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**SPECIAL REPORT*****Alice in Wonderland:  
Are Software Inventions Still  
Patentable in View of the  
Supreme Court's Ruling?****By Fred J.M. Price\**

The Supreme Court's decision in *Alice Corp. Pty. Ltd. vs. CLS Bank Int'l*, 134 S. Ct. 2347 (decided June 19, 2014) ("*Alice*") is an important decision that will have an impact on software and computer-related inventions. In its unanimous decision, the Supreme Court held that "the claims at issue are drawn to the abstract idea of intermediated settlement, and that merely requiring generic computer implementation fails to transform that abstract idea into a patent-eligible invention." This article explores the background of the case and the Supreme Court's decision.

**Background**

As a brief background, Alice Corporation is the assignee of the patents at issue (U.S. Pat. Nos. 5,970,479, 6,912,510, 7,149,720, and 7,725,375), each of which is related to computer-implemented methods for managing "settlement risk" – the risk that only one party to an agreed-upon financial exchange will satisfy or perform its obligation –

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where a computer system is used as a third party intermediary to facilitate the exchange of financial obligations between two parties. In particular, the claims at issue were directed to a (1) computerized method for exchanging the financial obligations, (2) computer readable storage medium containing program code for performing the method, and (3) computer system to implement the code.

In May 2007, CLS Bank International and CLS Services Ltd. (collectively “CLS”) filed a declaratory judgment action in the U.S. District Court for the District of Columbia against Alice seeking a declaratory judgment of non-infringement, invalidity and/or unenforceability of the claims at issue. In March 2011, the court granted summary judgment in favor of CLS, holding that the patents at issue were invalid as being directed to patent-ineligible subject matter under 35 U.S.C. § 101. Alice appealed.

In July 2012, a panel of the Federal Circuit reversed the district court’s decision. In August 2012, CLS filed a petition for rehearing *en banc*, which was granted. In May 2013, the Federal Circuit issued its *en banc* decision affirming the district court’s decision. Alice then petitioned the Supreme Court for certiorari, which the Supreme Court granted in December 2013.

In January 2014, Alice filed its Opening Brief to the Supreme Court, arguing that the claims at issue were directed to patent-eligible subject matter. In support of its arguments, Alice highlighted the importance of the “role of the computer” in the claims at issue and submitted that:

Nowhere do the claims recite a mathematical formula, a ‘fundamental economic practice’ that can be ‘reduced to a mathematical formula’ . . . or any other form of fundamental truth that ‘exists in principle apart from any human action’ [which would result in patent ineligibility under 101]. . . . To the contrary, the claims recite a specific series of steps, a specific configuration of computer

hardware, or a specific computer program product. . . . Because the claims do not even *recite* a fundamental truth, they cannot, *a fortiori*, ‘tie up’ all practical uses of any fundamental truth.

Alice’s claims require a substantial and meaningful role for the computer – beyond merely performing computations more quickly or accurately than a person could do with pencil and paper – in performing the recited steps. The computer *is itself the intermediary*. . . . The use of the computer . . . is central to the claimed methods. The invention as claimed will not function without a computer configured (i.e., programmed) to carry out the claim steps. Moreover, a computer and other hardware specifically structured and configured to perform the recited functions are essential to the claimed systems.

In March 2014, Alice filed its Reply Brief, and noted that Alice’s “computer-implemented” claims are typical of software inventions, and that this case will define the law of software patentability going forward” (quoting Federal Circuit Judge Kimberly Moore’s separate opinion, dissenting in part – “[L]et’s be clear: if all of these claims, including the system claims, are not patent-eligible, this case is the death of hundreds of thousands of patents including all . . . software patents.”).

