

Intellectual Property Alert: Supreme Court Rules Against Broadly Claimed Software Patents, But Offers No Clear Test for Abstract Ideas

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In a unanimous decision, the Supreme Court held that patent claims directed to abstract ideas do not become patent eligible by the “mere recitation” of generic computer elements. *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, No. 13-298 (June 19, 2014). Affirming the Federal Circuit’s *per curiam* decision, the Court held that Alice Corp.’s patents for computer-implemented methods and systems using a third-party intermediary to ensure real-time settlement of currency exchange transactions between counterparties are invalid under 35 U.S.C. § 101, as failing to recite patent eligible subject matter.

The Court’s decision primarily addresses whether the presence of computer elements in a patent claim is sufficient to make the claim patent eligible subject matter, ultimately concluding that it is not. The Court avoided ruling that software is not generally eligible for patent protection, and expressly did not provide a test for how to identify an abstract idea generally or in software specifically.

This decision does little to clarify the boundaries of patent eligibility. The Court continued to avoid answering a basic question that has perplexed the courts for years: “What is an abstract idea?” To the dismay of the patent bar, the Court sidestepped the issue saying, “we need not labor to delimit the precise contours of the ‘abstract ideas’ category.” Slip op. at 10. Thus, we will continue to see patent litigants, the lower courts, and the USPTO answer this question piecemeal. Those dissatisfied with the decision-making from those tribunals may again bring the question to the Court.

The Court did hold that reciting generic computer elements does not make an abstract idea patent eligible, a ruling that was not unexpected. The Court suggested that there must be some improvement in either the operation of the computer itself or some other field of technology, beyond mere computerization of a general concept. What counts

as an improvement remains uncertain, as does what counts as a technical field.

We can expect continued controversy and confusion over the scope of patent eligible subject matter.

Background

Alice is an Australian company that obtained four patents covering a computer system for trading currencies and other financial instruments that reduce settlement risk by processing the transactions in a particular way. CLS is a consortium that provides a computerized foreign exchange settlement system for its member banks, and also seeks to reduce settlement risk. CLS garnered substantial notice for significantly changing the financial services industry, even though the company was formed almost ten years after Alice’s patents were filed, and three years after they were granted.

In 2007, CLS filed a declaratory judgment action challenging Alice’s patents, and Alice counterclaimed for infringement. The district court held Alice’s patent claims invalid under 35 U.S.C. § 101 as not claiming patent eligible subject matter. While § 101 makes eligible for patenting any machine, process, article of manufacture, or composition of matter, certain judicially created exclusions exist. The district court found that Alice’s patent claims simply recited abstract ideas — one of the judicially excluded categories. Alice appealed to the Federal Circuit and, in 2012 a three-judge panel reversed the district court, holding all the claims patent eligible. The Federal Circuit then reheard certain issues from the case *en banc*.

In June 2013, the Federal Circuit issued a *per curiam* opinion that ultimately left Alice’s patents invalid, along with six concurring and dissenting opinions offering differing views on how to determine whether a patent claim covers an abstract idea. The decision was roundly criticized as a “nightmare,” adding to the impression that the court was in deadlock over the requirements for patent eligibility, and leaving

patent applicants, owners, and accused infringers alike uncertain as to what claims were not patent eligible. Alice sought and was granted *certiorari*. Over forty *amicus curiae* briefs were filed, including briefs by AIPLA, IPO, IBM, IEEE-USA, The Business Software Alliance, and many smaller firms and organizations.

The Supreme Court's Opinion

The Court set forth a two-step approach. First, “determine whether the claims at issue are directed to a patent-ineligible concept.” Slip op. at 7. If so, then the claim is examined for an “inventive concept,” some element or combination of elements “sufficient to ‘transform’ the claimed abstract idea into a patent eligible application” of the idea. Slip op. at 11.

