

## Is software still patent eligible?

One of the first questions asked by any U.S. patent examiner when reviewing a new patent application is whether the subject matter the inventor is trying to protect is patent eligible. Can the invention be patented, or is it excluded from patentability?

The U.S. Supreme Court, for only the second time in 30 years, tackled this question in the context of a software business method when it issued its decision in the case of *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2355, 189 L. Ed. 2d 296 (2014).

In its decision, the court solidified the test for patent-eligible subject matter and indicated that software patents (e.g., patents claiming steps implemented by a general-purpose computer) can be patent eligible under certain circumstances.

Patent-eligible subject matter is defined by a combination of statute and case law. Section 101 of the Patent Act states that “whoever 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, subject to the conditions and requirements of this title.” 35 U.S.C. 101.

Implicit in this statute is an exception to the rule excluding laws of nature, natural phenomena and abstract ideas

from patent eligibility. U.S. Courts including the U.S. Supreme Court have long upheld this implicit exception. See *Bilski v. Kappos*, 561 U.S. 593 (2010).

The reasoning behind this exception is that laws of nature, natural phenomena and abstract ideas are the basic tools of scientific and technological innovation and that monopolization of these tools would tend to impede innovation rather than promote it.

In *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, Alice was the assignee of four patents related to a computerized scheme for mitigating “settlement risk” between parties. Alice’s patents generally cover a method with the following steps:

- Creating a shadow credit and debit record for two parties;
- Obtaining a balance from each party’s bank;
- Adjusting the shadow credit and debit records based on a transaction;
- Instructing one of the banks to exchange credits or debits based on the transaction.

CLS Bank filed suit against Alice seeking a declaratory judgment that the claims at issue were invalid. Alice counterclaimed, alleging infringement.

Following cross-motions for summary judgment on whether the asserted claims were eligible for patent protection under 35 U.S.C. 101, the District Court held that all the claims are patent ineligible because they are directed to an abstract idea.

A panel opinion of the U.S. Court of Appeals for the Federal Circuit reversed the District Court’s decision. The Federal Circuit then granted a hearing en banc and vacated the panel opinion affirming the judgment of the District Court. The case was then appealed to the U.S. Supreme Court, which granted certiorari.

In its decision, the Supreme Court began by setting forth the relevant test for determining patent-eligible subject matter. The court relied on a two-step test from a prior decision that interestingly did not involve software but concerned a patent claiming laws of nature embodied in the relationship between concentrations of certain metabolites in the blood and the likelihood that a drug dosage will be ineffective or may cause harm. *Mayo Collaborative Services v. Prometheus Laboratories Inc.*, 132 S. Ct. 1289, 182 L. Ed. 2d 231 (2012).

The first step of the test asks whether the claims at issue are directed to a patent-ineligible concept — i.e., laws of nature, natural phenomena or abstract ideas. If yes, the second step asks whether the claims contain an “inventive concept” sufficient to “transform” the claimed abstract idea into a patent-eligible application.

In step one, the court determined that the claims in *Alice* involve a method of exchanging financial obligations between two parties using a third-party intermediary to mitigate settlement risk. The claims on their face were thus drawn to an abstract idea — i.e., intermediated settlement.

Moving on to step two, the court explained that a claim that recites an abstract idea must include “additional features” to ensure “that the claim is more than a drafting effort designed to monopolize an abstract idea.” Applying *Mayo*, the court reiterated that “transformation into a patent-eligible application requires more than simply stating the abstract idea while adding the words ‘apply it.’ ”

The court concluded that each element of the claims “does no more than require a generic computer to perform generic computer functions ... the method claims do not, for example, purport to improve the functioning of the computer itself ... nor do they effect an improvement in any other technology or technical field.”

Accordingly, the court found the claims to be patent ineligible, affirming the Federal Circuit’s decision.

Even though the court invalidated the claims in *Alice*, the decision in and of itself indicates that some software claims remain patent eligible. That said, the addition of a generic computer alone fails to raise an ineligible patent claim to the level of patent eligible.

In other words, reinventing old concepts, laws of nature or abstract ideas by the performance of a generic computer or generic computer components fails to transform that old concept into a patentable idea. As such, new software claims that may have previously passed muster due to the use of a generic computer should be examined closely to verify they are still patentable subject matter in view of *Alice*.

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