### **Framework of the Supreme Court’s Decision**

Under 35 U.S.C. § 101, claims directed to laws of nature, natural phenomena, and abstract ideas are not patent eligible based on a policy of avoiding pre-emption of the “basic tools of scientific and technological work.” As explained by the Supreme Court, “‘monopolization of those tools through the grant of a patent might tend to impede innovation more than it would tend to promote it,’ thereby thwarting the primary object of the patent laws.” However, in order to avoid rigid application of this

rule to the point where it “swallow[s] all of patent law,” the Supreme Court recognizes that “an invention is not rendered ineligible for patent simply because it involves an abstract concept.” Thus, the Supreme Court has held that it “must *distinguish* between patents that claim the ‘building block[s]’ of human ingenuity and those that integrate the building blocks with *something more* . . . thereby ‘transform[ing]’ them into a patent-eligible invention.” (emphasis added).



The Supreme Court in *Alice* described its two-part “framework,” set forth in *Mayo Collaborative Servs. V. Prometheus Labs, Inc.*, 132 S. Ct. 1289 (March 20, 2012), for making such a distinction as follows:

1. Determine whether the claim(s) at issue are directed to a patent-ineligible concept, and if so,
2. Examine the elements of the claim(s) at issue, individually and as an ordered combination, to determine whether the claim contains additional features or an inventive concept sufficient to transform the nature of the claim into a patent-eligible application.

With respect to prong no. 1 of the framework, the Supreme Court held that the claims at issue in *Alice* “are directed to an abstract idea.” The Court noted that the claims are “drawn to the concept of intermediated settlement, i.e., the use of a third

party to mitigate settlement risk [which] is ‘a fundamental economic practice long prevalent in our system of commerce’ [and] a building block of the modern economy.” Therefore, the Supreme Court held that “intermediated settlement . . . is an ‘abstract idea’ beyond the scope of § 101” and subsequently analyzed the claims under prong no. 2.

With respect to prong no. 2 of the framework, the Supreme Court held that “the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent – eligible invention” – a direct rebuke to the arguments made by *Alice* in its briefing.

Regarding the method claims at issue, the Supreme Court held that these claims do no more than “simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer.” When viewed individually, the method claim steps included computer functions (e.g., use of a computer to obtain data, adjust account balances, and issue automated instructions) that were found to be “‘well-understood, routine, conventional activit[ies]’ previously known in the industry. In short, the Supreme Court was of the view that each step does no more than require a generic computer to perform generic computer functions.” When evaluated “‘as an ordered combination,’ the computer components of [*Alice Corp.*’s] method ‘ad[d] nothing . . . that is not already present when the steps are considered separately. [The method claims] simply recite the concept [or abstract idea] of intermediated settlement as performed by a generic computer. . . . [T]hat is not ‘enough’ to transform an abstract idea into a patent-eligible invention.”

As a glimmer of what may have made the method claims patent eligible, the Supreme Court noted that “[t]he 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 field.” (emphasis added).

Regarding the computer program product and system claims, the Supreme Court addressed Alice's arguments that the claims are patent eligible because they recite "'specific hardware' configured to perform 'specific computerized functions.'" The Court held that "what petitioner characterizes as specific hardware--a 'data processing system' with a 'communications controller' and 'data storage unit,' for example . . . --is purely functional and generic. Nearly every computer will include a 'communications controller' and 'data storage unit' capable of performing the basic . . . functions required by the method claims. As a result, none of the hardware recited by the system claims 'offers a meaningful limitation beyond generally linking the use of the [method] to a particular technological environment, that is, implementation via computers.'" Similarly to the method claims, these claims were found to "add nothing of substance to the underlying abstract idea" merely reciting "generic computer components" configured to implement the abstract idea. Thus, according to the Court, the computer program product and system claims were patent ineligible under § 101.

As an apparent warning to patent attorneys, the Supreme Court noted that it "has long 'warn[ed] . . . against' interpreting § 101 'in ways that make patent eligibility depend simply on the draftsman's art.'" That is, the mere addition of generic computer component language to an otherwise patent ineligible claim will not overcome a Section 101 rejection or invalidity defense.

