of any bright-line rules from the Supreme Court or the Federal Circuit, the test for patentable subject matter has taken on a striking similarity to Justice Potter Stewart’s infamous test for obscenity: I’ll know it when I see it.¹⁰ Even the Federal Circuit has acknowledged that “[d]istinguishing between claims that recite a patent eligible invention and claims that add too little to a patent-ineligible abstract concept can be difficult, as the line separated the two is not always clear.”¹¹ This is evidenced by the first several business method patent cases decided by the Federal Circuit after *Alice*.

Consistent with *Alice*, the Federal Circuit has repeatedly held that merely using a computer to implement an abstract idea is not patentable subject matter. For example, in *Ultramercial, Inc. v. Hulu, LLC*, the court considered claims directed to a method of using advertisements to generate revenue in

⁹ No. 13 C 6339 (N.D. Ill. Sept. 29, 2014).

¹⁰ *Jacobellis v. Ohio*, 378 U.S. 184 (1964) (Potter, J., concurring).

¹¹ *DDR Holdings v. Hotels.com*, 773 F.3d 1245 (Fed. Cir. 2014).

connection with the distribution of copyrighted material over the internet.¹² The court held that the claims were directed to the abstract idea of advertising as a currency and were not directed to patentable subject matter. Similarly, in *buySAFE, Inc. v. Google, Inc.*, the Federal Circuit held that claims that recited using a computer to send and receive information over a network in order to implement the abstract idea of creating a “transaction performance guaranty” were not patentable.¹³

However, the Federal Circuit reached a different conclusion in *DDR Holdings v. Hotels.com*.¹⁴ In the *DDR* case, the Federal Circuit held that DDR’s patent on a method of increasing sales by displaying several Web sites within a single e-commerce site was not abstract because it was “necessarily rooted in computer technology.” Recognizing the perceived conflict with its prior decisions, the court struggled to explain how the DDR invention was any more “rooted in computer technology” than the inventions in *Ultramercial* and *buySafe*. In a strongly worded dissent, Judge Mayer disagreed with the court’s decision to uphold the DDR patents, commenting that the patents were “long on obfuscation but short on substance.”

V. Conclusion

Patent owners, accused infringers and district courts will wrestle with the distinction between patentable and unpatentable business methods for the foreseeable future. In the meantime, business method patents will continue to be under attack in the district courts and in the Patent Office. Accused infringers will file Rule 12 motions attacking the patentability of business method patents very early in litigation, and the courts will grant a very high percentage of those motions. Owners of business method patents will have to pay close attention to decisions from the district courts and the Federal Circuit and adjust their litigation arguments and prosecution strategies according to the shifting lines that are still being drawn.

¹² 772 F.3d 709 (Fed. Cir. 2014).

¹³ 765 F.3d 1350 (Fed. Cir. 2014).

¹⁴ 773 F.3d 1245 (Fed. Cir. 2014).