

EXPERT ANALYSIS

Software Patents Survive Supreme Court's *Alice* Decision, but Questions Linger

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Over the past several years, the U.S. Supreme Court seemed to review patent decisions from the U.S. Court of Appeals for the Federal Circuit only when the high court intended to reject or revise the Federal Circuit's prevailing standard for a particular issue. In some ways, this is not surprising, given the highly specialized role that the Federal Circuit plays in hearing patent-related appeals from around the country, which inherently present complex legal and factual issues.

Indeed, with respect to the issue confronted in *Alice Corp. v. CLS Bank International*¹ — whether an idea is patentable, as opposed to “abstract” — the Supreme Court has reversed in the majority of cases concerning patentability² or altered the reasoning applied in those cases it affirmed.³ The eagerly awaited decision in *Alice* was expected to follow that trend, with the patent bar hoping that the Supreme Court would provide the clarity that has historically been lacking in the treatment of patentability under 35 U.S.C. § 101 as applied to software patents.

Section 101 of the Patent Act provides that “[w]hoever 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.” However, Section 101 carves out a large exception that makes any law of nature, natural phenomena or abstract ideas ineligible for patent protection.

The Federal Circuit and patent practitioners have long struggled with how to interpret Section 101 patentability without allowing the exception to swallow the rule. In fact, the very problem presented by *Alice*, and the one that patent bar was hoping the Supreme Court would solve, is how to draw that line when facing an allegedly “abstract idea,” particularly as it relates to the subtle nuances of patentability presented by software.

Ultimately, the Supreme Court's decision in *Alice* failed to live up to those well-publicized expectations, as it did not dramatically reset the landscape of software patentability. It offered no new guidance for analyzing the key issue facing patent attorneys the world over — what constitutes an unpatentable “abstract idea” under 35 U.S.C. § 101. Surprisingly, the court declared that it “need not labor to delimit the precise contours of the ‘abstract ideas’ category in this case,” thereby declining to provide any additional guidance to the patent bar on this critical issue.⁴ Nevertheless, the Supreme Court's unanimous decision reads as an unequivocal endorsement of the Federal Circuit plurality opinion authored by Judge Alan D. Lourie and joined by Judges Timothy B. Dyk, Sharon Prost, Jimmie V. Reyna and Evan J. Wallach.

BACKGROUND

CLS Bank International and CLS Services Ltd., facilitators for currency transactions, brought a declaratory judgment action seeking to invalidate several patents held by Alice Corp., an Australian non-practicing entity. The patents disclosed a computerized means of mitigating the risk that one party to a financial transaction will not have sufficient funds to complete the transaction, referred to as “settlement risk.” The claims included:



- Method claims for exchanging obligations in such transactions.
- System claims for using a computer system to automate the exchanging obligations.
- Computer-readable medium claims directed to computer code for performing the method of the exchanging such obligations.

The U.S. District Court for the District of Columbia held that the claims were invalid, stating that they were directed to the abstract idea of using a neutral intermediary to mitigate financial risk.⁵

On appeal, the Federal Circuit panel reversed, ruling that the claims were patentable under Section 101.⁶ But a subsequent hearing by the Federal Circuit *en banc* resulted in an affirmation of the District Court's holding of invalidity.⁷

The lengthy Federal Circuit decision contained seven distinct opinions from the judges and revealed their different approaches to patent eligibility under Section 101. The five-member plurality opinion concluded that the "concept of reducing settlement risk by facilitating a trade through third-party intermediation is an abstract idea because it is a 'disembodied' concept, a basic building block of human ingenuity, untethered from any real-world application."

