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### PATENTS

The authors contend that the Federal Circuit's *DDR Holdings* decision Dec. 5 offers some optimism that software patents can pass the *Alice* test for patent eligibility.

## Are Courts the New Death Squads for Software Patents? Not So Fast.



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In 2013, the former Chief Judge of the U.S. Court of Appeals for the Federal Circuit famously proclaimed that the Patent Trial and Appeal Board was becoming a “death squad” for issued patents. Today, patent owners continue to face an uphill battle in the PTAB. That said, few can argue that owners of software patents have fared any better in district courts following the Supreme Court's recent decisions on patent eligible subject matter which have culminated in the Court's opinion in *Alice v. CLS Bank*.<sup>1</sup>

In *Alice*, the unanimous Supreme Court reiterated a two-part test for determining patent eligibility of soft-

ware: (1) “determine whether the claims at issue are directed to one of those patent-ineligible concepts”; and (2) “search for the ‘inventive concept,’ in other words, “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.’”<sup>2</sup> The application of this test by lower courts has been devastating for software patent holder—with over 15 decisions finding software patents ineligible for patent protection under Section 101 of the Patent Act, 35 U.S.C. § 101.

Many software patent owners looked to the Federal Circuit to stabilize the support level for software patent valuations. Initially, those hopes went unanswered in a series of cases, the most recent being the Federal Circuit's reconsideration of *Ultramercial v. Hulu* in November 2014.<sup>3</sup> Applying *Alice*'s two-part test, the Federal Circuit reversed itself and found software-related claims (related to making the display of multimedia content contingent on viewing advertisement) to be ineligible subject matter.<sup>4</sup> Concern among software patent owners was heightened even further by Judge Mayer's

<sup>1</sup> *Alice Corp. Pty Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2014 BL 170103, 110 U.S.P.Q.2d 1976 (2014) (88 PTCJ 513, 6/20/14)

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<sup>2</sup> *Id.* at 2355.

<sup>3</sup> *Ultramercial, Inc. v. Hulu, LLC*, No. 2010-1544, 112 U.S.P.Q.2d 1750 (Fed. Cir. Nov. 14, 2014) (89 PTCJ 166, 11/21/14).

<sup>4</sup> *Id.* at \*17.

concurrence, which emphasized three points: (1) that Section 101 issues should be a threshold issue resolved at the outset, (2) that no presumption should attach to eligibility determinations, and (3) that *Alice* broadly precluded purely entrepreneurial inventions.<sup>5</sup>

But now, during their darkest hour, software patent owners may see their hopes answered.

On Dec. 5, 2014, the Federal Circuit issued its decision in *DDR Holdings v. Hotels.com*.<sup>6</sup> Writing for the majority, Judge Chen declared certain software claims of U.S. Patent No. 7,818,399 to be patent eligible. Representative claim 19 of the '399 patent recites:

A system useful in an outsource provider serving web pages offering commercial opportunities, the system comprising:

- (a) a computer store containing data, for each of a plurality of first web pages, defining a plurality of visually perceptible elements, which visually perceptible elements correspond to the plurality of first web pages;
  - (i) wherein each of the first web pages belongs to one of a plurality of web page owners;
  - (ii) wherein each of the first web pages displays at least one active link associated with a commerce object associated with a buying opportunity of a selected one of a plurality of merchants; and
  - (iii) wherein the selected merchant, the outsource provider, and the owner of the first web page displaying the associated link are each third parties with respect to one other;
- (b) a computer server at the outsource provider, which computer server is coupled to the computer store and programmed to:
  - (i) receive from the web browser of a computer user a signal indicating activation of one of the links displayed by one of the first web pages;
  - (ii) automatically identify as the source page the one of the first web pages on which the link has been activated;
  - (iii) in response to identification of the source page, automatically retrieve the stored data corresponding to the source page; and
  - (iv) using the data retrieved, automatically generate and transmit to the web browser a second web page that displays: (A) information associated with the commerce object associated with the link that has been activated, and (B) the plurality of visually perceptible elements visually corresponding to the source page.

In essence, the claims of the '399 patent covered a system that—instead of directing a user who clicks on a

web link to the requested third-party website (perhaps never to return)—instructs an outsource provider to generate a new hybrid site that contains information from the third-party site and information from the original website. In other words, the original website kept users on its site while still incorporating third-party content desired by the user.

Although claim 19 is unquestionably directed to software, the Federal Circuit nonetheless determined the claim to be eligible patent subject matter. The key path to eligibility was that the “claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.”<sup>7</sup> In reaching its result, the Federal Circuit articulated two key guideposts for software inventors to use in order to improve their chances of protecting their software innovations.

First, the patentee should draft claims that recite an invention that is not merely the routine or conventional use of a computer or the internet.<sup>8</sup> Nor should claims “broadly and generically claim ‘use of the Internet’ to perform an abstract business practice (with insignificant added activity).”<sup>9</sup> For example, in *DDR Holdings*, the claims were directed to a mechanism that worked differently than how normally clicking on a link would operate. It was this deviation from how the internet works that helped push the claims into the realm of eligible subject matter.

Second, the patentee must avoid claims that attempt to “preempt every application of the idea.”<sup>10</sup> The Federal Circuit panel in *DDR Holdings* gave substantial weight to how the claims at issue were only directed to a specific way to automate the creation of a composite web page through an outsource provider, as opposed to claiming the idea of redirecting links to third-party websites to a created page generally.<sup>11</sup> This would also alleviate the Supreme Court’s concerns in *Alice* about the risk that patent protection of software would overreach to cover an entire algorithm or principle.<sup>12</sup>

Despite this guidance, the future of software patents still remains uncertain. In dissent of the court’s opinion in *DDR Holdings*, Judge Mayer continued to express his skepticism of software patents. *DDR Holdings*.<sup>13</sup> Further, the significant number of district court decisions finding software to be ineligible for patent protection will provide fertile opportunity for debate among the Federal Circuit judges as the court refines its views after *Alice*.

Software innovators will have no choice but to keep watch as the law develops. Still, the *DDR Holdings* decision provides some optimism that software patents are not simply facing an Article III firing squad.

<sup>7</sup> *Id.* at 26.

<sup>8</sup> *Id.* at 30.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* at 31.

<sup>11</sup> *Id.*

<sup>12</sup> 134 S. Ct. 2347, 2355 (citing *Gottschalk v. Benson*, 409 U.S. 63, 65 (1972)).

<sup>13</sup> 2014 BL 342453, at \*17.

<sup>5</sup> *Id.* at \*20, 24, 26-28.

<sup>6</sup> *DDR Holdings, LLC v. Hotels.com LP*, No. 2013-1505, 2014 BL 342453 (Fed. Cir. Dec. 5, 2014)