

CLS Bank v. Alice Corp.: Navigating Patent Eligibility of Software-Related Inventions Absent Clear Guidance

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Michael L. Kiklis and Stephen G. Kunin
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Patent Eligibility of Software-Related Inventions

- Setting the Stage
- *CLS Bank International v. Alice Corporation*
- Suggestions for defending against and for prosecuting software patents
- USPTO Approach

Setting the Stage

- 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)

- Since its inception, the Fed. Cir. has used three different tests to identify patentable subject matter:
 - *Freeman-Walter-Abele* Test
 - Useful, Concrete and Tangible Test - *State Street v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998)
 - Machine-or-Transformation Test – *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008)

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.”
- Machine-or-Transformation test 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.”

Post-*Bilski* Fed. Cir. § 101 Framework

- Determine the statutory category the claim fits into: (1) Process, (2) Machine, (3) Manufacture, or (4) Composition of Matter.
 - In *Cybersource Corp. v. Retail Decisions, Inc.*, 654 F. 3d 1366 (Fed. Cir. 2011), the court treated a computer-readable medium claim as a process claim.

- Determine whether the claim fits into one of three judicially created exceptions to patentable subject matter: (1) laws of nature, (2) physical phenomena, and (3) abstract ideas.
 - Fed. Cir. has used several different tests.

Post-*Bilski* Fed. Cir. § 101 Framework (cont'd)

- For process claims, the Fed. Cir. has used several different approaches:
 - If M-O-T test fails, perform an additional, broader analysis, such as an abstract idea analysis (e.g., a mental process)
 - *Cybersource*
 - If M-O-T test passed, perform an additional, broader analysis
 - *Prometheus Labs., Inc. v. Mayo Collaborative Servs.*, 628 F.3d 1347 (Fed. Cir. 2010)
 - *The Association for Molecular Pathology v. USPTO* (Myriad), 653 F.3d 1329, 1357–1358 (Fed. Cir. 2011)
 - Perform only broader analysis
 - *Research Corp. Technologies v. Microsoft Corp.*, 627 F.3d 859 (Fed. Cir. 2010)
 - *Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323 (Fed. Cir. 2012)
 - *Dealertrack, Inc. v. Huber*, 674 F.3d 1315 (Fed. Cir. 2012)
 - *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057 (Fed. Cir. 2011)
 - Compare claims to those of *Bilski*
 - *Fort Properties, Inc. v. American Master Lease, LLC*, 671 F.3d 1317 (Fed. Cir. 2012)

Mayo Collaborative Services v. Prometheus Labs, Inc.

- 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

Post-Mayo and Pre-CLS (en banc) Fed. Cir. Cases

- Fed Cir analyses:
 - Whether a computer was “integral to the claimed invention” and M-O-T
 - *Bancorp Services v. Sun Life Assurance Co. of Canada (U.S.)*, (Fed. Cir. 2012)
 - Point-of-novelty test and M-O-T (superfluous)
 - *Perkinelmer v. Intema* (Fed. Cir. 2012) (non-precedential)
 - Abstract idea analysis and compare to *Mayo* (method claims)
 - *The Association for Molecular Pathology et al. v. PTO* (Fed. Cir. 2012)

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. *En Banc*) (cont'd)

- Fed. Cir. failed to address the uncertainty and 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. *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*

CLS Bank v. Alice Corp. (Fed. Cir. *En Banc*) (cont'd)

- Invitation for the Supreme Court to clarify
- “It has been a very long time indeed since the Supreme Court has taken a case which contains patent eligible claims. This case presents the opportunity for the Supreme Court to distinguish between claims that *are* and *are not* directed to patentable subject matter.”

CLS slip op. at 3 (Moore, J. dissenting-in-part).

CLS Bank v. Alice Corp. (Fed. Cir. *En Banc*) (cont'd)

- Chief Judge Rader's "additional reflections"
 - "When all else fails, consult the statute!"
 - Inventions should rise and fall based on merits of their contributions to the progress of the useful arts not on the basis of undefined and unproven judicial abstractions such as "abstractness" or "preemption."

Association for Molecular Pathology v. Myriad (S. Ct. 2013)

- Held that a naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated, but cDNA is patent eligible because it is not naturally occurring.
- No deference to PTO's practice of awarding gene patents.