The plurality further stated that "[a]bstract methods do not become patent-eligible machines by being clothed in computer language" or where "the claim uses extravagant language to recite a basic function required of any financial intermediary in an escrow arrangement."⁸

In addition to the plurality decision, then-Chief Judge Randall R. Rader, Judge Kimberly Ann Moore and Judge Pauline Newman each authored separate partial dissents based on their opinion that the system claims were patent-eligible. Judge Rader argued that the system claims were patent-eligible because they provided "meaningful limitations" based on the role the computer plays in bringing the abstract idea to a concrete reality.⁹

Judge Moore asserted that the plain language of the claims made it clear that the hardware and software elements created a non-abstract "system of particular hardware programmed to perform particular functions."¹⁰ Judge Newman focused on the underlying patent principles to contend that a broad interpretation of Section 101 is appropriate and leaving the determination of whether a "particular technical advance is patentable" to the remainder of the statute's "rigorous legal criteria of patentability."¹¹

Further, Judges Richard Linn and Kathleen McDonald O'Malley jointly filed a full dissent, calling for Congress to create special rules for software patents.

These decisions revealed the Federal Circuit's clear disagreement over the proper approach to determining whether a claim impermissibly seeks to patent an abstract idea. Judge Moore went so far as to declare that "if all these claims, including the system claims, are not patent-eligible, this case is the death of thousands of patents, including all business method, financial system, and software patents as well as many computer implemented and telecommunications patents" and that if the plurality's reasoning were adopted, "it would decimate the electronics and software industries."¹²

Those comments spurred much of the hype over the possibility for a groundbreaking Supreme Court decision, and also much of the disappointment in the final, less-than-definitive decision.

ANALYSIS

Yet, the Supreme Court's straightforward and unanimous treatment of an issue that so divided the Federal Circuit can, in some ways, be read as sending a clear message about how to approach software patent claims. Effectively, the Supreme Court's unanimous decision by Justice Clarence Thomas is an unequivocal endorsement of the Federal Circuit's thorough plurality opinion, which attempted to define how and where to draw the line between "abstract methods coupled with computers adapted to perform those methods."¹³ In fact, Justice Thomas adopts not only the reasoning, but also much of the key language, from the plurality, thereby implicitly supporting the thinking of the majority of Federal Circuit judges who joined to form that plurality.

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Accordingly, although the Supreme Court's *Alice* decision leaves the distinct impression of an "I know it when I see it"¹⁴ approach to abstract, unpatentable concepts, the Federal Circuit opinion at least provides some commonsense guideposts for assessing software patentability. Practitioners will need to consider the Federal Circuit decision closely, as it presents the prevailing and most robust analytical framework on issues of patentability under Section 101.

For example, both the Supreme Court and the Federal Circuit plurality first applied the test set forth in *Mayo Collaborative Services v. Prometheus Laboratories*, 132 S. Ct. 1289 (2012), to distinguish patentable inventions from abstract ideas. According to the *Mayo* test, step one is to determine whether the patent claims are directed to a patent-ineligible concept (such as a law of nature, a natural phenomenon or an abstract idea). Step two is to determine whether each claim individually or all claims in combination transform the otherwise patent-ineligible concept into "significantly more" than the otherwise vague concept itself.¹⁵

Both courts also analyzed *Alice*'s method, media and system claims under the handful of previous Supreme Court decisions on Section 101. Specifically, the Supreme Court spends over six total pages comparing *Alice*'s patent claims to those considered by the court in *Bilski v. Kappos*, 561 U.S. 593 (2010); *Parker v. Flook*, 437 U.S. 584 (1978); and *Diamond v. Diehr*, 450 U.S. 175 (1981). Importantly, the Supreme Court's summary of its previous decisions matches the Federal Circuit's more robust explanation of the lessons to be drawn from the Supreme Court's Section 101 jurisprudence.

Both decisions rest heavily on the fact that the mere inclusion of a computer in the claims does not alter the *Mayo* analysis. However, the Federal Circuit more specifically instructed that the mere addition of "generic computer functionality to lend speed or efficiency to the performance of an otherwise abstract concept" does not result in a patentable invention.¹⁶

Moreover, the decisions each observe that a fatally abstract claim cannot be overcome merely by clever drafting. The Supreme Court opinion, which references the Federal Circuit plurality, states that "wholly generic computer implementation" is insufficient and represents little more than clever drafting.¹⁷ Once again, however, the Federal Circuit plurality provides perhaps a more understandable division by stating that use of computers by itself "fails to supply an 'inventive concept' that represents a nontrivial, nonconventional human contribution or materially narrows the claims relative to the abstract idea they embrace."¹⁸

Crucially, the Supreme Court's attempt to parse a distinction between the first and second *Mayo* prongs — patent ineligibility and, if so, whether the claims individually and combined transform the ineligible into "significantly more" — falls somewhat flat in comparison with the drawn out analysis by the Federal Circuit plurality. For example, although the Supreme Court attempts to articulate a difference between the two prongs, as well as the analysis of the claims individually and in combination, the court rejects the *Alice* method, medium and system claims for the same reasons. Thus, despite the Supreme Court's attempt to establish clear lines to perform a comprehensive analysis, no distinctions are actually evident.

