Federal Circuit Wrestles With Patent Eligibility of Internet-Based Business Methods

Skadden

January 2015

This article is from Skadden's *2015 Insights* and is available at skadden.com/insights.

Contributing Partner

Douglas R. Nemec
New York

Contributing Associate

Kristen Voorhees
New York

Four Times Square
New York, NY 10036
212.735.3000

skadden.com

When are Internet-based business methods eligible for patent protection under 35 U.S.C. § 101? In 2014, the Supreme Court laid the groundwork for the Federal Circuit to grapple with this question, when it decided *Alice Corp. Pty. Ltd. v. CLS Bank, International* 134 S.Ct. 2347 (June 19, 2014). As two recent decisions show, the Federal Circuit has yet to provide a clear answer to that crucial question, thereby leaving the door open to continued refinement of its position in the coming year.

In *Ultramercial Inc. v. Hulu, LLC*, No. 2010-1544, 2014 U.S. App. LEXIS 21633 (Fed. Cir. Nov. 14, 2014), the Federal Circuit invalidated a patent covering methods for distributing media over the Internet to consumers who view advertisements; under the business model in question, advertisers paid for the media consumers viewed. The court reasoned that the patent involved the abstract idea of "a method of using advertising as an exchange or currency," and the claims were ineligible because they simply implemented that idea using routine, conventional activity on the Internet.

Subsequently, in *DDR Holdings, LLC v. Hotels.com, L.P.*, No. 2013-1505, 2014 U.S. App. LEXIS 22902 (Fed. Cir. Dec. 5, 2014), the Federal Circuit held eligible a patent covering the generation of webpages that displayed a merchant's content using the "look and feel" of a host website. The court explained that the patent was not directed to an abstract idea because it did not claim an algorithm or longstanding commercial practice. And, "[A]lthough the claims address a business challenge (retaining website visitors), it is a challenge particular to the Internet." Moreover, unlike the claims in *Ultramercial*, the claims in *DDR Holdings* specified "how interactions with the Internet are manipulated to yield a desired result — a result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink."

These two cases may prove difficult to reconcile in practice. Both actions involved computer-implemented business practices for interacting with consumers on the Internet, yet the interactions specified in *Ultramercial* (requiring consumers to view ads) constituted routine Internet activity, while the interactions in *DDR Holdings* (generating styled webpages) overrode routine Internet activity. At first glance, the cases might be harmonized by assuming a patent is more likely to be eligible if it addresses a new problem that uniquely arises in the context of the Internet, rather than simply provides a new solution to an old problem. But, such a principle risks merging Section 101 eligibility with Section 102 novelty — a conflation unlikely to be approved by the Federal Circuit.

Additional decisions from the Federal Circuit will no doubt follow in 2015, though it remains to be seen whether more objective standards will emerge to elucidate which Internet-based methods are patentable and why. In the meantime, it is evident from the reasoning in *Ultramercial* and *DDR Holdings* that the manner in which litigants articulate the abstract idea or problem addressed by a challenged patent will be instrumental to the patentable subject matter analysis.