

PATENT AND TRADEMARK LAW

Expert Analysis

Will Any Software Patents Survive?

In recent weeks, the Federal Circuit has continued to affirm district court decisions finding software-related patents invalid for failure to meet the patent-eligible subject matter requirement of 35 U.S.C. §101. Indeed, since the Supreme Court decided *Alice v. CLS Bank* in 2014, over 250 district court opinions have been issued invalidating patent claims under §101—based on an invalidation rate that is reportedly well over 60 percent. See, e.g., Robert Sachs, “Alicestorm: April Update and the Impact of TC Heartland on Patent Eligibility,” *Bilski Blog* (last accessed Nov. 12, 2017). That trend continues through a series of recent Federal Circuit decisions. At the same time, a petition for certiorari to the Supreme Court was filed seeking to challenge the availability of this very defense—a petition that, if heard by the Supreme Court, could have dramatic implications for U.S. patent litigation.

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Recent Federal Circuit Decisions Invalidating Software Patents

In *Secured Mail Solutions v. Universal Wilde*, 2016-1728 (Fed. Cir. Oct. 16, 2017), the Federal Circuit affirmed a finding from the Central District of California invalidating all seven of the patents asserted because the claims “are directed to an abstract idea and the claims contain no additional elements that transform the nature of the claims into a patent-eligible application of the abstract idea.” The asserted patents involve methods for affixing an identifier on the outer surface of a mail object (e.g., an envelope or package) before the mail object is sent, and wherein networked computers are used to communicate information about the mail object after it is received. *Id.*

The Federal Circuit began its analysis with the Patent Act’s definition of

patent-eligible subject matter in 35 U.S.C. §101, which allows for patent protection for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof,” and then discussed the judicially-identified exceptions to patentable subject matter, which include laws of nature, natural phenomena, and abstract ideas. *Alice Corp. Pty. v. CLS Bank Int’l.*, 134 S. Ct. 2347, 2354 (2014) (quoting *Ass’n for Molecular Pathology v. Myriad Genetics*, 133 S. Ct. 2107, 2116 (2013)).

Guided by the Supreme Court’s 2014 decision in *Alice*, *id.*, the Federal Circuit applied a two-step analysis to determine whether the claims are patent eligible. The first step is to determine whether the claims are directed to a judicial exception, such as an abstract idea. If not, the inquiry ends; but if so, the second step requires considering whether the claims contain an “inventive concept” sufficient to “transform the nature of the claim into a patent-eligible application.” *Secured Mail Solutions*, 2016-1728, at 7.

Applying that analysis, the district court had found that the claims of all seven asserted patents are “directed to the abstract idea of communication information about a [mail object] by the use of a marking.” *Id.* The Federal Circuit agreed:

[T]he claims embrace the abstract idea of using a marking affixed to the outside of a mail object to communicate information about the mail object, i.e., the sender, recipient, and contents of the mail object.

Id. at 10.

As to the second step, the Federal Circuit found the claims at issue are “non-specific and lack technical detail,” and, rather than reciting a specific way to solve a specific problem, recite “well known and conventional ways to allow generic communication between a sender and recipient using generic computer technology.” *Id.* at 12. As a result, the Federal Circuit concluded “[w]e see no inventive concept that transforms the nature of the claims into a patent-eligible application of the abstract idea,” and affirmed the finding of invalidity. *Id.* at 13-14.

Just two days later, the Federal Circuit again affirmed a finding of invalidity under 35 U.S.C. §101 in *Smart Systems Innovations v. Chicago Transit Authority et al.*, 2016-1233 (Fed. Cir. Oct. 18, 2017). Two of the four patents asserted there are directed to an “open-payment fare system [which]

allows riders to conveniently and quickly access mass transit by using existing bankcards,” such as debit and credit cards, thereby eliminating the need for, and added operational cost of, dedicated fare-cards, paper tickets, and tokens.” The other two patents generally relate to “a system and method for regulating entry in a transit system using information from a bankcard, such as a credit card or debit card.” *Id.*

With respect to *Alice* step 1, the Federal Circuit found that the claims as issue are directed to abstract ideas

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because, as was articulated by the lower court, although the patents disclose inventions that would allow riders to more quickly and efficiently access a mass transit network, “the recent case law has reiterated that whatever bells and whistles may be added, when reduced to their core, claims directed to the performance of certain financial transactions—and paying a fare is a financial transaction—must be categorized as involving abstract ideas.” *Id.* at 13. As to *Alice* step 2, the Federal Circuit found

that the asserted claims “merely require generic computer implementation” and therefore “do not move into section 101 eligibility territory.” *Id.* at 19.

