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US Supreme Court Issues Important Opinion on Patent Eligibility of Computer-Implemented Inventions

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The Federal Circuit and the Supreme Court

- Federal Circuit improved to 1-5 on patent cases with *Alice Corporation v. CLS Bank* (*"Alice"*) decision
  - And 0-6 in reasoning (the Court unanimously rejected the Federal Circuit's fractured approach in *Alice*)
- Prior to *Alice* no votes in support of Federal Circuit's decisions related to patent law
- Supreme Court's interest in patent law issues likely to remain high

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer

- Section 101: Defines the scope of patent eligibility to include "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof"
  - Exception : laws of nature, physical phenomena and abstract ideas
- Question presented:
  - whether claims directed to a computer-implemented scheme for mitigating "settlement risk" are patent-eligible under 35 U.S.C. §101, or are instead drawn to a patent-ineligible abstract idea
  - A divided *en banc* Federal Circuit said the claims are drawn to a patent-ineligible abstract idea
  - Supreme Court affirmed

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Background:
  - U.S. Patent Nos. 5,970,479 ("the '479 Patent"), 6,912,510, 7,149,720 and 7,725,375
  - Claims directed to facilitate the exchange of financial obligations between two parties by using a computer system as a third-party intermediary

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Representative method claim 33 of the '479 Patent
- 33. A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:
  - (a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;
  - (b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;
  - (c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order, and
  - (d) at the end-of-day, the supervisory institution instructing on[e] of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Background:
  - Following the Supreme Court's decision in *Bilski,* the parties filed cross-motions for summary judgment on whether the asserted claims are eligible for patent protection under 35 U.S.C. §101
  - District Court held that all of the claims are patent-ineligible
  - A divided panel of the Federal Circuit reversed the District Ct
  - The Federal Cir. granted rehearing *en banc,* vacated the panel and affirmed the District Ct via a divided plurality opinion
  - Supreme Court unanimously affirmed the Federal Circuit's decision

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Fed. Circuit Divided Opinion (Plurality):
  - For **Plurality** (5 Judges), looked at *Mayo* for guidance and concept of "preemption"
  - If the claim subsumes the full scope of a fundamental concept/abstract idea, look for meaningful, substantive limitations
  - **Plurality** concluded that the claims were abstract and using a computer in this context added nothing of substance

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Fed. Circuit Divided Opinion (Judges Rader, Linn, Moore and O'Malley):
  - Reminder that decision is based on judicial exceptions to §101; these exceptions should be narrowly construed
  - Presumption of validity applies; only overcome by clear and convincing evidence
  - Do not start by distilling the "abstract idea," "gist" or "heart" of the invention

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Fed. Circuit Divided Opinion (Judges Rader, Linn, Moore and O'Malley):
  - Be careful to strip down, simplify or generalize concrete limitations, until an abstract idea is revealed
  - The claim **as a whole** must be considered
  - System claims are patentable in view of the "four structural components" and "detailed algorithms for the software with which this hardware is to be programmed"

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Fed. Circuit Divided Opinion (Judges Linn and O'Malley):
  - Separate dissent finding the "method" claims patent-eligible
  - The "specific functionality" found by Judge Rader and Judges Linn, Moore and O'Malley regarding the system claims applies just as much to the method claims that must utilize that same computer implementation
- Judge Newman:
  - § 101 is an inclusive statement of patent-eligible subject matter—"no need for an all-purpose definition of 'abstractness' or 'preemption,' as heroically attempted today"

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Supreme Court (Parties' and US Govt positions):
  - **Alice Corp:**
    - An abstract idea is a "preexisting fundamental truth," such as mathematical formulas, that is equivalent to a law of nature and exists in principle apart from any human action
    - A claim directed to §101's four statutory categories that does not, ***on its face***, recite a fundamental truth is patent-eligible
    - Patent claims that require a computer are drawn to statutory subject matter as long as the claims do not recite a fundamental truth
    - If claims recite a fundamental truth and uses a computer to ***apply*** in ***specific*** way to achieve a useful result, the claim is patent-eligible

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Supreme Court (Parties' and US Govt positions):
  - **CLS Bank:**
    - Abstract ideas include fundamental economic principles, such as *Bilski*
    - Court already held that the prohibition on patenting abstract ideas is fully applicable to the building blocks of economics
    - The concept here—intermediated settlements as part of a financial transaction—is a building block of economics. Therefore, *Bilski* applies

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Supreme Court (Parties' and US Govt positions):
  - **US Govt:**
    - Claims that disclose *concrete* innovations in technology, science or the industrial arts should be patentable
    - Claims that manipulate abstract concepts, such as Alice's claims, are unpatentable
    - The first question is, would the challenged claims be patent eligible without a computer?
    - If yes, then stop
    - If no, then the computer limitations must be evaluated

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Supreme Court (opinion):
  - §101 has an important implicit exception: laws of nature, natural phenomena and abstract ideas are not patentable because they are the "building blocks" of human ingenuity.
  - What is an Abstract idea?
    - Quoting *Benson*, the Supreme Court explained "A principle, in the abstract, is a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right"

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Supreme Court (opinion):
  - Applying *Mayo's* two-part test to determine patent eligibility:
    - **First**, determine whether the claims at issue are directed to patent-ineligible concepts
    - **Then**, "[w]hat else is there in the claims before us?"
    - Look to the elements of each claim individually and "as an ordered combination"; do they "transform the nature of the claim" into a patent-eligible application?
    - Step two of this analysis is to search for an "'inventive concept'"—*i.e.,* an element or combination of elements that "amounts to significantly more than a patent upon the [ineligible concept] itself"

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Supreme Court (opinion):
  - Applying *Mayo* test Step 1:
    - Similar to *Bilski*, the claims here "are directed to the abstract idea of intermediated settlement"
  - Applying *Mayo* test Step 2:
    - Evaluating *Benson, Flook* and *Diehr,* "the mere recitation of a generic computer cannot transform a patent-ineligible idea into a patent-eligible invention"
    - The function of the computer at each step of the claimed method does no more than require a generic computer to perform generic functions
    - Combined steps "add nothing that is not already present when the steps are considered separately"
    - Key considerations: are the additional computer limitations "generic," "routine, or "conventional"?