The Court’s two-step method is a blend of its patent eligibility analyses in *Bilski v. Kappos*, *Parker v. Flook*, and *Mayo v. Prometheus*. From *Bilski*, the Court drew the principle that “fundamental economic practices long prevalent” in commerce are abstract ideas. And like the Court in *Bilski*, it declined to state a test for determining whether a patent claim falls within the abstract idea exception to 35 U.S.C. § 101’s broad grant of patent eligible subject matter, resorting instead to generalizations about ideas that are “building blocks” of ingenuity or modern commerce, or a “longstanding commercial practice.” These statements offer little in the way of an objective, consistent approach that can be applied by patentees, courts, and the USPTO. In short, there has been no progress in solving the core problem that led to this case, *i.e.*, what constitutes an abstract idea to trigger application of one of the judicial exceptions to patent eligibility.

From the Court’s prior decisions in *Flook* and *Mayo*, it used the analytical approach of identifying an “inventive concept” in the claim, asking whether the claim includes “additional features” that “transform” the abstract idea into a practical application. Unfortunately, the Court did not provide much explanation as to the nature of this “transformation.” Instead, the Court focused on the question of whether the inclusion of computer elements in a patent claim contributes to patent eligibility, and held that the “mere recitation of a generic computer” is not

sufficient for this transformation. “Thus, if a patent’s recitation of a computer amounts to mere instruction to ‘implemen[t]’ an abstract idea ‘on . . . a computer,’ that addition cannot impart patent eligibility.” Slip op. at 13. Thus, while the opinion offers some guidance on what *is not* sufficient for patent eligibility, there is no specific guidance for what *is* sufficient. At best, the Court suggests that claims should include features that “improve the functioning of the computer itself” or “effect an improvement in any other technology or technical field.” Slip op. at 15. These hints will likely play a larger role in the future development of the case law: patentees will emphasize those aspects of the patent claims that are directed towards improving an existing technology, to counter the arguments by patent defendants (or the USPTO) that the claims recite merely generic computer elements. Those challenging patent eligibility presumably will also argue that any such improvements are nominal, perfunctory, or only a matter of clever drafting.

Impacts

The most immediate impact of the decision is on patents in financial services industries, such as banking, insurance, brokerages, credit processing, assessment management, and exchanges. While the Court has not ruled that business methods are *per se* ineligible (though three justices filed a concurrence supporting that view), the Court’s methodology will continue to make patents in these fields subject to heightened scrutiny. More generally, patent applicants will likely argue that their claims are either not directed to fundamental economic or commercial practices or are directed to very specific improvements in the computerized management of such practices. Claims arguably directed to just a financial practice itself (as in *Bilski*) or a “mere” generic computer implementation (as in *Alice*) will be subject to the most scrutiny.

The majority of software inventions are not in finance or commerce, but in many other fields. Importantly, the Court did not rule that software is not eligible for patent protection. During oral argument, the Court clearly expressed concern that such a ruling would be damaging to the economy and the software industry. Thus, the Court has not expanded the

abstract idea exception to encompass software *per se*, but continues to discuss it in terms of concepts that are “fundamental,” “long prevalent” practices or “building blocks of human ingenuity.” A substantial amount of software technology that is patented arguably does not rise to this level, but instead covers incremental improvements on existing processes.

The decision leaves many questions on patent eligibility unanswered. The Court did not address the application of the presumption of validity to § 101; whether § 101 is a “gateway” or “threshold” question that must be addressed before other questions of patentability; whether patent eligibility is a matter of law or whether it depends on resolving any factual questions, such as what counts as “conventional” or “routine” uses of a computer; whether claim construction is necessary for a determination of patent eligibility; and most importantly how to distinguish between the “mere recitation” of a generic computer and a particular, specialized computer.

In the end, the Court’s opinion does not offer sufficient guidance to promptly resolve the currently heightened amounts of uncertainty and litigation over patent eligibility. From a practice perspective, we do not recommend any dramatic changes in litigation or prosecution strategies. In prosecution, the USPTO is likely to change its practice of accepting the use of “processor” or “memory” limitations as sufficient to overcome § 101 rejections; instead more specific claim limitations for the computer implementation may become necessary. In litigation, the decision may provide further defensive opportunities against vaguely drafted or overly broad patent claims.

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