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Expert Analysis

The Supreme Court's Impact On Patentable Subject Matter

By
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Twenty patents. That's how many patents were invalidated in only three decisions in the last few weeks alone. Patent practitioners cannot be blind to the erroneous impact the U.S. Supreme Court's decision in *Alice Corp. Pty. v. CLS Bank Int'l*, ___U.S.___, 134 S. Ct. 2347 (2014), has had on narrowing the scope of available patentable subject matter, rendering quite uncertain whether patents directed to computerized business methods or ways of conducting transactions over the Internet, by way of example only, will ever survive scrutiny.

As this column reported previously, in *Alice* the U.S. Supreme Court clarified and narrowed the scope of eligible patentable subject matter. The patent statute makes clear: "Whoever 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 therefor, subject to the conditions and requirements of this title." 35 U.S.C. §101. But, the Supreme Court has recognized three categories of subject matter *not* eligible for patentability: laws of nature, natural phenomena, and abstract ideas.

In *Alice*, the Supreme Court applied a two-step test for determining whether a claim recites patentable subject matter: First, determine whether the claims at issue are directed to one or more patent-ineligible concepts, i.e., laws of nature, natural phenomenon and abstract ideas. Id. at 2355 (citing *Mayo*, 132 S. Ct. at 1296-96); second, if the first step is met, then consider whether the elements of each claim, both individually and as an ordered combination, transform the nature of the claim into a patent-eligible application to ensure that the patent *in practice* amounts to *significantly more* than a patent upon the ineligible concept itself. Id.

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So, in other words:

> [T]he court must first 'identify and define whatever fundamental concept appears wrapped up in the claim.' Then, proceeding with the preemption analysis, the balance of the claim is evaluated to determine whether 'additional substantive limitations … narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.' " (internal citation omitted)).[1]

So clear are these guidelines, that the Federal Circuit recently affirmed district court findings of invalidity, discussed below. While the Federal Circuit three-judge panels were different in each case, the results were the same: 12 patents invalidated. Similarly, in *Virginia Innovation Sciences v. Amazon.com*, Judge Liam O'Grady of the Eastern District of Virginia, invalidated eight patents on Jan. 5, 2017.[2]

'Personalized Media'

In *Personalized Media Communications v. Amazon.com and Amazon*

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Web Services, 2016 WL 7118532, the Federal Circuit affirmed a district court decision (161 F. Supp. 3d 325 (D. Del. 2015)), granting the defendants' motion on the pleadings that the following seven patents are invalid: U.S. Patent Nos. 5,887,243 (the '243 patent), 7,883,252 (the '252 patent), 7,801,304 (the '304 patent), 7,827,587 (the '587 patent), 7,805,749 (the '749 patent), 8,046,791 (the '791 patent), and 7,864,956 (the '956 patent).

Ruling on the pleadings, Judge Richard Andrews from the District of Delaware noted that he considered the motion under the same standard as a Rule 12(b)(6) motion to dismiss, particularly since the Rule 12(c) motion alleged that the plaintiff failed to state a claim upon which relief can be granted. The court assumed the veracity of the pleadings and then determined whether they plausibly gave rise to an entitlement to relief. They did not, as explained regarding each patent below.

Regarding the '243 patent, claim 13 specified a "method of providing data of interest to a receiver station from a first remote data source." Judge Andrews, relying on Federal Circuit precedent, specifically *Intellectual Ventures I v. Capital One Financial*, 792 F.3d 1363, 1368 (Fed. Cir. 2015), found that claim 13 is "directed to the abstract idea of using personal information to create a customized presentation." Similarly, in *Intellectual Ventures I*, the Federal Circuit found that a patent relating to "customizing webpage content as a function of navigation history and information known about the user" was patent ineligible because:

> This sort of information tailoring is a fundamental practice long prevalent in our system. There is no dispute that newspaper inserts had often been tailored based on information known about the customer—for example, a newspaper might advertise based on the customer's location. Providing this minimal tailoring—e.g., providing different newspaper inserts based on the location of the individual—is an abstract idea.

In *Personalized Media Communications*, Judge Andrews said that the abstract idea there was the same: customizing a mass media program using stored personal information. And, turning to the second step of *Alice*, the court found that the claim failed to provide an inventive concept sufficient to render it patent eligible. Importantly, whether or not the claim is "novel" or whether or not it preempts the entire "idea" are irrelevant—what matters is whether the claim at issue in practice amounts to significantly more than the ineligible concept.

> The pendulum has swung back in favor of those accused of infringing generic, abstract, business-type and computerized business method related inventions.