Alice – Patentability of Abstract Ideas Implemented on a Generic Computer (Cont'd)

- Supreme Court (opinion):
  - Claims to computer system and a computer readable medium fail for substantially the same reasons:
    - 'data processing system' with a 'communications controller' and 'data storage unit,' . . . is purely functional and generic"; not specific
    - "The method claims recite the abstract idea implemented on a generic computer; the system claims recite a handful of generic computer components configured to implement the same idea"
  - Ruling: Federal Circuit Affirmed, and claims held ineligible under §101

Alice – Practice Pointers and Policy Implications

- Decision in line with and reinforces *Bilski* and *Mayo*
- Going back to the "roots"—repeated emphasis on *Benson, Flook* and *Diehr* by Supreme Court in all recent decisions
- No rejection of software patentability—Court's analysis makes clear software is patentable
- Does not dramatically alter the landscape of patent eligibility
- No "bright-line" test of determining patent eligibility
- What is an "abstract idea"?

Alice – Practice Pointers and Policy Implications (Cont'd)

- Future of computer-implemented business method patents
  - Supreme Court has provided tools to make it easier to invalidate broad patents but still makes room for software patents
  - Recent decisions and AIA show increased scrutiny of patents directed to "financial" subject matter
  - **Do not** recite in claims or specification that the claimed method can be performed by a "human being" or by a "pen and a paper"
  - **Caution** while including generic recitations of hardware or computers in the specification or claims (e.g., statement in specification stating that "a general purpose computer can be used to perform the claimed methods")

Alice – Practice Pointers and Policy Implications (Cont'd)

- Future of computer-implemented business method patents
  - **Think** to yourself:
    - Can this claim be performed by a pen and a paper?
    - Is the claim directed to a mathematical calculation?
    - Are the computer recitations a mere afterthought or are they integral to performing the claimed steps?
    - Avoid falling into the pitfalls identified in *Benson, Flook* and *Diehr* and reiterated in *Bilski*, *Mayo* and *Alice*

Alice – Practice Pointers and Policy Implications

- Future of computer-implemented business method patents
  - Provide specific hardware support and describe software steps with detailed flow charts, specially with patents directed to financial subject matter. For example:
    - Reciting "encoder/decoder" versus "computer"
    - Data compression versus processing data
    - Securing communications via encrypting/decrypting versus "transmitting /receiving"
  - Machine-Transformation test still helpful

Alice – Patent Eligibility and Bright-Line Tests

- Federal Circuit prefers providing bright-line tests:
  - Better guidance for USPTO
  - Helpful for prospective patentees or patentees
- Supreme Court appears to prefer flexibility afforded by using general principles:
  - Prefers to use Section 101 statutory language and the exceptions while determining patent eligibility
  - Avoiding providing "good patent practitioner" with loopholes to exploit, i.e., the patents issued after Federal Circuit identified the "useful, concrete, tangible" and/or "machine-transformation" tests

Factoring 101 in Litigation Defense Strategy

- Early assessment of whether claims can be subject to 101 challenges
- Analyze the possibility for filing a Motion for Judgment on the Pleadings (Motion under Rule 12(c)) or Motion for Failure to State a Claim (Motion under Rule 12(b)(6)):
  - *buySAFE, Inc. v. Google Inc.,* 964 F. Supp. 2d 331, 337 (D. Del. 2013)
  - *Loyalty Conversion Systems Corp. v. American Airlines, Inc.*, No. 2:13-cv-655, Dkt. No. 61, filed in E.D. Tex. on Apr. 4, 2014 (awaiting order)
  - *Clear with Computers, LLC v. Dick's Sporting Goods, Inc.,* No. 6:12-CV-674, 2014 WL923280 (E.D. Tex. Jan. 21, 2014);
  - *Uniloc USA, Inc. v. Rackspace Hosting, Inc.* No. 6:12-CV-375, 2013 WL 7393173 (E.D. Tex Mar. 27, 2013)
  - *Digitech Image Techs., LLC v. Sigma Corp.*, No. 8:12-cv-1681, 2013 WL 3947137 (C.D. Cal. July 31, 2013)
  - *Internet Patents Corp. v. Gen. Auto. Ins. Servs., Inc.,* No. C 12-05036, 2013 WL 7936688 (N.D. Cal. Sept. 24, 2013)
  - *Glory Licensing LLC v. Toys "R" Us, Inc.,* No. 09-cv-4252, 2011 WL 1870591 (D.N.J. May 16, 2011)

Factoring 101 in Litigation Defense Strategy (Cont'd)

- Filing a Covered Business Method Patents if claims are directed to "financial products or services" and seeking a stay
- Beating Plaintiff at his/her own game
  - Minimize pressure to settle due to discovery costs
  - Force Plaintiff to expend resources in defending validity under 101

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Questions?

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