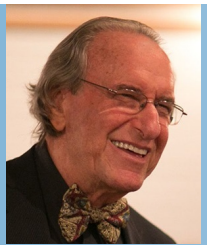
HAS *ALICE* PUT YOUR PATENT PORTFOLIO AT RISK?



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On June 19, 2014 the US Supreme Court issued a landmark decision in *Alice Corporation Pty Ltd v CLS Bank International (Alice)*, affirming the underlying Federal Circuit's opinion finding all claims of the patent in suit invalid. The basis for this decision? All of the patent claims are drawn to patent-ineligible subject matter under 35 USC §101, namely, that they are drawn to an abstract idea of intermediated settlement, merely requiring generic implementation of a computer.

Alice's patent is directed to the use of a third party to mitigate settlement risk, an economic practice long utilised in commerce. The court found that the patent in suit's method claims fail to bridge the gap between an abstract idea and an invention which is patent-eligible.

Patent attorneys are considering and deliberating on the effect this landmark decision will have upon several aspects of their practice, as well as the effect it may have upon the patent portfolios of their clients. There is no question that many presumptively valid patents when issued by the US Patent and Trademark Office (USPTO) are actually, after the *Alice* decision, invalid and of no value. The manner in which attorneys draft and craft patent claims is affected by *Alice*.

So how does one know whether a patent is, directly or indirectly, affected by *Alice*? If one poses this question to ten patent experts, it is possible that one will receive 11 answers. Subject to appeals, it is the US district courts which ultimately have exclusive jurisdiction over the validity of patents. Post-grant proceedings at the USPTO will certainly come into play but this will not prevent seasoned patent practitioners from providing sound advice regarding this issue.

For companies which have acquired sizeable software-related and business method patents over the years, these patents have been perceived to have considerable value. The companies have come to believe that their patents have a strategic competitive value associated with their keeping at bay current and prospective competitors.

Individuals and entities who have invested and acquired equity in companies with such patent portfolios, after conducting their due diligence, have often made a valuation determination in arriving at the formula upon which the amount of their investment was based. Parties to mergers and acquisitions are required to arrive at a valuation of the patents and IP belonging to their targets.

Courts and juries that make determinations regarding damages in patent infringement actions will be influenced by a perceived value of the patent in suit. Parties wishing to enter into competition with an owner of a business method patent portfolio will need to assess the validity and value of patents which they may face, before deciding whether they should be scared off or face a possible fight to compete.

These are but a few typical examples of instances where patents are evaluated and their validity and enforceability come into play.

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Alice raises a degree of uncertainty regarding whether portfolios of software-driven business method patents are at significant risk. Where patent practitioners have until now drafted claims that recite physical hardware limitations, in hopes of surviving invalidity assertions based upon abstract ideas, this tactic may not bring the results hoped for.

It appears clear that the mere linking of business method recitations to hardware as a technical environment will not offer a meaningful patentability limitation, ie, mere implementation of an abstract idea via computers will not survive an invalidity challenge. Describing such a method of doing business will not qualify as a "process" under §101.

We should expect to see an increasing number of invalidity challenges to business method patents, both proactively and via defences to assertions of patent infringement.

That said, one should not overreact to the scope of *Alice*. Many business method patents are valid and enforceable, and of great value to their owners. The Supreme Court recognised patent eligibility where a mathematical equation is used in a design that solves a technological problem in industry. Furthermore, those parties that have taken licences under business method patents should not rush to terminate those licences based upon the *Alice* decision. To do so will render such licensees vulnerable to infringement claims to which they will by virtue of their past licence have more limited defences. On the other hand, licensors of business method patents will need to assess whether their royalty stream may be in jeopardy.

While the *Alice* decision did erase some uncertainties, many remain to be argued. ■

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