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Alice Corp. v. CLS Bank: Patent Eligibility of Software-Related Inventions

WEDNESDAY, JULY 30, 2014

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Today's faculty features:

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Alice v. CLS

July 30, 2014

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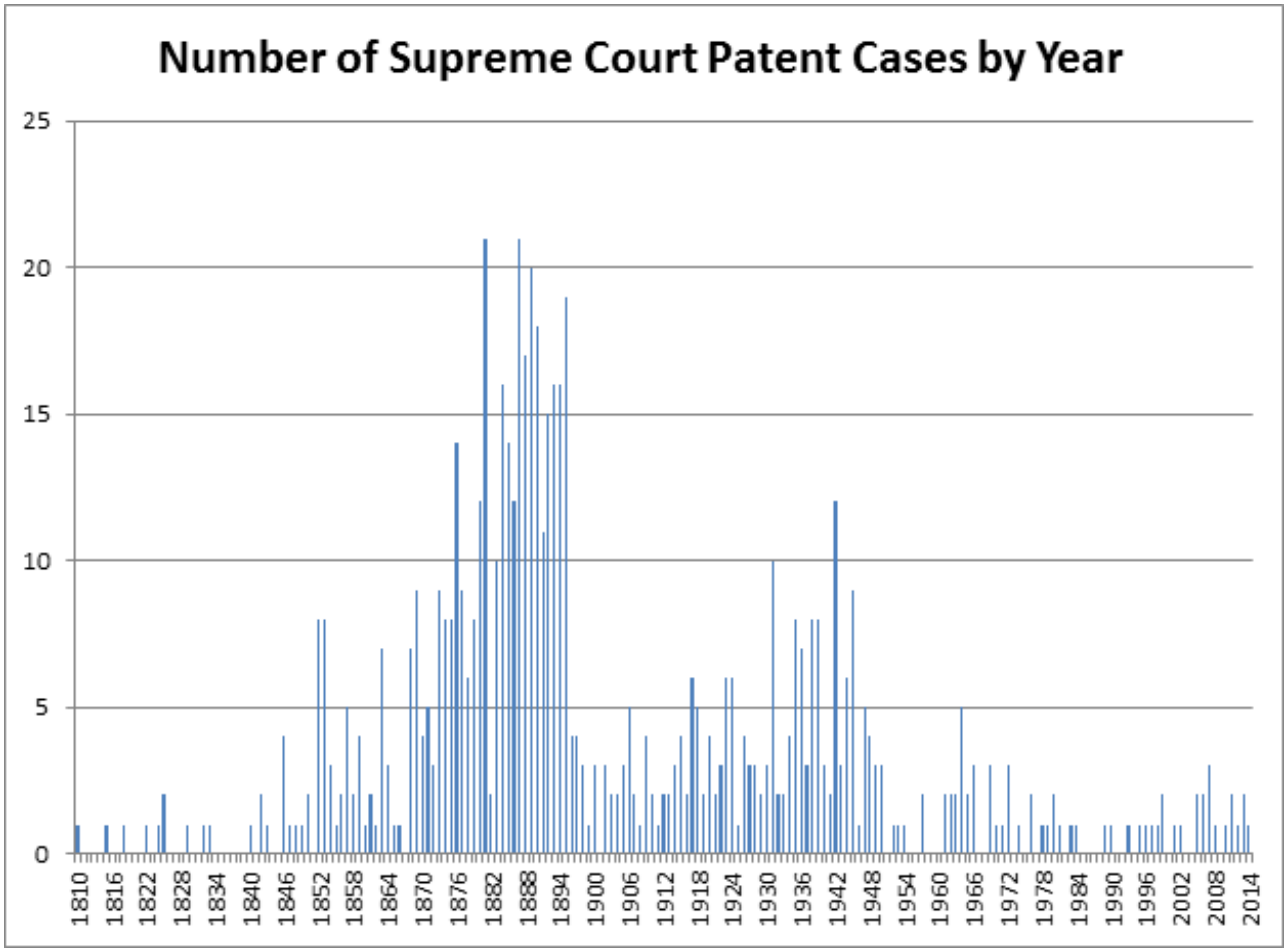
THE SUPREME COURT'S HISTORICAL TREATMENT OF PATENT LAW