### **Practical Implications**

In view of the Supreme Court's decision, will Judge Moore's prediction that "the death of hundreds of thousands of patents including all . . . software patents" come true? Retired Federal Circuit Judge Paul Michel seems to think so, [reportedly](#) stating that the decision is "very problematic" and "will create total chaos" as it "create[d] a standard that is too vague, too subjective, too unpredictable and impossible to administer in a coherent consistent

way in the patent office or in the district courts or even in the Federal Circuit."

So, where to we go from here?

With respect to prong no. 1 of the two-part framework, an "abstract idea" remains undefined. Many were hoping that the Supreme Court would define what an "abstract idea" is, or at least provide some particular guidance. All we know from the Supreme Court's decision is that a patent claim that is deemed to cover a long prevalent, fundamental economic practice is considered as being directed to an abstract idea. How this is exactly determined, and whether other such practices will qualify as an abstract idea are questions that were left unanswered by the Supreme Court.

Lower courts are expected to provide more insight as to what is an "abstract issue." For example, the District Court for the Southern District of New York held in *Dietgoal Innovations, LLC v. Bravo Media, LLC*, 13 Civ. 8391, 2014 U.S. Dist. LEXIS 92484 (S.D.N.Y. July 8, 2014) that a patent directed towards "computerized meal planning" is "nothing more than an abstract concept of selecting meals for the day, according to one's particular dietary goals and food preferences. Meal planning is surely a 'long prevalent' practice . . . humans have assuredly engaged at least in rudimentary meal-planning 'for millennia.'" Similarly, the Federal Circuit held in *Planet Bingo, LLC v. VKGS LLC*, 2014 U.S. App. LEXIS 16412 (Fed. Cir. Aug. 26, 2014) that patent claims directed to computerized methods and systems for "managing a game of bingo" were directed to an abstract idea.

With respect to prong no. 2, merely requiring generic computer implementation of an abstract idea will not provide the "something more" or "inventive concept" required to transform the abstract idea into a patent-eligible invention. However, claims that are directed to a technology that either "improve[s] the functioning of the computer itself" or "effect[s] an improvement in any

other technology field,” for example, will provide that “something more.” How is this determined, and what actually qualifies as an improvement are other questions that were left unanswered.

However, in *buySAFE, Inc. v. Google, Inc.*, 2014 U.S. App. LEXIS 16987 (Fed. Cir. Sept. 3, 2014), the Federal Circuit recently explained that the “inventive concept” must be “in the physical realm of things and acts—a ‘new and useful application’ of the ineligible matter in the physical realm—that ensures that the patent is on something ‘significantly more than’ the ineligible matter itself.” This explanation, unfortunately, may raise more questions.

A recent decision from the District of New Jersey, *Data Distrib. Techs., LLC v. Brer Affiliates, Inc.*, 2014 U.S. Dist. LEXIS 115543 (D.N.J. Aug. 19, 2014) may be a bit more helpful. This court ruled that several of plaintiff’s arguments in favor of showing that an inventive concept exists in the asserted claims were meritless. For example, the court held that the “Plaintiff cannot rely on the [asserted patent’s] figures to establish subject matter eligibility.” This is because the asserted patent provided that the specific embodiments described and shown in the patent should be “considered illustrative of the invention only” and not limit the claimed invention. Thus, the court held that since the asserted patent “disclaims any limitation based on the specification or illustrations . . . the Court will look only to the [asserted patent’s] claims in conducting the subject matter eligibility inquiry.”

Interestingly, the use of the terms “fundamental,” “something more,” “improvements,” and “inventive concept,” for example, in the Supreme Court’s two-pronged test appears to suggest a morphing, at least in part, of the Section 101 patent eligibility analysis into a novelty and non-obviousness analysis under Sections 102 and 103. In other words, it appears that a determination needs to be made as to the existence of an inventive concept for a computer based claim, which is otherwise directed to an abstract idea, to satisfy the patent eligibility

requirement. To what extent the inventive concept needs to be shown, i.e., what threshold showing of “inventiveness” is required, remains to be seen.

