The Impact of Alice Corp. v. CLS Bank

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TRIALS | APPEALS

What We'll Cover

The importance of *Alice Corp.*

How we got here: From *State Street* through *Bilski* to *Alice*

The *Alice Corp*. decision

The stats: Section 101 challenges to software patents, pre- and post-*Alice*

Questions and Strategies Post-*Alice Corp.*

> Plaintiffs' issues

> Defendants' issues

The Importance of *Alice Corp.*

What *Alice Corp.* did:

- Confirmed that software patent (for system and method of mitigating settlement risk using computer as third-party intermediary) was invalid under 35 U.S.C. 101 as claiming an unpatentable abstract idea.

- Confirmed that patentability was not imparted by claims' recitation of generic computer implementation.

- Found the question straightforward and uncomplicated, contrasting with the Federal Circuit's struggles in ultimately holding unpatentable.

Alice Corp. was followed six days later by G-V-R of Federal Circuit's *Ultramercial* decision, which had upheld a software patent under 101.

The Importance of *Alice Corp.*

Why *Alice Corp*. (and the G-V-R of *Ultramercial*) matters:

- *Alice Corp*. spurred PTO, six days later, to issue new guidelines for examiners' use in evaluating 101 issues particularly in software applications.

- Tipping point?

  - Post-*Alice Corp*., trial courts have held 16 of 18 software patents invalid under Section 101.

- Implications for potential software patent plaintiffs

- Implications for defendants in software patent suits

- Implications for inventors and patent drafters

35 U.S.C. 101 defines patent-eligible subject matter as:

"…any new and useful …"

"process, machine, manufacture, or composition of matter"

Three primary exceptions to patent-eligible subject matter:

•Laws of nature

•Natural phenomena

•Abstract ideas

Traceable to *Le Roy v. Tatham*, 14 L.Ed. (1853).

<u>Supreme Court Section 101 decisions involving algorithms</u>:

<u>Not</u>-patentable under Section 101:

- Method for converting binary-coded numbers into pure binary numbers (*Benson*, 1972, unanimous)
- Method for updating an alarm limit on a process variable for a chemical process (*Flook*, 1978, 6-3)

<u>Patentable</u> under Section 101:

- Method of molding raw, uncured synthetic rubber into cured rubber, using the Arrhenius equation to predict optimal cure time (*Diehr*, 1981, 5-4)

<u>*State Street* (Fed. Cir. 1998)</u>:

•Patent covered computerized accounting system for managing mutual fund investment structures

•Bank sought, and won, DJ of invalidity under Section 101

•Federal Circuit reversed and remanded:

> Today, we hold that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces "a useful, concrete and tangible result"—a final share price momentarily fixed for recording and reporting purposes…. (*State Street*, 149 F.3d 1368, 1373 (Fed. Cir. 1998))

Bilski:

•Patent application, never issued as patent

•Method of instructing buyers/sellers of commodities on hedging against risk of price fluctuations in energy market

•PTO rejected:

   •Not implemented on a specific apparatus

   •Merely solved a pure math problem

•Fed. Cir., *en banc*, affirmed:

   •Withdrew "useful, concrete and tangible result" test

   •Replaced it with "machine or transformation test"

   •Confirmed no "business method exception" to patentability

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<u>*Bilski* (2010)</u>:

• Supreme Court affirmed unpatentability of the claims

• Rejected the idea that MOT test was the <u>sole</u> test for 101

• Confirmed that business methods were <u>not</u> categorically unpatentable

• Saw Bilski's claims as merely claiming the abstract idea of risk hedging, as a concept and a mathematical formula

Mayo (2012):

Not a software case; concerned medical tests

Challenged as claiming natural laws/phenomena:

> Correlation between blood concentration of certain metabolites and likelihood that drug dosage would be ineffective or harmful

Trial court held invalid under 101

Federal Circuit reversed under MOT test (transforming human body, or blood sample from the body)

Supreme Court GVR'ed in view of *Bilski*

Federal Circuit re-affirmed under MOT test

Mayo (2012):

Supreme Court reversed:

Claims set forth laws of nature—relationship between metabolite concentration in the blood and certain likely outcomes

Method steps—"administering," "determining," "wherein" clauses—didn't add anything patentable to the law of nature

> "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; and those steps, when viewed as a whole, add nothing significant beyond the sum of their parts taken separately."
>
> *Mayo*, 132 S.Ct. 1289, 1298 (2012).

How We Got Here:
From *State Street* through *Bilski* to *Alice*

Ultramercial:

Patented 11-step process for distributing copyrighted products over the Internet

Patentee sued Hulu, YouTube, WildTangent in C.D. Cal.

2010: WildTangent won a 12(b)(6) motion under Section 101.

2011: Fed. Cir. reverses (practical application of a general concept… an improvement to prior art technology)

2012: Supreme Court GVRs in view of *Mayo*

2013: Fed. Cir. again upholds claims under Section 101.

June 30, 2014:   Supreme Court GVRs in view of *Alice Corp.*

The *Alice Corp.* decision

The patent in *Alice Corp.*:

System and method of mitigating settlement risk (the risk that only one party to a transaction will satisfy its obligation)

E.g., a method of exchanging obligations… comprising:

- Creating shadow credit and debit records…

- Obtaining from each financial institution start-of-day balances for each record…

- Having a supervisory institution make certain adjustments to the shadow records, in chronological order…

- Having the supervisory institution, at end-of-day, issue certain instructions for the exchange of credits and debits.