Ultramercial v. Hulu and WildTangent (Fed. Cir. 2013)

- Method claims for distribution of products over the Internet
- Motions to dismiss - “[I]t will be rare that a patent infringement suit can be dismissed at the pleading stage for lack of patentable subject matter” because of the presumption of validity.
- Clear-and-convincing standard applies to § 101 inquiry:
 - “[A]ny attack on an issued patent based on a challenge to the eligibility of the subject matter must be proven by clear-and-convincing evidence”
 - “Analysis under § 101, while ultimately a legal determination, is rife with underlying factual issues”

Ultramercial v. Hulu (Fed. Cir. 2013) (Cont'd)

- Factual issues
 - Search for limitations that narrow or tie the claims to specific applications
 - Does the patent embrace a scientific principle or abstract idea?
 - Determination of “routine, well-understood, or conventional” steps?
 - Scope of preemption – how much of field is tied up?
- Judicially created exceptions to patentable subject matter should be applied narrowly
- Fed. Cir. Addressed Abstract Ideas:
 - Test – “[D]oes the claim cover only an abstract idea, or instead does the claim cover an application of an abstract idea?”
 - “A court cannot go hunting for abstractions by ignoring the concrete, palpable, tangible limitations of the invention the patentee actually claims”

Ultramercial v. Hulu (Fed. Cir. 2013) (Cont'd)

- Fed. Cir. Addressed *Meaningful* Limitations:
 - “The relevant inquiry is whether a claim, as a whole, includes *meaningful* limitations restricting it to an application, rather than merely an abstract idea”
 - All patents pre-empt some future innovation - “Pre-emption is only a subject matter problem when a claim pre-empts all practical uses of an abstract idea.”
 - A claim is meaningfully limited if it requires a particular machine or a particular transformation of matter.

Ultramercial v. Hulu (Fed. Cir. 2013) (Cont'd)

- Fed. Cir. Addressed *Mayo*'s so-called “Point-of-Novelty” Test:
 - “[P]rinciples of patent eligibility must not be conflated with those of validity. . . .”
 - “[T]he Supreme Court’s reference to “inventiveness” in *Prometheus* can be read as shorthand for its inquiry into whether implementing the abstract idea in the context of the claimed invention inherently requires the recited steps”

Ultramercial v. Hulu (Fed. Cir. 2013) (Cont'd)

- “It was error for the district court to strip away these limitations and instead imagine some ‘core’ of the invention.”
- Court reviewed the specification and stated: “Viewing the subject matter as a whole, the invention involves an extensive computer interface.”
- In response to the argument that “the software programming necessary to facilitate the invention deserves no patent protection,” the court cited to *Alappat*: “programming creates a new machine”
- “[T]he claimed invention is not so manifestly abstract as to override the statutory language of section 101.” Citing *Research Corp.*, 627 F.3d at 869.

Ultramercial v. Hulu (Fed. Cir. 2013) (Cont'd)

- Judge Lourie's abstractness analysis in his concurrence:
 - (1) identify fundamental concept, and
 - (2) look at balance of claim to determine whether additional limitations “narrow, confine or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.”

Defending against software patents

- Raise § 101 defense in every case where it makes sense
- Has the window closed for raising it in a motion to dismiss?
- Use new post grant review and contested business method review proceedings at the PTO PTAB to bring challenges based on § 101.
 - See *SAP v. Versata* (CBM2012-00001)

Suggestions for patent protection for software-related inventions

- Proceed cautiously
- Ensure claims include meaningful limitations beyond any purported law of nature or abstract idea
- The more computer-tying limitations the better

USPTO Approach

- *Bilski* Guidelines
- *Mayo v. Prometheus* Guidelines
- *CLS Bank* Guidelines
- PTAB - *SAP America, Inc. v. Versata Development Group, Inc.* (CBM2012-00001)
- Review Recent PTAB Decisions

USPTO *Bilski* Guidelines

- The Office instructed Examiners to consider a number of factors in order to determine subject matter eligibility under § 101.

- The factors weighing towards eligibility include:
 - Recitation of a machine or transformation (either express or inherent).
 - The claim is directed toward applying a law of nature.
 - The claim is more than a mere statement of a concept.

- The factors weighing against eligibility include:
 - No recitation of a machine or transformation (either express or inherent).
 - Insufficient recitation of a machine or transformation.
 - The claim is not directed to an application of a law of nature.
 - The claim is a mere statement of a general concept.