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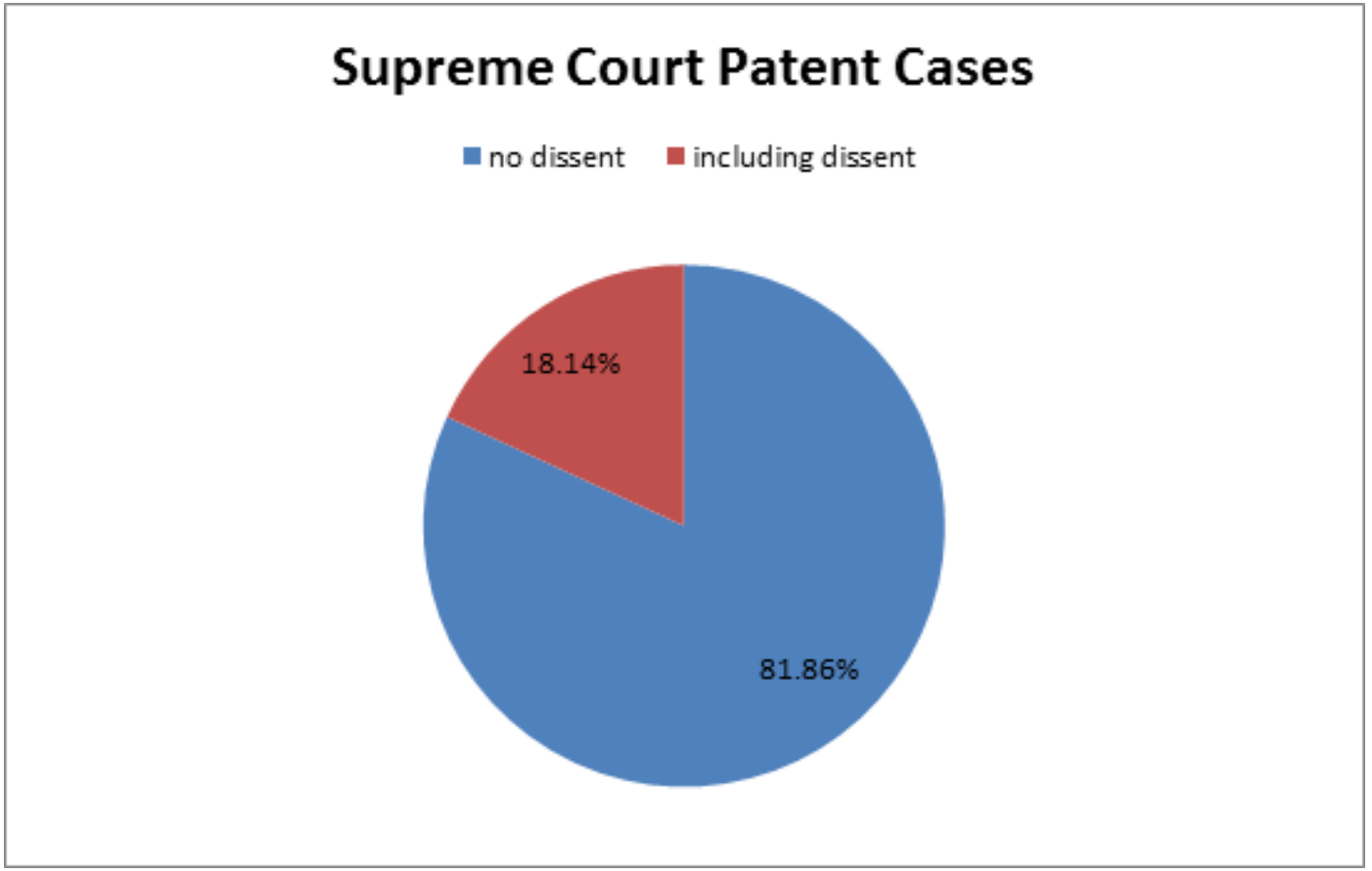

