Abstract reasoning

The Supreme Court's Alice decision could invalidate your software patent

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A Supreme Court decision from this past June could mean that companies with patents on software-related inventions will lose that protection.

The ruling in Alice Corp. Pty. Ltd v. CLS Bank International changes what is patent-eligible subject matter. That could leave some patents unenforceable, and will challenge companies to rethink how they draft patent applications.

"Up until this decision, it was understood by the U.S. Patent and Trademark Office and patent attorneys in general that software-related patents were patent-eligible subject matter if they were sufficiently tied to a machine, such as a computer" says Christian Drago, a senior associate at Fay Sharpe LLP. "In essence, you're not claiming the software, you're claiming the computer that's performing the function that the software is instructing it to do. After Alice, the court said adding a computer is not enough. They're looking for something that tangibly affects the real world."

Smart Business spoke with Drago and Jay Moldovanyi, a partner at Fay Sharpe, about the court's decision and its implications.

Who does this decision affect most?

Anyone who has patented business methods, such as those that function to process financial information, may be at risk. For instance, Alice Corp. owned several patents directed to a computer-implemented scheme for mitigating settlement risk via a third-party intermediary that CLS Bank International was utilizing, until Alice notified the company of the infringement.

This is also going to affect app developers and e-commerce because they're not tangibly affecting the real world.

How might this decision play out across those industry players?

Companies with software-related inventions and business methods may move away from filing patents. Many of these companies will use trade secret and copyright to protect their inventions, which are strategies that have some negative consequences.

Copyright can be used to protect software, but to get copyright protection a copy of the code must be sent to the Library of Congress, which means it could be copied. That creates unwanted exposure. So, more likely, companies will protect their inventions as a trade secret. That can be burdensome because it's difficult for to maintain the secrecy of each step. It also puts a company at risk when those products are sent to the market because the function code may then be copied.

Why is the court taking this approach?

The Court is trying to prevent patents on what are considered abstract ideas, from preempting the use of those ideas by the public. For example, if the court allowed a patent on a human gene, that would preempt someone from studying that gene.

However, the court gives little guidance on what 'abstract idea' means.

How can companies protect their products?

Most of the software that's being invented is going to affect something in the real world, it's just a matter of making that relation clear in the patent application.

Based on the current rejections being issued by the Patent Office, claims of pending or new applications must be drafted in a way that shows an improvement to an existing technological process, uses an output to affect a tangible object, or links the idea to a particular technological environment with some form of meaningful limitation.

The court is showing that it equates 'technology' with 'physical.' So, any claims to an 'abstract idea' will be deemed patent-eligible only if they claim tangible, physical results or have an impact in the real-world.

Could existing patents be invalidated?

Software remains patentable under the Alice decision. But the manner in which it is described, and the field in which it is implemented, will limit the scope of protection available.

Companies negotiating a license agreement should take precautions that licensees don't sue for declaratory judgment of invalidity. But the bigger concern is protecting against infringers.

Contact a patent attorney. He or she may be able to help rewrite the patent claims by way of a reissue patent. ●