USPTO *Mayo v. Prometheus* Guidelines

- The focus is on whether the claim as a whole recites substantially more than an abstract idea, law of nature or natural phenomenon
- Under *Mayo*, an eligible claim must have more than additional steps that are well-understood, purely conventional, and routinely taken by others in order to apply the law of nature
- Additional elements beyond law of nature must narrow the scope of the claim so as not to foreclose use of the natural principle
- A claim does not have to be novel or non-obvious to satisfy § 101

USPTO *Mayo v. Prometheus* Guidelines (Cont'd)

- 1. Is the claimed invention directed to a process, defined as an act, or a series of acts or steps?

If no, this analysis is not applicable. If yes, proceed to Inquiry 2.

- 2. Does the claim focus on use of a law of nature, a natural phenomenon, or naturally occurring relation or correlation (collectively referred to as a natural principle herein)? (Is the natural principle a limiting feature of the claim?)

If no, perform abstract analysis (*Interim Bilski Guidance*). If yes, proceed to Inquiry 3.

- 3. Does the claim include additional elements/steps or a combination of elements/steps that integrate the natural principle into the claimed invention such that the natural principle is practically applied, and are sufficient to ensure that the claim amounts to significantly more than the natural principle itself? (Is it more than a law of nature + the general instruction to simply “apply it”?)

If no, the claim is not patent-eligible. If yes, the claim is patent-eligible

USPTO *CLS Bank* Guidelines

- No change in examination procedure for evaluating subject matter eligibility - MPEP § 2106 should continue to be followed
- The claim as a whole is given its broadest reasonable interpretation (BRI)
- Using the BRI, the claim is evaluated to determine whether it falls within at least one of the statutory categories of invention
- If it falls within an eligible category, the claim is evaluated to determine whether it wholly embraces a judicially recognized exception
- To analyze the judicial exceptions evaluate factors that weigh for, or against, eligibility - no bright line rule

SAP America, Inc. v. Versata Development Group, Inc.
(PTAB 2013) (CBM2012-00001)

- Claim 17 - a method of determining a price
- Claim 27 - a computer-implemented method of determining a price
- Claims 26 and 28 - computer-readable storage media claims implementing the methods of Claims 17 and 27
- Claim 29 - “apparatus” for determining a price including computer program instructions capable of performing the same method steps recited in Claim 27

SAP America, Inc. v. Versata Development Group, Inc.
(PTAB 2013) (CBM2012-00001) (cont'd)

Claim 17. A method for determining a price of a product offered to a purchasing organization comprising:

arranging a hierarchy of organizational groups comprising a plurality of branches such that an organizational group below a higher organizational group in each of the branches is a subset of the higher organizational group;

arranging a hierarchy of product groups comprising a plurality of branches such that a product group below a higher product group in each of the branches is a subset of the higher product group;

storing pricing information in a data source, wherein the pricing information is associated, with (i) a pricing type, (ii) the organizational groups, and (iii) the product groups;

retrieving applicable pricing information corresponding to the product, the purchasing organization, each product group above the product group in each branch of the hierarchy of product groups in which the product is a member, and each organizational group above the purchasing organization in each branch of the hierarchy of organizational groups in which the purchasing organization is a member;

sorting the pricing information according to the pricing types, the product, the purchasing organization, the hierarchy of product groups, and the hierarchy of organizational groups;

eliminating any of the pricing information that is less restrictive; and

determining the product price using the sorted pricing information.

SAP America, Inc. v. Versata Development Group, Inc.
(PTAB 2013) (CBM2012-00001) (cont'd)

Claim 27. A computer implemented method for determining a price of a product offered to a purchasing organization comprising:

retrieving from a data source pricing information that is (i) applicable to the purchasing organization and (ii) from one or more identified organizational groups, within a hierarchy of organizational groups, of which the purchasing organization is a member;

retrieving from the data source pricing information that is (i) applicable to the product and (ii) from one or more identified product groups, within a hierarchy of product groups, of which the product is a member; and

receiving the price of the product determined using pricing information applicable to the one or more identified organizational groups and the one or more identified product groups according to the hierarchy of product groups and the hierarchy of organizational groups.

SAP America, Inc. v. Versata Development Group, Inc.
(PTAB 2013) (CBM2012-00001) (cont'd)

- Method Claims 17 and 27
- PTAB found that the concept of organizational hierarchies for products and customers is abstract as it represents a “disembodied concept,” a basic building block of human ingenuity
- PTAB found that determining a price is also abstract as it is essentially a method of calculating
- Relying on *Mayo*, PTAB found that claims failed to incorporate sufficient meaningful limitations to ensure that the claims are more than just an abstract idea and instead are just a mere drafting effort designed to monopolize the abstract idea itself

SAP America, Inc. v. Versata Development Group, Inc.