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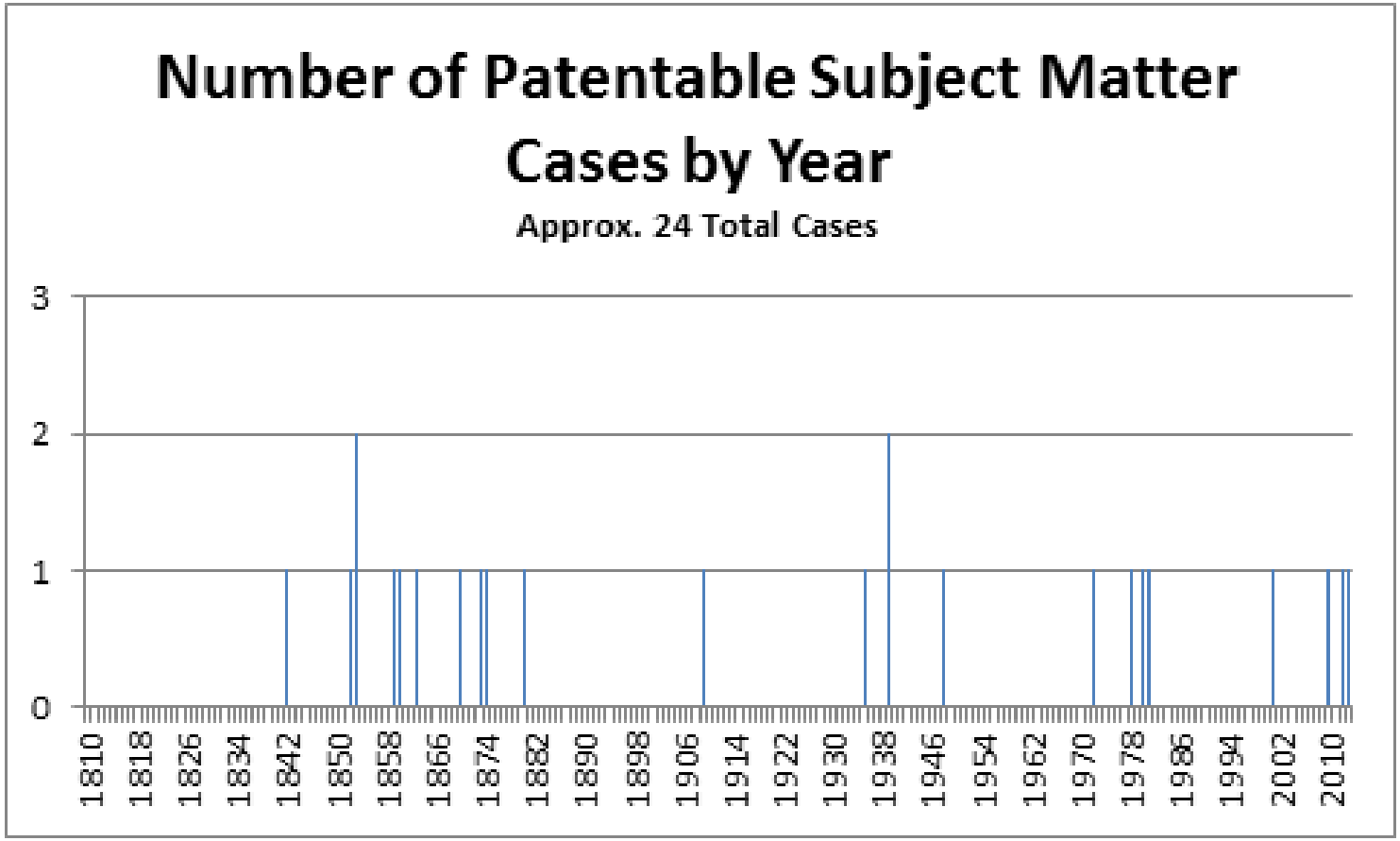
PATENTABLE SUBJECT MATTER