Judge Linn issued a lengthy opinion dissenting-in-part and concurring-in-part, criticizing the majority for “once again” invalidating claims based on “a reductionist exercise of ignoring the limitations of the claims in question and ... failing to appreciate that the abstract idea exception—if it is to be applied at all—must be applied narrowly, consistent with its genesis.” *Smart Systems Innovations*, 2016-1233, Linn, J. dissenting in part and concurring in part, at 1-2. In response, the majority explained that it merely applied “the test established by the Supreme Court as articulated in *Alice* because we are not permitted to do otherwise, even if we were to agree with some of the frustrations expressed by the dissent as to existing §101 precedent.” *Smart Systems Innovations*, 2016-1233, at n.5.

Weeks later, the Federal Circuit affirmed another finding of invalidity under 35 U.S.C. §101 for four patents asserted in *Two-Way Media v. Comcast Cable Communications, et al.*, 2016-2531, 2016-2532 (Fed. Cir. Nov. 1, 2017), which patents “generally relate to a system for streaming audio/visual data over a communications system like the internet.” The Federal Circuit’s analysis and reasoning mirrored those in the cases

discussed above; the panel agreed that the claims were directed to the use of generic computer components to carry out the abstract manipulation of data, and then concluded that “[t]he lack of an inventive concept recited in claim 1 precludes eligibility here.” *Id.* at 11, 13.

RPost Communications Ltd.’s Petition for Certiorari

While the Federal Circuit continues to invalidate patents under §101, the Supreme Court has been asked to consider whether that is even a viable defense in the first place. On November 6, patent holder RPost Communications filed a petition for certiorari to the Supreme Court seeking review of the following question (*GoDaddy.com v. RPost Comms. et al.*, 2016-2335 (Fed. Cir. May 5, 2017), petition for cert. filed, Case No. 17-695 (U.S. Nov. 9, 2017) (internal citations omitted)):

Is patent ineligibility under 35 U.S.C. §101, which Congress did not codify in 35 U.S.C. §282(b), not a cognizable defense in a patent litigation?

RPost argues that §282(b) of the 1952 Patent Act enumerates the defenses that may be raised in a patent case, and the relevant subparagraph, §282(b)(2), allows for a defense based on “(2) *Invalidity of the patent* or any claim in suit on any ground specified in part II [of Title 35] as a *condition for patentability*.” But, according to RPost, the

only two sections of Part II that Congress denominated as “conditions of patentability” are §102 (novelty) and §103 (nonobviousness). Further, because §282(b)(2) refers only to “invalidity of the patent,” and not “ineligibility,” and based on precedent finding that patent eligibility and validity are distinct questions, RPost argues that subject matter eligibility is not properly raised as a defense to patent infringement. *Id.* at 12.

Rpost’s argument is not without support; at least one law professor concluded some years ago that “[a]t minimum, there’s a litigable question here, and assumptions that a patent issued on non-patentable subject matter is invalid need examination.” David Hricik, “Are the Courts Correct in Their Assumption that a Patent Issued on Non-patentable Subject Matter is Invalid?”, (last visited Nov. 12, 2017). Although the Supreme Court has denied cert on this issue before (*Retirement Capital Access Management Company v. U.S. Bancorp*, 2015-1039 (Fed. Cir. Aug. 7, 2015) cert. denied, 136 S.Ct. 1513 (2016)), it could reconsider given the mounting frustration expressed by the Federal Circuit and lower courts regarding the state of uncertainty surrounding §101. Notably, the Supreme Court has recently showed a willingness to reconsider seemingly well-established points of patent law. Earlier this year, and

as noted by RPost in its petition, the Supreme Court in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products*, 137 S. Ct. 954 (2017) recently considered this same section, 35 U.S.C. §282(b), and held that laches—which is not recited among the list of enumerated defenses—is not a defense to patent damages. Thereafter, in *In Re TC Heartland*, the Supreme Court reversed the 27-year-old precedent of *VE Holding*, which had since been relied on to find venue in patent cases in any judicial district in which there was personal jurisdiction over the defendant (and which now limits venue in patent cases to only those districts in which a defendant either resides, or has committed acts of infringement and maintains a regular and established place of business). *TC Heartland v. Kraft Foods Grp. Brands*, 137 S. Ct. 1514, 1521 (2017).

Conclusion

The trend of district courts and the Federal Circuit regularly invalidating software patents under 35 U.S.C. §101 continues, albeit in the face of an admittedly-frustrated Federal Circuit. But, if the Supreme Court grants cert in *RPost*, dramatic changes could be on the horizon.