Needless to say, this is a currently evolving standard in the courts and in the U.S. Patent Office. The U.S. Patent Office has put together [Preliminary Examination Instructions](#) in view of the Supreme Court’s decision, and has also [withdrawn notices of allowances](#) from applications deemed to contain at least one claim directed to an abstract idea and generic computer implementation of the abstract idea for further prosecution.



At this point, it would be prudent for those who wish to seek patent protection directed to software or computer-based inventions to identify, flesh out, and clearly articulate the required improvement(s) and inventive concept(s) in the claims and in the supporting specification and figures prior to filing a patent application. These improvement(s) and inventive concept(s) must go beyond generic computer implementation of an abstract idea and/or the inclusion of generic computer components to carry out generic computer functions. Similarly, a patent holder asserting infringement based on a patent including computer-based claims should identify and make a preliminary determination as to the strength of the improvements/inventive concept(s) set forth in and defined by the claims as part of its pre-litigation due diligence.

**PATENT LITIGATION*****The Supreme Court Clarifies Test for Indirect Infringement****By David L. Nocilly\**

In another patent decision issued by the Supreme Court, *Limelight Networks, Inc. v. Akamai Tech. Inc.*, 134 S. Ct. 2111 (2014), the court held that before a party can be liable indirect infringement there must be another entity that is

liable for direct infringement. This form of liability is important because an indirect infringer is legally responsible for all infringement damages even if the direct infringer is never hauled into court.

Section 271 of the Patent Act provides that a person may be liable for infringement if they “induce” another into committing infringement or if they contribute to another committing infringement by providing non-staple components used to infringe. Although this liability for what is often called “indirect” infringement appears to require that someone actually commit “direct” infringement, the law was not clear when several actors performed different steps of a patented method.

For example, the patent in *Limelight* covered a method of delivering “tagged” electronic data from the storage servers of content providers to individual internet users. The accused infringer, *Limelight*, practiced most of the steps of the claimed method, but left the “tagging” up to the customer. Because *Limelight* did not have any legal control over the actions of its customers, the district court found that *Limelight* was not liable for direct infringement.

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On appeal, the Federal Circuit affirmed the finding of no direct infringement but remanded the case back to the district court for consideration of indirect infringement. The Federal Circuit noted that indirect infringement was still possible because the requirement of direct infringement was satisfied because the infringement prerequisite just required the performance of all of the method steps, not that all of the method steps had been performed by one or more entities that could be held legally liable for direct infringement. The Supreme Court rejected this reasoning and held that there must be liability for direct infringement before there can be liability for indirect infringement.



Although the practical application of the decision in *Limelight v. Akamai* seems to be rather limited as it relates to indirectly infringing a method claim that is directly infringed by multiple entities, it does highlight a very important consideration when preparing patent applications and pursuing patent protection – “know thy infringer.”

The way that patent claims are drafted can significantly impact how the patent can be enforced, if at all, and who is ultimately responsible for infringement. The outcome of *Limelight v. Akamai* could have been very different if the patent claims had been more carefully crafted to avoid including steps that might be performed by third parties when the invention is commercially deployed. Similarly, patent claims are often drafted in a way that only makes the end user or customer the infringer and thus nearly impossible or impractical to enforce.

**COPYRIGHT*****Copyright Ownership and  
“Works for Hire”****By Phillip I. Frankel\**

When it comes to copyrighted material, who owns the copyright is critically important. Normally, the person who creates the work is thought of as the “author,” and that applies whether or not they happen to be creating a literary work, a motion picture, or a song. They are all called “authors,” and the authors own the work.

What happens in a situation involving an employee? That’s where the concept of “work for hire” comes into play. If it is a traditional employment relationship – for example, in which an employer hires someone and part of that person’s job responsibility is to create any type of copy, any type of literary work, or any type of design work or software – then the employer owns that work, not the particular employee who created it.

For independent contractors, however, there is not a standard employer-employee relationship. With independent contractors, copyright law allows the entity who is doing the hiring to actually own the work, but only if two particular tests are met.

