

June 2014

U.S. Supreme Court Decides *Alice Corp. v. CLS Bank*, Discussing Limits on Computer-Implemented Claims Drawn to Abstract Ideas

In a recent unanimous decision, the United States Supreme Court found Alice Corp.’s claims invalid as directed to patent-ineligible subject matter. The decision sought to clarify which software and business method claims are considered to be patentable subject matter under 35 U.S.C. §101. The Court ruled that the claims fell under the “abstract idea” exception to 35 U.S.C. §101. While the Court sought to clarify the “abstract idea” exception, some questions remain unanswered.

The *Alice* Decision

Alice owns patents related to electronic methods and systems for financial transactions that mitigate settlement risk by involving a third-party. Using a third-party to manage settlement risk is termed escrow, and has a history of applications to finance. The patents implement escrow using a general-purpose computer, but do not disclose particular computer technologies to improve escrow.

In 2007, CLS sued Alice in District Court to invalidate Alice’s patents and Alice countersued, alleging infringement. The District Court ruled that the patents were invalid as being drawn to an abstract idea. The Federal Circuit reversed on appeal. The Supreme Court agreed to hear an appeal to decide whether computer-implemented inventions are patent-eligible.

The Court held that the claimed methods were not patent-eligible because they cover an abstract idea of “intermediated settlement.” Abstract ideas *per se* are normally excluded from patent eligibility because they would provide a monopoly over an idea thus stifling innovation through the preemption of

NSIP Law is a full service IP firm that specializes in the procurement of enforceable IP rights to protect innovations and investments pertaining to patents, trademarks, and copyrights.

Contributors

Jonathan Schlaifer
Jschlaifer@nsiplaw.com

Charles Y. Park
Charles@nsiplaw.com

Jeanne Di Grazio
Jdigrazio@nsiplaw.com

Mahmood Ahmad
Mahmad@nsiplaw.com

Alicia Choi
Achoi@nsiplaw.com

the basic tools of science and technology. The Court determined that the “intermediated settlement” was an abstract idea because it was a fundamental economic practice, as was “risk hedging” in the recent decision of *Bilski v. Kappos* (2010).

To arrive at this determination, the Court considered whether the abstract idea was transformed into a patent-eligible invention. Based on precedent, the Court argued that it is necessary to do more than simply implement a principle on a physical machine, such as a generic computer, to make a claim patent-eligible. Providing improved computer technology or an improvement in another technology could transform an abstract idea into a patent-eligible invention. The Court suggested claiming specific hardware to offer a meaningful limitation rather than implementing the method via a generic computer.

The Court also found that the system and computer readable medium claims are patent ineligible, because the system and computer readable medium claims also did not recite specific hardware.

Observations and Recommendations

Based upon the *Alice* decision, it appears that the Court intends to limit patent-eligible patents to those that claim specific hardware producing a particular outcome. The *Alice* decision appears to favor claims covering a functionality linked with a specific structure rather than business procedures performed by a general-purpose computer. The Court remarked that while the claims referred to “data processing system,” “communications controller,” and “data storage unit” elements, these are merely “generic computer components.” Although not expressly stated, the Court seems to consider these elements to be merely “token” components, which do not provide patentability.

In view of *Alice*, many computer-related technologies will likely still be considered to be patentable subject matter. However, the decision will need to be interpreted by the United States Patent and Trademark Office and the lower courts. In this case, the United States Patent and Trademark Office will likely issue a guideline clarifying when claims are directed to an “abstract idea.”

For pending patents, *Alice* may result in an increase in non-statutory subject matter rejections under 35 U.S.C. §101. One strategy to overcome these rejections is to claim *particular* hardware components to emphasize the application of technology. In drafting new applications, claims should be drafted to emphasize that their functionality is performed by hardware, while keeping in mind potential relevant infringers.

It is also important to prepare applications as a whole that offer avenues for advancing prosecution in light of *Alice*. For example, *Alice* indicates the value of including comprehensive drawings that show examples of hardware implementations and architectures and flowcharts that specify how hardware is involved in performing method operations. It is also valuable to draft the disclosure to emphasize specific hardware structures that implement the claimed functionality. Such a disclosure should discuss multiple alternative examples and alternatives when explaining how hardware is involved in implementing the claims, to provide material for use during the course of prosecution.

Inventions drawn to computer architectures such as a processor, a memory, or network design, should be relatively unaffected by *Alice* if these inventions claim specific hardware elements and their interaction to

obtain advantages. *Alice* appears to reinforce the Court's opposition to taking an "abstract idea" and implementing it on a "general-purpose computer" as opposed to a *particular* machine.

To claim software, such as inventions related to a graphics technology or a compression technology, writing claims that emphasize that steps are performed by specialized types of hardware, such as specialized "devices" or "processors" may be helpful to tie them to *particular* machines. For example, to claim an invention related to streaming video, rather than reciting steps performed by a processor, it may be helpful to characterize the video streaming method as operations by specialized devices in an apparatus that interact to process and manage the data. As another example, for a patent related to a user interface on a mobile device, *Alice* suggests claiming the inventive concept as specialized components that interact to perform different tasks such as receiving input, processing the input, and providing output. Method claims drafted in this manner may readily become acceptable as covering statutory subject matter.

In order to protect software technologies, it is often helpful to claim an inventive concept as a method claim to address potential infringers. *Alice* appears to suggest claiming software by emphasizing operations of method claims as being performed by specific types of hardware that are configured to perform operations that constitute an overall approach to performing a useful result with a computer. However, if drafted well, claims should be able to comply with *Alice* while continuing to pertain to a single, relevant infringer. To ensure that the requirements of *Alice* are met for software claims, the claims should tie the software aspects to underlying hardware structure that is not generic. To accomplish this goal, either the elements themselves should be claimed to indicate a particular structure, or the elements should be claimed to indicate that they are structured to interact in a distinctive way. For example, when claiming a graphics technology for a shading technique, rather than simply reciting steps performed by a processor, it may be desirable to recite the use of a particular graphics processing unit (GPU), or to recite memory configured in a new way to improve performance. *Alice* emphasizes the importance of specific implementations, rather than purely functional elements. It may also be helpful to emphasize real-world, observable effects of software, rather than simply disclosing processing pure information.

Alice indicates that it may be difficult to obtain a patent by automating procedures that could be carried out without a computer even if such procedures are laborious. *Alice* also appears to indicate that merely including token computing hardware does not overcome this barrier. Thus, *Alice* indicates that patents directed to an "abstract idea," such as a financial process, cannot be made patent-eligible simply by implementing them on a general-purpose computer. However, it appears that many computer-related technologies, including "software" technologies, can still obtain patent protection by drafting them in accordance with the *Alice* decision.

The contents of this update are not intended to serve as legal advice related to individual situations or as legal opinions concerning any situations. Counsel should be consulted for legal planning and advice.

© NSIP Law
All Right Reserved 2014

NSIP Law, 1120 Connecticut Avenue Northwest, Suite 304, Washington, DC 20036
United States of America