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## New Guidelines Clarify Software Patent Eligibility

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How many times did you stare at your smartphone today before finding this article? For better or worse, software drives today's economy. In fact, the U.S. Patent and Trademark Office issues more than 40,000 software patents annually, more than any other kind.

This may explain why the most anticipated case from the U.S. Supreme Court last year was *Alice Corp. v. CLS Bank International*, which was supposed to answer whether, and under what circumstances, software deserves patent protection. Unfortunately, the court's analysis was at times theoretical and likely raised as many questions as it answered.

Critics sometimes complain that software patents stifle competition because they monopolize general ideas. In *Alice*, the court seemed to acknowledge this sentiment when it began by reiterating the long-held principal that "laws of nature, natural phenomena, and abstract ideas are not patentable." But it also recognized that most innovative software applications are rooted in and build upon ideas. The court was also careful to say that "an invention is not rendered ineligible for patent simply because it involves an abstract concept."

So the real question (then and now) is what qualities of an invention transform it from an un-patentable abstract idea into a new, novel and useful patent-worthy invention. This is where the *Alice* decision departed from the practical and entered the theoretical.

Under *Alice*, examiners at the USPTO should be searching patent claims for an "inventive concept" or, put differently, they should be looking for something "sufficient to ensure that the patent in practice amounts to significantly more than [merely an] abstract idea itself." If this logic strikes you as somewhat circular, you are not alone. Fortunately, recent case law and the USPTO itself is giving us more insight on how *Alice* will be applied in the future to software patents.

### Revised Guidelines

Recently, the USPTO issued its revised subject matter eligibility guidelines to help teach examiners how to review patent applications post-*Alice*. These guidelines largely rely on post-*Alice* cases decided by the Federal Circuit and

district courts throughout the country. They represent a useful tool for understanding *Alice* and the way future patents will be evaluated for validity.

Essentially, the guidelines seek to answer the following:

1. *Are the patent claims directed to an eligible subject matter (e.g., a process, machine, manufacture, or composition of matter)?* This is the first question every examiner is taught to ask when reviewing a patent application. If the patent is not directed to an eligible subject matter, then, of course, no patent can be issued. If it is directed to an eligible subject matter, then the examiner is taught to move to step 2A.

2(A). *Are the patent claims “directed to” a law of nature, a natural phenomenon, or an abstract idea?* This question is aimed at identifying those claims “directed to” one or more of the subject matter eligibility exceptions. According to the guidelines, “directed to” means the exception is actually recited in at least one of the claims, or, at a minimum, one of the claims sets forth or describes a valid exception. For example, if the claim recites a math formula, then it recites an exception and likely is not eligible.

The *Alice* court was focused, however, specifically on whether the patent at issue was directed to an abstract idea, which is one of the judicial exceptions. The guidelines support the *Alice* holding by providing examiners with several, real-world examples (often taken from cases decided by the Federal Circuit) to help distinguish claims aimed at abstract ideas. For instance, consider the following examples of patent claims that are “directed to” an abstract idea:

- claim disclosing the general concept of mitigating risk in a financial settlement transaction;
- claim disclosing the concept of creating a contractual relationship; and
- claim disclosing the general process of processing information through a clearinghouse.

An overriding consideration is whether the claim “merely recites the performance of some business practice known from the pre-Internet world along with the requirement to perform it on the Internet.” For example, if the patent merely discloses a well-known business practice, but teaches that the practice should be implemented on a generic computer, then the claim is likely directed to an abstract idea.

If the claim is not directed to a judicial exception, then the claim is considered eligible. If not, the examiner is instructed to move to step 2B.

2(B). *Does the claim recite additional elements that amount to significantly more than the judicial exception?* In this step, the examiner is instructed to determine whether any claim element or combination of elements is sufficient to ensure that the claim as a whole amounts to significantly more than the judicial

exception. If not, the claim is ineligible and rejected. As discussed previously, this analysis is easier said than done.

Still, the guidelines provide several real-world examples that offer meaningful insight to lawyers advising clients about patent validity. In step 2B, examiners are taught that a claim directed to a judicial exception still may be eligible for a patent, so long as it teaches a product or process that actually applies the judicial exception in a meaningful way.

The guidelines teach examiners to look for other claim elements that impose meaningful limitations on the judicial exception. A claim that merely attempts to monopolize an exception (e.g., patenting a bare idea or mathematical formula) will not suffice. Importantly, the USPTO provides the following examples of claim limitations that could be enough to qualify as “significantly more” under *Alice*:

- Improvements to another technology or technical field;
- Improvements to the functioning of the computer itself;
- Applying the judicial exception with, or by use of, a particular machine;

and

- Effecting a transformation or reduction of a particular article to a different state or thing.

The guidelines also offer several examples of claim limitations that courts have found not to be enough to qualify as “significantly more” than the judicial exception, including:

- A claim limitation that merely adds the words “apply it” or some similar language to the judicial exception;

- A limitation that simply appends well-understood, routine and conventional activities previously known to the industry, specified at a high level of generality, to the judicial exception; and

- Adding “insignificant extra-solution activity” to the judicial exception (e.g., mere data gathering in conjunction with a law of nature or abstract idea).

The guidelines teach that if the claim as a whole recites additional elements that amount to significantly more than the judicial exception, then the claim qualifies as eligible subject matter. Otherwise, the claim is not eligible and the examiner should reject it.

The recently revised USPTO guidelines for subject matter eligibility offer an effective summary of the case law post-*Alice*, and should be closely considered by any attorney representing patent owners, especially software patent owners.

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