First, the agreement must be in writing. Both parties must have not only signed the agreement, but it has to have the words “work for hire” or “work made for hire” in the agreement itself. Unless there is a

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written agreement using those words, the first test is not met.



Second, the “work for hire” must be in one of nine specific categories that are set forth in the Copyright Act. These nine categories include:

1. A contribution to a collective work,
2. A part of a motion picture or other audiovisual work,
3. A translation,
4. A supplementary work (such as a biography to a novel),
5. A compilation,
6. An instructional text,
7. A test,
8. Answers for a test, or
9. An atlas

If the work at issue doesn’t meet any of these nine categories, then it will not be considered a “work for hire” with an independent contractor. In other words, the independent contractor would be considered the author and copyright owner.

Another approach for independent contractors is to have the person or entity who is commissioning the work obtain a written assignment of the work. This results in the work being assigned outright to the commissioning person/entity, rather than having to rely on the requirements of “work for hire.”

**TRADEMARKS*****Common Law vs. Federal Trademark Registration****By Jeremy P. Oczek\**

Trademarks can be highly valuable assets for businesses. In the United States, certain trademark rights may arise from use of a mark, called “common law” rights. Under common law, you don’t need to file anything – rights attach under state law when a distinctive mark is the first one used in commerce in connection with particular goods or services, it must be used continuously, and you must prove that consumers associate the mark with the source of the goods or services.

However, common law trademark rights are limited to the geographic area in which the mark is used. For example, if a product is sold under the name BOND in New York only, the trademark rights to that name would exist only in New York.

To obtain the greatest protection for a mark, registration with the federal government, through the U.S. Patent and Trademark Office, should be considered. Federal trademark registration provides a number of important benefits.

First and foremost, it provides nationwide exclusivity. This is of critical importance in today’s Internet age, where almost every business has a nationwide on-line presence through the use of a web page, Facebook, LinkedIn, Twitter, etc.

Second, because federal trademarks can be easily searched on the U.S. Patent & Trademark Office

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database, other companies who search this database will be discouraged from using confusingly similar trademarks, thereby preventing issues before they even begin.

Third, if someone is using your trademark without your permission, federal registration gives you many advantages in court. For example, the court will start from the presumption that that your trademark is valid; the other side will have the burden of proving that your trademark is not valid. Also, federal trademark law provides for triple damages and attorneys’ fees in cases of willful infringement.



Fourth, owning a federal trademark entitles you to register your mark with U.S. Customs and Border Protection. The Customs office can then block goods from entering the U.S. if they bear your registered trademark but are not authorized.

Fifth, having a registered trademark allows you to use the “R in a circle symbol” – which cannot be used with unregistered marks – and this not only gives you marketing cachet, but also provides notice to your competitors of your federal trademark protection.

These are just some of the benefits of federal registration versus common law rights. Having a federal trademark can give a business an edge over its competitors, and is generally thought of as a wise investment in today’s marketplace.



**NEWS & HIGHLIGHTS**

***New Addition to IP Group:  
Peter H. Stockmann, Ph.D.***

Bond is pleased to announce that Peter H. Stockmann has joined the firm’s IP Technology Group. Peter received his Ph.D. in Electrical Engineering in 1973 from Syracuse University and his law degree in 1978 from Temple University.

Peter supports Bond’s patent attorneys in patent prosecution matters. He has 36 years of systems engineering experience in radar, avionics, RF systems, defense systems, antennas, signal processing and electronic warfare. On Lockheed Martin’s IP Review Board for 10 years, he rose to the role of Chairman. Peter has five patents awarded and five pending. He has contributed to hundreds of technical reports, nine conference presentations and numerous technical articles.

“Peter has had a distinguished career and is especially recognized for his work in the defense industry. Bond is proud to have him join our team, adding insight and experience to what is now a team of 18 intellectual property attorneys,” said George McGuire, chair of Bond’s IP & Technology Group.



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