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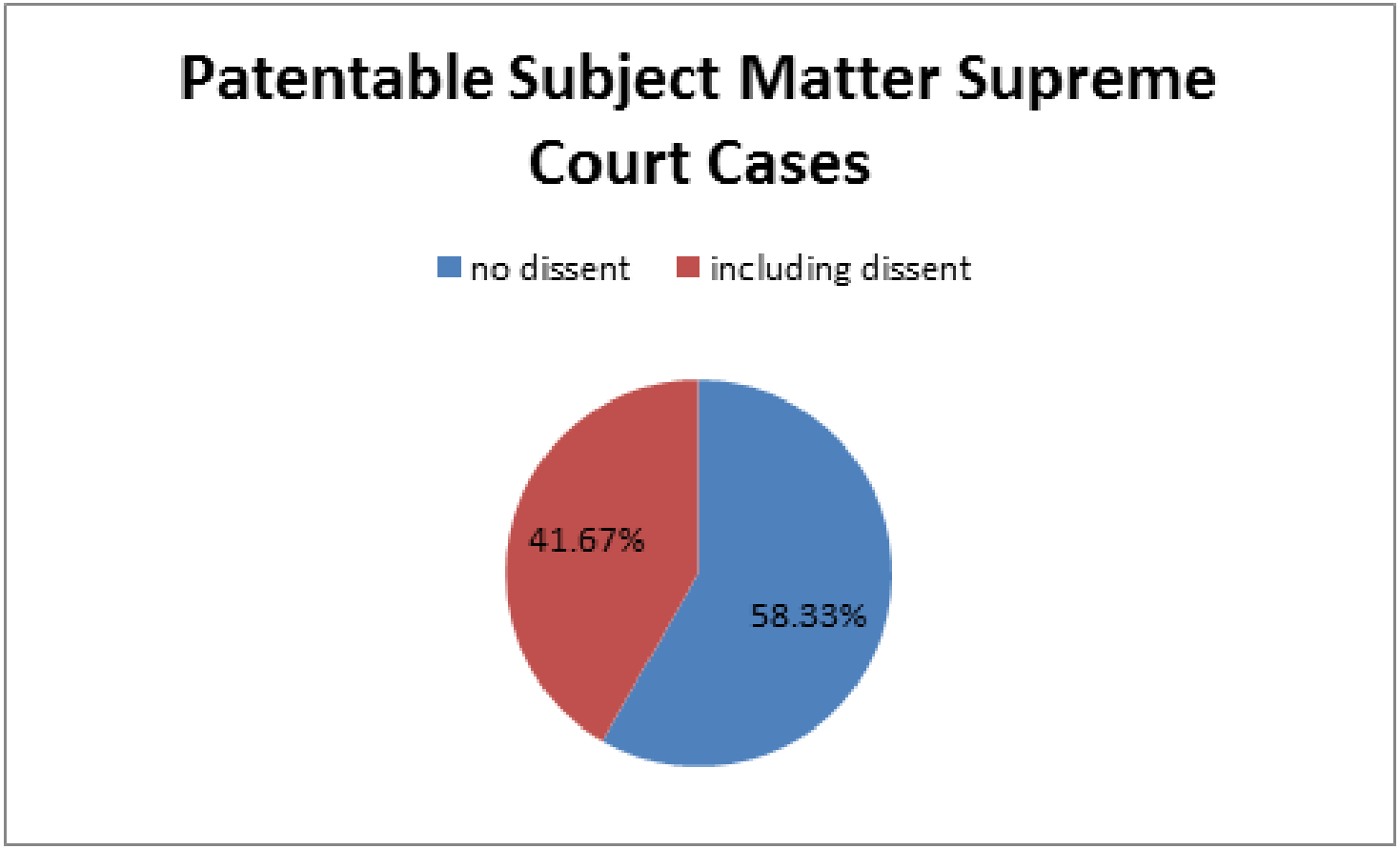
PATENTABLE SUBJECT MATTER



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PATENTABLE SUBJECT MATTER

- **35 U.S.C. § 101:**
  - **Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.**
- **35 U.S.C. § 100(b):**
  - **The term "process" means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.**
- **Judicially created exceptions:**
  - **"laws of nature, natural phenomena, and abstract ideas." *Diehr* (S. Ct. 1981)**

PATENTABLE SUBJECT MATTER

- *Le Roy v. Tatham* (1852)
  - Principles are not patent-eligible:
    - ❖ **"It is admitted, that a principle is not patentable. 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. Nor can an exclusive right exist to a new power, should one be discovered in addition to those already known."**
  - Need a practical application for patent eligibility:
    - ❖ **"A new property discovered in matter, when practically applied . . . is patentable."**

PATENTABLE SUBJECT MATTER

- *Cochrane v. Deener* (1876)
  - Definition of process includes transformation:
    - ❖ **"A process is a mode of treatment of certain materials to produce a given result. It is an act, or a series of acts, performed upon the subject-matter to be transformed and reduced to a different state or thing. If new and useful, it is just as patentable as is a piece of machinery. In the language of the patent law, it is an art. The machinery pointed out as suitable to perform the process may or may not be new or patentable; whilst the process itself may be altogether new, and produce an entirely new result."**

