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Intellectual Property Law Alert - Section 101 And Software Patents: Abstract Or Not?

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Three recent cases remind the patent trial bar that, although software patents can be subject to challenge under Section 101 of the Patent Act, they are not automatically invalid. In *Ultramercial, Inc. et al. v. Wildtangent, Inc., et al.*, Appeal No. 2010-1544, 2014 WL 5904902 (Nov. 14, 2014), the Federal Circuit affirmed Ultramercial's video advertising patent was invalid under Section 101. Two district court decisions earlier in the month, however, rejected Section 101 challenges to software patent claims. These three cases provide guidance as to how to frame (or resist) Section 101 challenges.

Under Section 101 of the Patent Act, a patent can be had on "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof[.]" 35 U.S.C. § 101. The Supreme Court, however, has reaffirmed that Section 101 contains an important, implicit limitation. "Laws of nature, natural phenomenon, and abstract ideas are not patentable," *Alice Corporation Pty. Ltd. v. CLS Bank Int'l, et al.*, ___ U.S. ___, 134 S.Ct. 2347, 2354 (2014) (citations omitted).

Under *Alice*, a two-step test applies for determining whether a patent claim is invalid because it claims a law of nature, natural phenomenon, or abstract idea (1). First, the court must determine whether the patent claims are directed to one of these patent-ineligible subject matters. Second, if the patent claims are directed to a patent-ineligible subject matter, the court must determine whether the claims nonetheless contain "an element or combination of elements that is 'sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself,'" *Id.* at 2355 (citation omitted).

The Federal Circuit applied this two-step test to the video advertising patent at issue in *Ultramercial*. The Federal Circuit held that *Ultramercial*'s patent was both directed to an abstract idea and did not have additional elements sufficient to sustain its validity.

Ultramercial's patent generally concerned a system and method for offering media (e.g., a video) on the Internet in exchange for the customer watching an advertisement. In step one of the *Alice* test, the Federal Circuit found that "[t]he process of receiving copyrighted media, selecting an ad, offering the media in exchange for watching the selected ad, displaying the ad, allowing the consumer access to the media, and receiving payment from the sponsor of the ad all describe an abstract idea, devoid of a concrete or tangible application," 2014 WL 5904902, at *4. The Federal Circuit rejected *Ultramercial*'s argument that the claims had novel or non-routine components that made them concrete. *Id.* The Federal Circuit also found that *Ultramercial*'s arguments concerning the

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alleged novelty or non-routineness of certain claim elements was not part of the step one analysis—is the claim abstract?—but should be addressed in the second step of the analysis.

In step two, the Federal Circuit rejected Ultramercial’s arguments that the claims contained sufficiently new or non-conventional elements to save their validity under Section 101. The Federal Circuit concluded that the claim additions to their abstract idea were essentially the instruction to use a computer and to provide the ads over the Internet. The Federal Circuit affirmed that issuing instructions to use a computer and/or the Internet was not sufficient to save the validity of the Ultramercial patent claims.

In reaching its decision in *Ultramercial*, however, the Federal Circuit was careful to state that “we do not purport to state that all claims in all software-based patents will necessarily be directed to an abstract idea,” 2014 WL 5904902, at *4. Two district court decisions from the Central District of California that came out a few days before the *Ultramercial* decision, in fact, reaffirm the principle that software is not *ipso facto* invalid.

In a concurring opinion, Judge Mayer argued for resolving Section 101 challenges earlier—even on the pleadings, if possible—rather than waiting for the case to develop, 2014 WL 5904902, at *7, et seq. Other Federal Circuit cases, however, have indicated that the Section 101 analysis can be fact-intensive and may always not be suitable for resolution at an early stage.

Two recent district court cases, however, rejected Section 101 challenges to software patent claims. In *Ameranth, Inc. v. Genesis Gaming Solutions, Inc., et al.*, Case No. SACV 11-00189 (AG) (RNBx) (C.D. Cal. Nov. 12, 2014) (no Westlaw cite presently available), Judge Guilford rejected a challenge to a patent on a system and method for integrating new players into a poker room where several different types of poker games are being played (e.g., Texas Hold ‘Em, Five Card Stud, Razz, etc.). The defendants primarily argued that the patents improperly claimed the abstract idea of a customer loyalty program. Judge Guilford rejected the challenge because he found that a “customer loyalty program” was not a requirement of the claims. He also found defendants’ alternative invalidity arguments were not sufficiently developed or supported. Holding that “[i]t is not the Court’s role to develop winning theories for the parties,” Judge Guilford rejected defendants’ challenge under step one of the *Alice* test. *Slip Op.* at 8. He did not need to reach step two (2).

In *California Institute of Technology v. Hughes Communications Inc., et al.*, Case No. 2:13-cv-07245-MRP-JEM, 2014 WL 5661290 (C.D. Nov. 3, 2014), Judge Pfaelzer found that a Caltech patent directed to error correction in a computer system claimed an abstract idea, but nonetheless contained sufficient additional elements to satisfy the second step of the *Alice* test and was thus patentable. Judge Pfaelzer conducted a lengthy analysis of prior Federal Circuit and Supreme Court case law under Section 101, as well the text and legislative history of the America Invents Act, and concluded that software could be patentable. Turning to the claims of the Caltech patent, he found that the subject matter of error correction in a computer system was abstract. The court held, however, that the specific algorithms and formulas used by the Caltech patent’s data-correction system were sufficiently inventive to the defendants’

Section 101 challenge. In so finding, the court found that the possibility that a person might be able to do the same math using pen and paper was not a good test of whether a computer program was inventive because a human could not duplicate the performance of a machine, 2014 WL 5661290, *16.

Ultramercial, *Ameranth*, and *Caltech* serve as useful guideposts for the patent litigator as to what types of invalidity arguments are more likely to succeed under Section 101. *Ultramercial* re-affirms that software patents may be vulnerable to Section 101 challenges. *Ameranth* reminds parties that their Section 101 arguments need to be concretely tied to the claims of the asserted patents. *Caltech* indicates that in certain circumstances an algorithm may be sufficiently inventive to escape a Section 101 challenge. All three cases also serve as important reminders that how a party frames and supports its Section 101 arguments can have an important impact on their success.

(1) The two-step test was previously applied in other cases, including Mayo Collaborative Services v. Prometheus Laboratories, Inc., 566 U.S. --, 132 S.Ct. 1289, 182 L.Ed.2d 321 (2012). Alice confirms that the two-step test should also be applied to software patents. (2) Judge Guilford also rejected several of the defendants' evidentiary submissions, including on the ground that they were inadmissible hearsay. Slip Op. at 11-14.

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