The Federal Circuit's separate method, medium and system claim analysis therefore provides more practical guidance to the patent practitioner. The Federal Circuit opinion rejects the medium claims as abstract because, although the claim references a computer-readable storage medium, the physical device or object is substantively meaningless. Judge Lourie called them "merely method claims in the guise of a device" and therefore the claims represent little more than clever drafting. The Federal Circuit identifies the system claims as equally abstract because they describe the use of computers at a "striking level of generality" by reciting "a handful of computer components in generic, functional terms."¹⁹

CONCLUSION

While the Supreme Court seemed to imply that it might reach a different conclusion about claims that either "purport to improve the functioning of the computer itself" or "effect an improvement in any other technology or technical field," the overall effect of the *Alice* decision is less dramatic than had been anticipated. The "exact contours" of what constitutes an abstract idea remain the largest unknown when it comes to software patents, and this issue will need to be litigated

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on a case-by-case basis, with the possibility of inconsistent results given minor differences in the subject matter of the software claims.

Nevertheless, the Supreme Court's implicit endorsement of the Federal Circuit plurality opinion sends a clear message that a simple, commonsense approach to "abstract claims" best comports with the court's paramount concerns over preemption and improper patent monopolies.

NOTES

- ¹ *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, No. 13-298, 134 S. Ct. 2347 (June 19, 2014).
- ² See *Mayo Collaborative Servs. v. Prometheus Labs.*, 132 S. Ct. 1289 (2012); *Parker v. Flook*, 437 U.S. 584 (1978); *Gottschalk v. Benson*, 409 U.S. 63 (1972).
- ³ See *Bilski v. Kappos*, 561 U.S. 593 (2010); *Diamond v. Diehr*, 450 U.S. 175 (1981).
- ⁴ *Alice Corp.*, 134 S. Ct. at 2357.
- ⁵ *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 768 F. Supp. 2d 221 (D.D.C. 2011).
- ⁶ *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341 (Fed. Cir. 2012).
- ⁷ *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 1269 (Fed. Cir. 2013) (Lourie, J. concurring).
- ⁸ *Id.* at 1286-87, 1292 (Lourie, J., concurring).
- ⁹ *Id.* at 1300 (Rader, C.J., dissenting in part); see *id.* at 1308-10 (Rader, C.J., dissenting in part).
- ¹⁰ *Id.* at 1320 (Moore, J., dissenting in part).
- ¹¹ *Id.* at 1321 (Newman, J., dissenting in part).
- ¹² *Id.* at 1313 & n.1 (Moore, J., dissenting in part).
- ¹³ *Id.* at 1292 (Lourie, J. concurring).
- ¹⁴ *Jacobellis v. Ohio*, 378 U.S. 184, 197 (1964) (Stewart, J., concurring).
- ¹⁵ *Alice Corp.*, 134 S. Ct. at 2355 (quoting *Mayo*, 132 S. Ct. at 1294); see also *CLS Bank*, 717 F.3d at 1281 (Lourie, J., concurring).
- ¹⁶ *CLS Bank*, 717 F.3d at 1286 (Lourie, J., concurring). Thus, the use of a computer alone — where the same concept can be accomplished without a computer — cannot be deemed sufficient to move an otherwise abstract concept into the realm of patentability.
- ¹⁷ *Alice Corp.*, 134 S. Ct. at 2358.
- ¹⁸ *CLS Bank*, 717 F.3d at 1286 (Lourie, J., concurring).
- ¹⁹ *Id.* at 1288, 1291 (Lourie, J., concurring).

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