(PTAB 2013) (CBM2012-00001) (cont'd)

- Method Claims 17 and 27
- PTAB found that the mere recitation of computer implementation or hardware in combination with an abstract idea is not itself a significant, meaningful limitation on the scope of the claims
- PTAB found that the recitation of generic general purpose computer hardware (processor, memory, storage) in the claims represents routine, well-understood conventional hardware that fails to narrow the claims relative to the abstract idea.

SAP America, Inc. v. Versata Development Group, Inc.
(PTAB 2013) (CBM2012-00001) (cont'd)

- Method Claims 17 and 27
- PTAB found that claims merely add insignificant, conventional and routine steps that are implicit in the abstract idea itself
- PTAB found that even if the abstract idea and “specific” steps represent a marketplace improvement, the claims are not patent-eligible where the appended steps lack meaningful limitations that prevent the claim as a whole from covering the practical applications of the abstract idea

SAP America, Inc. v. Versata Development Group, Inc.

(PTAB 2013) (CBM2012-00001) (cont'd)

- Claims 26 and 28 - computer-readable storage media claims
- PTAB looked past claim type
- Treated as equivalent to method claims because they merely include “computer instructions to implement the methods of claims 17 and [27]”

- Claim 29 – apparatus claim
- PTAB looked past claim type
- Treated as equivalent to method claims because “while claim 29 is directed to an ‘apparatus’ for determining a price, the apparatus includes computer program instructions capable of performing the same method steps that are recited in claim 27.”

Recent PTAB Decisions

- *Ex Parte Betts*, 2013 WL 3327142, Appeal 2010-004256, (PTAB 2013) ("[W]e conclude claims 14-26 encompass software without physical embodiment, i.e., software per se, which is an abstract idea and not a "process, machine, manufacture, or composition of matter," as required by § 101.")
- *Ex Parte Krause*, 2013 WL 3246398, Appeal 2010-012129, (PTAB 2013) (An "end station" within a network having an "aggressive timer." "Appellant contends that the Examiner erred in rejecting [the] claims ... under 35 U.S.C § 101 because the claims recite an "end station," which is defined as hardware. Appellant's argument does not cite evidence to rebut the Examiner's interpretation that the claim encompasses either hardware or software. Accordingly, we decline to reverse the rejection.")

Recent PTAB Decisions (cont'd)

- *Ex Parte Barsness*, 2013 WL 3362954, Appeal 2010-011009, (PTAB 2013) ("computer-executable instructions tangibly recorded on a computer-readable media" includes "non-statutory, transitory embodiments." "[W]e find the Specification states the invention is capable of being distributed in the form of a wireless signal when exchanged from one signal-bearing medium to another. This falls within a propagating electromagnetic signal per se and thus, is not directed to one of the statutory categories.")
- *Ex Parte Svendsen*, 2013 WL 3363110, Appeal 2011-001873, (PTAB 2013) ("control system" could be implemented as software. "As such, we are not persuaded by Appellants' argument that the mere recitation of a "control system" (even if the Specification describes it as being associated with a memory) is sufficient to make the claims patent-eligible under 35 U.S.C. § 101 . . . as it does not play a significant part in the performance of the claimed steps." In short, the broadest reasonable interpretation of the claim language leads us to construe the "control system" as being directed to a computer program per se, which, as drafted, renders the claimed subject matter not patentable under 35 U.S.C. § 101. See *Gottschalk v. Benson*, 409 U.S. 63, 72 (1972).")

Recent PTAB Decisions (cont'd)

- *Ex Parte Xu*, 213 WL 3363011, Appeal 2010-009107, (PTAB 2013) ("[C]laim 1 as a whole is directed to a sequence of steps that can be performed by a person. Accordingly, claim 1 is drawn to patent-ineligible subject matter and invalid under § 101.")
- *Ex Parte Robert S. Bray*, 2013 WL 3293616, Appeal 2011-013427 (PTAB 2013) ("The claims recite a device positioned between two vertebrae not, for example, a human comprising a positioned device. The claims relate only to the correct placement of the device in the human patient, and as a whole, do not encompass a human organism. There is nothing in the statute, and we are unaware of any case, that categorically excludes such devices.")

THANK YOU

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