PATENTABLE SUBJECT MATTER

- ***Expanded Metal Co. v. Bradford* (1909)**
  - **Definition of process includes machines:**
    - **"We therefore reach the conclusion that an invention or discovery of a process or method involving mechanical operations, and producing a new and useful result, may be within the protection of the Federal statute, and entitle the inventor to a patent for his discovery."**

PATENTABLE SUBJECT MATTER

- **Recently active area of law**
  - ***Alice v. CLS***
  - ***Association for Molecular Pathology v. Myriad***
  - ***Mayo Collaborative Services v. Prometheus Labs. Inc.***
  - ***Bilski v. Kappos***
- **Lessons from *Myriad* and *Mayo***
  - **Proactive Court**
  - **Little deference to the U.S. Government's position or USPTO's practice**
  - **Demonstrates a trend that § 101 should be construed narrowly**

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PATENTABLE SUBJECT MATTER

- **Trilogy of Supreme Court cases:**
  - ***Gottschalk v. Benson*, 409 U.S. 63 (1972)**
  - ***Parker v. Flook*, 437 U.S. 584 (1978)**
  - ***Diamond v. Diehr*, 450 U.S. 175 (1981)**

GOTTSCHALK V. BENSON (S. CT. 1972)

- Binary Coded Decimals (BCD) to pure binary conversion process
- Abstract:
  - **"Here the 'process' claim is so abstract and sweeping as to cover both known and unknown uses of the BCD to pure binary conversion."**
- The practical effect of patenting the claimed BCD to binary conversion system would be to patent an idea
- Congress should decide whether computer programs are patentable

PARKER V. FLOOK (S. CT. 1978)

- Method of updating alarm limits
- The only difference between conventional methods and that described in the patent application was the inclusion of a mathematical formula
- Point-of-novelty test:
  - **"Respondent's process is unpatentable under § 101, not because it contains a mathematical algorithm as one component, but because once that algorithm is assumed to be within the prior art, the application, considered as a whole, contains no patentable invention."**

DIAMOND V. DIEHR (S. CT. 1981)

- **Process for molding rubber**
  - **"We view respondents' claims as nothing more than a process for molding rubber products and not as an attempt to patent a mathematical formula. We recognize, of course, that when a claim recites a mathematical formula (or scientific principle or phenomenon of nature), an inquiry must be made into whether the claim is seeking patent protection for that formula in the abstract."**
- **Review claim as a whole, no dissection:**
  - **"[W]hen a claim containing a mathematical formula implements or applies that formula in a structure or process which, when considered as a whole, is performing a function which the patent laws were designed to protect (e.g., transforming or reducing an article to a different state or thing), then the claim satisfies the requirements of § 101."**
- **Reject point-of-novelty test:**
  - **"The 'novelty' of any element or steps in a process, or even of the process itself, is of no relevance in determining whether the subject matter of a claim falls within the § 101 categories of possibly patentable subject matter."**

BILSKI V. KAPPOS (S. CT. 2010)

- **The Machine-or-Transformation Test:**
  - **"a claimed process is patent eligible if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing."**
- **M-O-T is not the sole test for determining patent eligibility, instead it is "a useful and important clue, an investigative tool."**
- **Abstract Idea Analysis:**
  - **Preemption: "The concept of hedging . . . is an unpatentable abstract idea . . . . Allowing [Bilski] to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea."**
  - **Limiting an abstract idea to one field of use or adding token post-solution components is not enough**
- **Back to the Wild West:**
  - **"And nothing in today's opinion should be read as endorsing interpretations of §101 that the [Fed. Cir.] has used in the past."**

MAYO COLLABORATIVE SERVICES V. PROMETHEUS LABS, INC. (S. CT. 2012)

- Appeal following post-Bilski GVR
- Claims directed to a drug administration process
- "to transform an unpatentable law of nature into a patent-eligible application of such law, one must do more than simply state the law of nature while adding the words 'apply it.'"
- Patents should not be upheld where the claim too broadly preempts the use of the natural law
- Court dissected the claim elements:
  - **"To put the matter more succinctly, the claims inform a relevant audience about certain laws of nature; any additional steps consist of well-understood, routine, conventional activity already engaged in by the scientific community"**

MAYO COLLABORATIVE SERVICES V. PROMETHEUS LABS, INC. (CONT'D)