With regard to the '252 patent, at issue was claim 1's method of reprogramming a receiving station. The claim includes the steps of determining by use of a signal whether a specific version of a program is a designated (or old) version and then, if so, updating the system with new instructions. Defendants argued that "distributing software updates to a computer is an abstract idea," and the district court agreed:

> The method seems quite generic. It involves only checking a receiver station to see if it has the current operating instructions, and, if it does not, updating them. Other than the fact that the method is implemented on a computer, it is no different from checking to see if a copy of the Federal Rules is up to date, and, if it is not, replacing it with a new one. "Steps that do nothing more than spell out what it means to 'apply it on a computer' cannot confer patent-eligibility." *Intellectual Ventures I*, 792 F.3d at 1370-71, 2015 WL 4068798, at *6. Plaintiff claims that the patent does not preempt all methods of updating operating instructions, but it seems to me it does preempt all methods of doing so remotely. Nor does the inclusion of a control signal make the claim patent eligible. The Federal Circuit has held that signals are not directed to patent-eligible subject matter. *Digtech Image Technologies, LLC v. Electronics for Imaging, Inc.*, 758 F.3d 1344, 1350 (Fed. Cir. 2014).

Regarding the '309 patent, which was directed to a "method for controlling the decryption of programming at a subscriber station," the district court, stating that "[c]ryptography has been used to protect information since ancient Mesopotamia" and that "[d]ouble encryption" has been in practice since the Cold War," found that the claim at issue recited the abstract idea of

decryption and that there was no inventive concept.

The fourth patent, the '587 patent, which claimed a "method of processing signals in a network," was similarly invalidated, as was the fifth patent, the '749 patent, which claimed a "method for mass medium programming promotion and delivery for use with an interactive video viewing apparatus." As pointed out by Judge Andrews, using mathematical algorithms to manipulate existing information to generate additional information is not patent eligible, and neither is promoting programming and user interaction processing.

The '791 patent presented claims similar to the '243 and '252 patents and was invalidated on similar grounds:

> Without the generic computer and network components, the method consists of (1) receiving instructions for completing an order and instructions for sending the order, (2) adding personal information to the order, and (3) sending the order per the instructions provided. This has long been done with a pencil and paper. Plaintiff's arguments with respect to the abstract idea is semantic. Controlling the station that receives instructions for ordering is no less abstract than providing the instructions. The claim here does nothing more than apply the abstract idea to the Internet. In addition, the preemption concern is enormous. Plaintiff contends that the patent is infringed essentially every time a purchase is made over the Internet. (D.I. 138 at p. 15).

Lastly, the '956 patent, like the '587 patent, claimed a "method of signal processing in a network to communicate at least some of a recommendation or solution to a plurality of subscribers." This claim, Judge Andrews suggested, was "no different than the Department of Agriculture providing advice on what farmers should grow."

In one giant swoop, swiftly and decisively, without discovery or trial, Judge Andrews invalidated seven patents—and the Federal Circuit affirmed.

'Macropoint'

In *Macropoint v. Fourkites*, 2016 WL 7156894 (Fed. Cir. Dec. 8, 2016), the Federal Circuit affirmed Judge Patricia Gaughan's similar grant (2015 WL 68701108, N.D. Ohio, Nov. 6, 2015) of an accused infringer's motion to dismiss for failure to state a claim—based on the asserted patent's invalidity under §101. In *Macropoint*, five patents were found invalid, although the court analyzed only one representative claim, which recited a "computer implemented method for indicating location of freight carried by a vehicle."

As to step one of *Alice*—whether the claims at issue are directed at a patent-ineligible concept—the court found that they were, explaining:

> In determining whether an idea is abstract, courts are to ask "what the claim is trying to achieve, instead of examining the point of novelty." *Enfish LLC v. Microsoft Corp.*, 56 F. Supp. 3d 1167 (C.D. Cal. Nov. 3, 2014) (citing *Diamond v. Diehr*, 450 U.S. 175 (1981)). As such, "[c]ourts should recite a claim's purpose at a reasonably high level of generality. Step one is sort of a 'quick look' test, the purpose of which is to identify a risk of preemption and ineligibility." Id. Here, the claim discloses nothing more than a process for tracking freight, including monitoring, locating, and communicating regarding the location of the freight. These ideas are all abstract in and of themselves. See, Wireless Media Innovations, LLC v. Maher Terminals, LLC, — F.Supp.3d —, 2015 WL 1810378 (D. N.J. April 20, 2015) (process for tracking freight is an abstract idea).

Thus, having found that the claims were directed to an abstract idea, the court turned to step two of *Alice*—whether the claim contains an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application. Because the purported inventive concept amounted merely to "the correlation of information," the patents failed the *Alice* test and thus were found invalid.

The Supreme Court has made its mark. The pendulum has swung back in favor of those accused of infringing generic, abstract, business-type and computerized business method related inventions.

1. *Accenture Global Servs. GmbH v. Guidewire Software*, 728 F.3d 1336, 1341 (Fed. Cir. 2013).

2. In Virginia, Judge Liam O'Grady invalidated eight patents including, and all related to, U.S. Patent No. 7,899,492, finding that "converting a video signal for a mobile terminal to an 'alternative display terminal' qualifies as an abstract idea," which was preempted—and found ineligible.