

OFFICE OF THE GENERAL COUNSEL

Practice Group Advisory

July 18, 2014

Charles F. Robinson
General Counsel
Vice President for Legal Affairs

www.ucop.edu/general-counsel

SUMMARY

U.S. Supreme Court invalidates company's business method patents for being too abstract to qualify as patent-eligible subject matter.

If you have any questions regarding the issues raised by the *Alice v. CLS Bank* decision, please contact:

Marty Simpson
Managing Counsel
Intellectual Property
marty.simpson@ucop.edu

Nancy Chu
Senior Counsel
Intellectual Property
nchu@ucop.edu

Rita Hao
Senior Counsel
Intellectual Property
rita.hao@ucop.edu

Angus MacDonald
Senior Counsel
Intellectual Property
angus.macdonald@ucop.edu

This practice group advisory is issued by the Office of the General Counsel to provide updates regarding important legal and regulatory developments that affect the University. For additional information or assistance with a specific legal matter, please contact the Office of the General Counsel.

U.S. SUPREME COURT INVALIDATES COMPANY PATENTS ON BUSINESS METHODS

On June 19, 2014, the U.S. Supreme Court in *Alice Corp. v. CLS Bank Int'l (Alice)* affirmed that Alice Corporation's business methods were an abstract idea and thus not patent-eligible subject matter under Section 101 of U.S. patent law.

Background

In 2007, CLS Bank sued Alice Corporation in a declaratory judgment suit to invalidate Alice's business method patents. These patents describe several processes for mitigating risks in financial transactions (e.g., securities trading) through the use of computer software. In particular, Alice's patented business method involved: (1) creating electronic "shadow records" for parties to a transaction, (2) adjusting these shadow records for transactions between the parties, and, (3) issuing instructions to carry out these transactions only if the parties have adequate resources at the end of the day. CLS Bank developed similar risk-reducing software for its own use. Alice counterclaimed, alleging that CLS Bank infringed Alice's patents. The trial court ruled in favor of CLS Bank, holding that Alice's patent claims were "ineligible for patent protection under 35 U.S.C. § 101 because they are directed to an abstract idea." Alice appealed to the Court of Appeals for the Federal Circuit (Federal Circuit), ultimately lost in a highly fractured opinion by that appellate court, and then appealed to the Supreme Court.

In its unanimous decision, the Supreme Court affirmed the Federal Circuit's decision. The Court applied the patent-eligibility test it had described in an earlier decision, *Mayo v. Prometheus* (2012), and concluded that: (1) Alice's patent claims are directed to patent-ineligible abstract ideas; and (2) implementing those ideas on a computer was not sufficient to transform them into patent-eligible inventions. Accordingly, the Court invalidated Alice's business method patents.

Impact on the University

This patent ruling will likely have only a limited impact on the University's technology commercialization activities. As a preliminary matter, much of the University's patent portfolio consists of inventions that are not directly implicated by the type of business methods at issue in *Alice* – e.g., non-abstract advances in medical, veterinary, clean water, and energy technologies. Second, post-*Alice*, it is still possible to obtain a patent on business methods (or, more broadly, software), provided that the claimed invention meets the Supreme Court's patent-eligibility test. Third, the invalidated patents in *Alice* were commonly regarded as relatively egregious examples of trying to use the patent system to gain protection over abstract ideas merely by adding a computer to perform generic computer functions. Moreover, post-*Alice*, intellectual property owners may continue to rely on copyright law to protect, license and enforce similar business methods so long as the underlying software code contains sufficient copyrightable expression.

Finally, because the Supreme Court in *Alice* merely struck down what was commonly regarded as bad software patents, it did not offer much meaningful guidance as to what kinds of software inventions can be patentable. In response to *Alice*, the U.S. Patent and Trademark Office has issued additional guidelines to its patent examiners, which are available at http://www.uspto.gov/patents/announce/alice_pec_25jun2014.pdf.