- "Other cases offer further support for the view that simply appending conventional steps, specified at a high level of generality, to laws of nature, natural phenomena, and abstract ideas cannot make those laws, phenomena, and ideas patentable."
- Point-of-novelty test?
  - **"We recognize that, in evaluating the significance of additional steps, the §101 patent-eligibility inquiry and, say, the §102 novelty inquiry might sometimes overlap. But that need not always be so."**
- The M-O-T test does not trump the law of nature exclusion
- The proper role of §101:
  - **The Court rejected the Government's argument that virtually any step beyond the law of nature should render the claim patent-eligible under §101, because §§102, 103, and 112 are sufficient to perform the screening function**

CLS BANK V. ALICE CORP. (FED. CIR. 2013, EN BANC)

- Case was heard en banc in an attempt to address uncertainty
- Questions presented:

  1) What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible "abstract idea"; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible idea?

  2) In assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium; and should such claims at times be considered equivalent for § 101 purposes?

CLS BANK V. ALICE CORP. (FED. CIR. 2013, EN BANC) (CONT'D)

- **Fed. Cir. issued one-paragraph per curiam opinion**
  - **Majority found method and computer-readable medium claims patent ineligible**
  - **Even split on the patent eligibility of system claims**
  - **Result: patent-ineligibility affirmance of lower court's decision**
  - **No rationale was provided**

CLS BANK V. ALICE CORP. (FED. CIR. 2013, EN BANC) (CONT'D)

- **Five non-precedential opinions were issued that provide insight into thinking of majority of Judges**
- **Agreement between Judges (Lourie and Rader opinions):**
  - ***Mayo* decision does not resurrect the point-of-novelty test**
  - **Broad claims do not necessarily fail the §101 inquiry**
  - **District Court §101 challenges must overcome clear-and-convincing evidentiary standard**
  - **Proper §101 inquiry under *Mayo* involves determination of whether claim includes meaningful limitations beyond an abstract idea instead of novelty assessment**
    - ❖ **No agreement on what makes a limitation meaningful**

ALICE V. CLS (S. CT. 2014)

- **Issue:**
  - **Patentable subject matter for computer-related inventions under 35 U.S.C. § 101.**
- **Decided: June 19. Unanimous decision.**
- **Invention: Mitigating settlement risk**
- **High level points:**
  - **Court dissected claims and considered them as an ordered whole**
  - **System and C-R medium claims fell with method claims**
  - **Point-of-novelty test?**

ALICE V. CLS (CONT'D)

- Court's concern is with preemption
- Must distinguish between the "building blocks of human ingenuity and those that integrate the building blocks into something more" rendering them patent eligible.

ALICE V. CLS (CONT'D)

- **Used *Mayo* framework:**
  1. **Determine whether claims are directed to a law of nature, natural phenomena, or abstract idea;**
  2. **If so, then ask "What else is there in the claims before us?"**
     - ❖ **Consider elements of claim individually and as an ordered combination to determine if the additional elements "transform the . . . claim into patent-eligible" subject matter.**
     - ❖ **This is a "search for an 'inventive concept' . . . 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 abstract idea.**

ALICE V. CLS (CONT'D)

- **Step one:**
  - **The Court refers to two books and states:**
    - ❖ **The claims are drawn to the "abstract idea" of intermediated settlement, which is a fundamental concept**
    - ❖ **It "is a building block of the modern economy"**
  - **Compared to *Bilski*:**
    - ❖ **Like *Bilski's* hedging, intermediated settlement is an abstract idea.**
    - ❖ **"In any event, we need not labor to delimit the precise contours of the 'abstract ideas' category in this case. It is enough to recognize that there is no meaningful distinction between the concept of risk hedging in *Bilski* and the concept of intermediated settlement at issue here."**
  - **No clear guidance**

ALICE V. CLS (CONT'D)

- **Step two:**
  - **A claim that recites an abstract idea must include "additional features" to ensure "that the [claim] is more than a drafting effort designed to monopolize the [abstract idea]."**
  - **Per *Mayo*, need more than "apply it."**
  - **The computer implementation must supply the necessary "inventive concept" – what does "inventive concept" mean?**

ALICE V. CLS (CONT'D)

- **Step two (cont'd):**
  - **Mere recitation of a generic computer is not enough**
  - **Nor is limiting the claim to a technological environment**
  - **"[T]he relevant question is whether the claims here do more than simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer. They do not."**

