



## **Alice is Unanimous – The Latest on Software and Business Methods Patents from the U.S. Supreme Court**

Kari Barnes, Esq. and Sandra P. Thompson, PhD.

Last week, the U.S. Supreme Court unanimously affirmed their earlier ruling on patent claims involving computers and software. For the most part, those companies and inventors who have business methods patents, software patents and financial methods-based patents should review their portfolios in light of the decision to ensure their patents are enforceable and not subject to invalidity attacks.

In essence, the Supreme Court ruled that the software patents at issue were ineligible subject matter, but not because they were implemented on a computer, but because they were not novel. Therefore, if your invention is new and not simply a programming of an existing business practice on computer hardware, then a patent is still likely available to you. Conversely, if you are in a business where you regularly get cease and desist letters or license requests from companies who hold these types of patents, you may now have some additional leverage to address these inquires in your favor.

### **Summary**

The Supreme Court decided in *Alice Corporation v. CLS Bank International* that “[b]ecause the claims are drawn to a patent-ineligible abstract idea, they are not patent eligible under § 101.” The Supreme Court reiterated the test they developed earlier in the *Mayo* decision (*Mayo Collaborative Services v. Prometheus Laboratories, Inc.*) for these types of patent claims: 1) are the claims directed to a patent-eligible concept or idea, and if not, 2) do the claims merely require generic computer implementation?

In *Alice*, the claims covered a method, system, and computer readable medium for mitigating settlement risk, such that both sides of a financial exchange are more likely to comply with their obligations before one side initiates a transfer (think escrow agent). The claims required electronic shadow credit and debit records updated in real time from the respective financial institutions, and permitted the transaction only if the shadow records indicate sufficient resources of the parties to satisfy their mutual obligations. The court summarized the claims as a method “to facilitate

the exchange of financial obligations between two parties by using a computer system as a third-party intermediary.” The court ruled that the claims were directed to an abstract idea as the facilitation through a third-party intermediary was “a fundamental economic practice long prevalent in our system of commerce”; and therefore, was not directed to patent-eligible concept or idea. The addition of a generic computer to facilitate the exchange did not supply a new and useful application making the claims patent eligible.

### **Result on Patentability**

In essence, the court is not making any revolutionary rulings here. Under § 101, a person must invent a new and useful process, machine, manufacture, or composition of matter, or improvement thereof. Laws of nature, natural phenomena, and abstract ideas are implicitly excluded as not patentable.

Therefore, for software patents, the first step is to determine whether you have an abstract idea. An abstract idea includes a fundamental truth, an original cause, a motive, mathematical formula, or fundamental economic practice. If so, then the hardware components and other limitations recited by the claims are considered to determine if there is anything new to the invention. If all that is left is a general purpose computer, with memory, processors, controllers, etc., then the mere presence of the computer does not make the abstract idea patentable. The real question is: looking at the claim as a whole or in the individual steps, is there something new? Some things to consider are: (1) whether the functioning of the computer itself is improved, (2) are there any improvements in any other technology or technological field, or (3) is there specific hardware separate than what a general computer would have? It appears that the novelty question can be affirmative if there is anything new about the claimed method or hardware.

The example of the court of what is patent eligible is instructive. The court looked to *Diehr*, in which a computer-implemented process for curing rubber was patent eligible not because the claims were implemented on a computer, but because they improved an existing technological process.



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Namely, the *Diehr* invention used a recorded temperature measurement inside a rubber mold, something the industry had not been able to do previously. Even though a thermocouple to obtain temperature was known, and the mathematical equation used to determine the cure time was well-known, the industry had never put the two together. Therefore, the presence of the thermocouple to obtain a real time temperature measurement was sufficiently novel to transform the abstract idea into patentable subject matter.

“In short, [if] each step does no more than require a generic computer to perform generic computer functions,” then the abstract idea does not become patentable.

### **Result on Prosecution**

Although the court used a novelty type approach for determining subject matter eligibility, it is not articulated in the same way as the separate novelty requirement under § 102 is generally understood. To determine novelty under § 102, an Examiner must make a search of each limitation of the claim and find it expressly or inherently in a single location. The Examiner is generally not permitted to reduce the invention down to its gist. However, the question of subject matter novelty under § 101 appears to require just that. Take the invention down to the gist and then determine if there is anything new.

It is likely that Examiners will use this general approach to start rejecting software patents out of hand without much analysis or basis for the rejection. This will require additional cost to argue and persuade the Examiner, and essentially shifts the burden to the patentee to show that there is a point of novelty in the claim, verses the burden on the Examiner to prove the absence of novelty by specifically identifying each limitation within a reference. However, if the patentee can show an improvement or novelty in the program itself or the hardware associated with the program, the patentee should prevail.

If you have a pending patent application that may be considered covered by the *Alice* decision, you should consider contacting your patent attorney to discuss these options and whether this decision affects your patent application.

### **Result on Litigation**

The major implication of the decision on the litigation front is who gets to decide patent validity and when. Subject matter eligibility is a question of law for a judge to decide, and can be brought earlier in a proceeding. Deciding novelty is a question of fact that should be tried by a jury, and only decided by a court if there are no disputed facts to make the decision. The decision on novelty will occur generally after claim construction, discovery, and expert testimony, either at the summary judgment stage or after; while subject matter eligibility can be decided whenever the judge determines there is sufficient information to decide the question of law. This may help reduce litigation costs and liability for patents that truly encompass known business practices that are merely implemented on a computer. Because these cases may be decided earlier in the litigation process, defendants may be provided a real option to defend themselves against a patent suit instead of simply acquiescing to a license to avoid litigation costs.



*Kari Barnes is Senior Counsel in the Firm's Intellectual Property Practice Group in the Orange County office. She can be reached at 949.224.6435 or [kbarnes@buchalter.com](mailto:kbarnes@buchalter.com)*



*Sandra Thompson is a Shareholder in the Firm's Intellectual Property Practice Group in the Orange County office. She can be reached at 949.224.6282 or [sthompson@buchalter.com](mailto:sthompson@buchalter.com)*