The *Alice Corp.* decision

The trial court's decision:

- Bank brought DJ action for invalidity, won MSJ post-Bilski

- Claims held merely to cover abstract idea of using third-party intermediary to facilitate simultaneous exchange of obligations to mitigate risk

The first Federal Circuit panel decision:

- 2-1, reversed, finding it not manifestly evident that claims failed 101

The *en banc* Federal Circuit decision:

- Vacated panel decision, issued multiple opinions

- Held method claims unpatentable (7-3)

- Split evenly on system claims, thus affirming trial court's holding

The *Alice Corp*. decision

The Supreme Court's decision:

- "[T]he concern that drives [Section 101] is one of pre-emption."

- Yet, all inventions at some level "embody, use, reflect, rest upon or apply laws of nature, natural phenomena, or abstract ideas."

- Thus, the Court must tread carefully "lest [the exception to Section 101] swallow all of patent law."

- Two-part test:

  - Do claims cover an abstract idea (here, yes, the concept of intermediated settlement)

  - If so, do claims contain an "inventive concept" sufficient to transform the idea into a patent-eligible application of the idea? (here, no)

The *Alice Corp.* decision

No inventive step will be found from the following:

- Recitation of generic computer, performing well-known steps

- Limiting the abstract idea to a particular technological field

Between *Mayo* and *Alice Corp.*:

9 cases upholding software patents under 101

4 relied on Fed. Cir. *Ultramercial* decisions

2 cases splitting (upholding some claims, invalidating others)

1 case deferring the decision to a later stage

19 cases invalidating the software patents

The nature of claims being upheld between *Mayo* and *Alice Corp.*:

- Methods for error-correction coding of source digital data in telecommunications (*France Telecom.*, N.D. Cal. April 14, 2014)

- Methods of transmitting data comprising a sequence of blocks in encrypted form over a communication link (*TQP Dev.*, E.D. Tex. (Bryson, J., sitting by designation, Feb. 19, 2014)

- Systems and processes for outsourcing e-commerce (*DDR Holdings*, E.D. Tex., June 20, 2013)

- Modifying video signals and determining pixel entropy (*Oplus Tech.*, C.D. Cal. Mar. 4, 2013)

- Methods for determining machining instructions for milling machinery (*Oleksy*, N.D. Ill. June 26, 2013)

Post-*Alice Corp.*:

>> 2 cases upholding software claims

>> 2 cases deferring to later stage

>> 16 cases invalidating

The nature of the claims in the two cases upholding software patents:

>> Software used to create a tool usable to form sheet metal into different parts, primarily for car parts (*AutoForm Eng'g*, E.D. Mich. Sept. 5, 2014)

>> Remotely monitoring data associated with an Internet session and controlling network access (*Helios Software*, D. Del. Sept. 18, 2014)

The nature of the claims being rejected post-*Alice Corp.*:

Guaranteeing performance of an online transaction (*BuySafe*)

Improved device profile capturing color and spatial properties of an imaging device (*Digitech*)

Generating single record of multiple services for accounting (*Amdocs*)

Facilitating marketing dialogs (*Open Text*)

Receiving transaction amount data, applying formula, depositing into different accounts per the formula (*Every Penny Counts*)

Converting loyalty points among vendors (*Loyalty Conv. Sys.*)

Providing payoff of loan of mortgage holder (*CMG Fin. Servs.*)

<u>McRo, Inc. v. Valve Corp., 2014 WL 4772200 (C.D. Cal. Sept. 22, 2014)</u>:

Patent covered automatic lip-synching and facial expressions of 3D characters.

Applied *Alice Corp.* two-step test

Noted, "Facially, these claims do not seem directed to an abstract idea."

"They are tangible, each covering an approach to automated three-dimensional computer animation, which is a specific technological process."

"They do not claim a monopoly… on the idea that the human mouth looks a certain way while speaking particular sounds, applied to the field of computer animation."

McRo, Inc. v. Valve Corp., 2014 WL 4772200 (C.D. Cal. Sept. 22, 2014):

"However, for purposes of the 101 analysis, it is not enough to view the claims in isolation."

"Instead, when determining whether a patent contains an adequate inventive concept, the Court must factor out conventional activity."

"Thus, where a claim recites tangible steps, but the only new part of the claim is an abstract idea, that may constitute a claim to an abstract idea."

> The Court found that the asserted novelty over the prior art was the addition of certain rules—"at the highest level of generality" and "purports to cover all such rules"

"The invention here may have been novel, but the claims are directed to an abstract idea."

Questions and Strategies Post-Alice Corp.
1. Plaintiffs' Issues

Confidence in patents set to issue, where PTO raised no 101 issues?

Contingent-fee case decisions

Encourage, rather than try to delay, decision by trial court?

Study, and try to avoid, arguments that aren't working post-Alice

Challenge in court, at PTO via CBM review, or both?

In court, challenge at pleading stage?

Move to stay litigation pending CBM review?

 Upon filing of CBM petition?

 Or after PTO agrees to implement CBM review?