ALICE V. CLS (CONT'D)

- **Step two (cont'd):**
  - **The claim elements separately are "purely conventional"**
  - **"In short, each step does no more than require a generic computer to perform generic computer functions."**
  - **Considered as an ordered combination, the claims "simply recite the concept of intermediated settlement as performed by a generic computer."**
    - ❖ **They do not improve the functioning of the computer itself**
    - ❖ **"Nor do they effect an improvement in any other technology or technical field."**
    - ❖ **Safe harbors?**

ALICE V. CLS (CONT'D)

- **System and C-R Medium Claims**
  - **"Petitioner conceded below that its media claims rise or fall with its method claims."**
  - **System claims**
    - ❖ **Purely functional and generic**
    - ❖ **None of the hardware recited "offers a meaningful limitation beyond generally linking" the method to a "particular technological environment" – implementation on a computer**
    - ❖ **"Put another way, the system claims are no different from the method claims in substance."**

ALICE V. CLS - CONCLUSIONS

- Clarity?
- Will the Fed. Cir. resist the point-of-novelty test and continue with its "meaningful limitations" test?
- Lessons from Digitech
- Will the PTO do the same?

ALICE V. CLS – LITIGATION TIPS

- **Defendants:**
  - **SJ motion for 101, or renewed motion**
  - **Argue the law of 101 has dramatically changed such that business methods are no longer effectively patent-eligible and neither are software inventions using nothing but generic computer hardware**
- **Plaintiffs:**
  - **Argue that the law did not change – the Supreme Court supported the Fed Cir's meaningful limitations test**
  - **Rely on the clear-and-convincing standard**
  - **Rely on factual underpinnings via *Ultramercial***

ALICE V. CLS – PTAB TIPS

- **Build a sufficient factual record to support your argument**
- **Build a sufficient legal record to support the changing landscape**
  - **Machine-or-transformation test**
  - **Generic computer hardware/special computer test**
  - **Abstract idea analysis**
  - **Mental steps test**
  - **Point-of-novelty test**
  - **Case-specific factual comparisons**
- **Know the Supreme Court section 101 cases**
- **Frame the issue**
- **Tips for Petitioner**
- **Tips for Patent Owner**

ALICE V. CLS – DRAFTING TIPS

- **Use the Supreme Court's safe harbors:**
  1. **The claims improve the functioning of the computer itself; and**
  2. **The claims effect an improvement in other technology or technical field.**
- **Consider using specification statements and claim language directed to these safe harbors**
- **Do not summarize the invention in a high-level, abstract way. Focus on describing it from a technological perspective.**
  - **The invention brings soon-to-be-executed instructions close to the processor *versus* the processor includes on-board cache memory**
- **Integrate method claims with the hardware using meaningful hardware limitations**
  - ***E.g.,* look to Lourie's and Rader's *CLS* concurrences for "meaningful"**

ALICE V. CLS – DRAFTING TIPS (CONT'D)

- **Ensure that system claims are true apparatus claims and not merely method claims trivially recast into apparatus form**
- **If you intend to rely on *In re Alappat* for subject matter eligibility make sure that the written description provides corresponding structure for MPF or SPF limitations that should include hardware resources and specific algorithms for software.**
- **Where possible tie the claim limitations to particular machine or manufactures or include transformation of physical matter or signals that represent physical phenomena.**
- **Describe how the invention provides a technical solution to a technical problem.**

ALICE V. CLS
JUNE 25, PTO PRELIM. GUIDELINES

- **"Notably, Alice Corp. neither creates a *per se* excluded category of subject matter, such as software or business methods, nor imposes any special requirements for eligibility of software or business methods."**
- **Same analysis should be used for all types of judicial exceptions**
- **Same analysis should be used for all claim categories**

ALICE V. CLS
JUNE 25, PTO PRELIM. GUIDELINES

High level analysis:

A. Determine whether the claim is directed to one of the four statutory categories

B. Then, use two-part analysis for abstract ideas

PTO TWO-STEP ABSTRACT IDEA ANALYSIS

Step One: Determine whether the claim is directed to an abstract idea

- As emphasized in *Alice Corp.,* abstract ideas are excluded from eligibility based on a concern that monopolization of the basic tools of scientific and technological work might impede innovation more than it would promote it. At the same time, the courts have tread carefully in construing this exclusion because, at some level, all inventions embody, use, reflect, rest upon or apply abstract ideas and the other exceptions. Thus, an invention is not rendered ineligible simply because it involves an abstract concept. In fact, inventions that integrate the building blocks of human ingenuity into something more by applying the abstract idea in a meaningful way are eligible.

