Tuesday, August 19, 2014

THE DAILY RECORD

WESTERN NEW YORK'S SOURCE FOR LAW, REAL ESTATE, FINANCE AND GENERAL INTELLIGENCE SINCE 1908

IP FRONTIERS

The fate of computer-related inventions

Alice Corporation v. CLS Bank: Much ado about nothing

Alice Corporation is the owner of several patents directed to mitigating, using a computer as a third-party intermediary, the risk that one of the parties to an agreed-upon financial exchange between two parties will fail to satisfy its obligation.

CLS Bank (together with other defendants) operates a global network facilitating currency transactions.

The method of the Alice patents includes using "shadow" credit and debit accounts for each party that mirror the parties' actual financial accounts. The shadow accounts are updated in real time, and only transactions for which the parties' shadow accounts have sufficient resources are allowed. At the end of the day, the actual financial accounts are updated to match the shadow accounts.

By WAYNE F. REINKE
Daily Record Columnist

At the District Court previously, all of Alice's claims were held ineligible for patent protection as directed to an abstract idea, citing the prior Supreme Court decision in *Bilski v. Kappos*. In *Bilski*, the patent was directed to a method of managing or hedging risk.

The Federal Circuit had affirmed the prior rejection of the claims involved in *Bilski* as non-statutory, since they did not pass the Federal Circuit's then-new test for statutory subject matter in process claims: A process is statutory patent subject matter if either "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." The Federal Circuit held the claims were broad enough to be practiced without a machine or other apparatus; in other words, a manipulation of abstract ideas. The test became known as the "machine-or-transformation test."

The justices of Supreme Court unanimously affirmed the Federal Circuit in rejecting the *Bilski* patent claims as unpatentable for being an abstract idea. Although the court had praise for the quality of the Federal Circuit's decision, the majority squarely rejected the machine-or-transformation test as the only way to determine whether patent claims constitute statutory subject matter. The test was seen by the court as "a useful and important clue, an investigative tool, for determining whether some claimed inventions are [statutory] processes[,]" but one that "does not define what is (and is not) a patentable process."

On appeal in *CLS Bank*, the Federal Circuit affirmed the District Court after rehearing, and the Supreme Court unanimously affirmed the holding that Alice's claims are unpatentable, as directed to the abstract idea of intermediated settlement and lacking any additional features making the claims patentable.

Inventions eligible for patent protection must fall within one of the four statutory classes: "[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 therefore, subject to the conditions and requirements of this title."

Supreme Court precedent has further refined what is eligible, to exclude laws of nature, natural phenomena and abstract ideas. However, whether an invention falls into one of the four statutory classes is a threshold question for patentability. An invention must also be novel, nonobvious and be adequately described in a patent application. The exceptions are based on a theory of preemption in all technical fields, and were framed by the Supreme Court in *CLS Bank* as the "building blocks of human ingenuity."

In deciding *CLS Bank*, the Supreme Court used the test from its recent decision in *Mayo Collaborative Services v. Prometheus Laboratories Inc.*, which provides a framework for distinguishing patentable from unpatentable subject matter in two steps: (1) are the claims directed to a patent-ineligible concept (laws of nature, natural phenomena and abstract ideas); and (2) if so, then determine if additional elements in the claims transform the nature of the claim into something patentable.

The court found intermediated settlement (and the use of a third-party intermediary in financial transactions) to be a long-standing economic building block. Based on this, and citing *Bilski* in particular, the court found the premise of Alice's patents to be an abstract idea.

The patent in *Mayo* involved a method for measuring metabolites in the bloodstream to calibrate dosage of a class of drugs for treating autoimmune diseases. The court viewed the process as instructing doctors to apply the applicable laws when treating patents. Adding a general purpose computer did not transform the method into something patentable.

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Under *Prometheus*' two-step framework, the *CLS Bank* court then examined whether the actual patent claims transformed the economic building blocks into something more. Unfortunately for Alice, the computer in the claims basically substituted for the third-party intermediary institution or individuals previously known in such transactions.

Not surprisingly, the court framed the patent claims as simply practicing known steps by a generic computer, which has never been patent-eligible. Functions identified as performed by the computer were all found to be conventional: creating and maintaining "shadow" financial accounts; obtaining data; and issuing instructions.

Although the Supreme Court rightly focused on the subject matter of the claims, the underlying problem with the patents at issue is that the method (absent the computer) is simply not new; the method is just implemented by a computer instead of people. Merely adding a computer to a known method has never been patentable. Granted, mistakes in allowing some computer-related patents were made during the Internet boom, but this basic rule has not changed, and those patents are slowly being weeded out.

Indeed, the *CLS Bank* decision summed it up well: "… an invention is not rendered ineligible for patent simply because it involves an abstract concept … Applications of such concepts 'to a new and useful end,' we have said, remain eligible for patent protection."

The court essentially lumped the system and program product claims in with the method claims, also finding them patent ineligible. This treatment is typical even during examination at the Patent Office, since system and program product claims typically closely track the language of the method claims.

Of course, naysayers and doomsday types will decry that everything will now be determined to be an abstract idea. However, the real issue is whether the core of the invention is new and useful, regardless of the inclusion of a computer.

Patent cases involving computer-related inventions post-*CLS Bank* are, at this point, consistent with the use of the *Prometheus* framework in *CLS Bank* and further emphasize that something old is not made something new simply by adding a computer. For example, in one case, a computer-implemented method of preparing targeted emails based on information about the recipients stored in a database was held patent ineligible, not because of the inclusion of a computer, but because it is not new. Determining the recipients of ads in a targeted way is as old as email advertising (or physical mail advertising) itself.

Prior to a decision by the Supreme Court in *CLS Bank*, the Internet was abuzz with prognostications of the death or serious restriction of computer-related patents. However, the sky has not fallen and computer-related inventions are still patentable. The outcome of *CLS Bank*, as a practical matter, does not change the landscape for computer-related patents; it really only provides confirmation of a floor that has always been there; that is, adding a general-purpose computer to something old does not make it new and patentable.

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