PTO TWO-STEP ABSTRACT IDEA ANALYSIS (CONT'D)

Step One Abstract Idea Examples:

- Fundamental economic practices;
- Certain methods of organizing human activities;
- "[A]n idea of itself"; and
- Mathematical relationships/formulas

PTO TWO-STEP ABSTRACT IDEA ANALYSIS (CONT'D)

Step two:

- If an abstract idea is present in the claim, determine whether any element, or combination of elements, in the claim is sufficient to ensure that the claim amounts to significantly more than the abstract idea itself. In other words, are there other limitations in the claim that show a patent-eligible application of the abstract idea, e.g., more than a mere instruction to apply the abstract idea? Consider the claim as a whole by considering all claim elements, both individually and in combination.

PTO TWO-STEP ABSTRACT IDEA ANALYSIS (CONT'D)

Step two examples that may qualify:

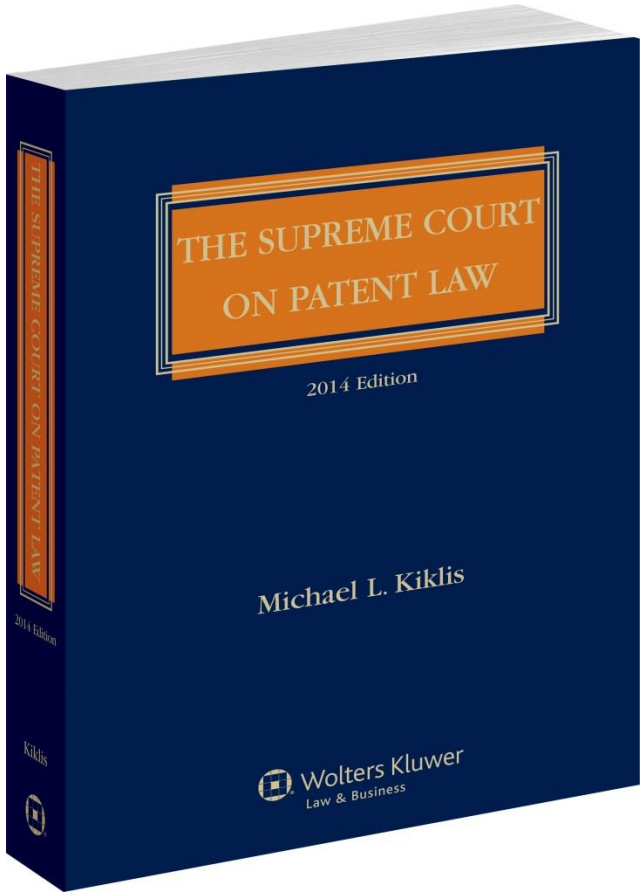
- Improvements to another technology or technical field;
- Improvements to the functioning of the computer itself; and
- Meaningful limitations beyond generally linking the use of an abstract idea to a particular technological environment

PTO TWO-STEP ABSTRACT IDEA ANALYSIS (CONT'D)

Step two examples that do not qualify:

- Adding the words "apply it" (or an equivalent) with an abstract idea, or mere instructions to implement an abstract idea on a computer; and
- Requiring no more than a generic computer to perform generic computer functions that are well-understood, routine and conventional activities previously known to the industry

THE SUPREME COURT ON PATENT LAW



"In this well organized, readily accessible and highly readable treatise, Michael Kiklis analyzes the serial interventions by the Supreme Court that keep altering the purely statutory patent law as interpreted by the Federal Circuit and understood by patent practitioners. Because these alterations are continuing and even accelerating, practitioners need to anticipate where the Court is headed next if they are to serve their clients well. By stressing trends and explaining dicta for what it may portend, Kiklis provides an invaluable chart for navigating shifting seas." – **Paul Michel, former Chief Judge, United States Court of Appeals for the Federal Circuit**

"In this one volume, Michael Kiklis has filled in a critical gap in our understanding of modern American patent law. Every person interested in the field must study the current Supreme Court's take on patents, and there is no better source than this treatise." – **Tom Goldstein, Publisher, Scotusblog.com**

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