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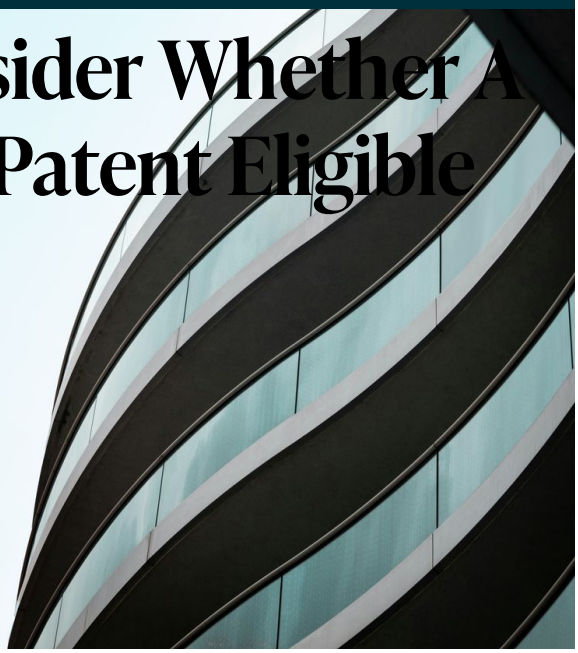
Federal Circuit Set to Consider Whether A Blockchain Application is Patent Eligible



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By: Ian Swan

Does recording an object's physical properties to a blockchain render the resulting network (or method of using the same) patent-eligible? In *Rady v. Boston Consulting Group*, the Federal Circuit will hear oral arguments on how to apply hotly debated patent eligibility standards[1] (i.e., the two-step *Alice* test) to a blockchain-related invention. The Federal Circuit's consideration of this issue will likely provide valuable guideposts for assessing the patent eligibility of blockchain-based applications.

Max Rady patented a method to record a physical item's "individual identification signature" to a blockchain. Using "'3D spatial mapping and spectral analysis to determine each individual identification signature[ ]' [and] recording these signatures into a blockchain," Rady's method purportedly "allows users to guarantee the authenticity and provenance of each item's location and source throughout the supply chain, even where significant modifications are made to that item." Although the patent discusses using this method to combat counterfeiting in the gemstone industry, it does not limit the claims to this specific application.

As we previously discussed, the United States District Court for the District of Southern New York dismissed Rady's complaint for patent infringement against DeBeers and Boston Consulting Group because the asserted patent did not claim patent-eligible subject matter. In applying *Alice* step one, the Court found that Rady's use of known components to perform, "well-understood, routine, conventional activities" without specifying a particular "configuration

or arrangement" ultimately described an abstract, unpatentable idea. Under *Alice* step two, the Court found that the claims, individually and as "an ordered combination[,]" did not transform the patent into an inventive concept. According to the District Court, the claims stated a method for storing and processing data on a blockchain but did not "improve[ ] the functionality of storing and processing data on a blockchain."

Rady's appeal of the District Court's dismissal not only implicates a contentious area of law; it also addresses relatively new subject matter. Few cases appear to have directly addressed the patent eligibility of blockchain-related inventions. Though blockchain technology has existed for over a decade, the District Court's decision did not seem to be informed by any blockchain-related law – it analogized to physical computer components in *Alice* and cited no cases addressing blockchain-related inventions. Characterizing blockchain as merely a digital ledger, the Court treated blockchain as well trodden ground despite its applications being largely untouched by patent eligibility jurisprudence.

The Court's assessment of Rady's invention focused on whether the components for analyzing the physical properties of an object and/or blockchain technology had been known and whether the claimed combination of components had been sufficiently transformative. The components for conducting the physical analysis were abstract because they comprised a conventional method of collecting data on objects, whereas the blockchain aspect was unpatentable because it essentially acted as a digital ledger. The brief opinion, however, said little about the interaction between the analytical components and blockchain components, seemingly implying that a method by which traditional analytical tools can interface with standard blockchain technology is unpatentable.

The District Court's analysis was also debatably swallowed up by anticipation and obviousness arguments, a criticism often directed at the Federal Circuit's patent eligibility analyses.

If upheld, the District Court's holding could have far-reaching implications for blockchain-related inventions. Recording data is the central purpose of a blockchain, and the Court essentially said that a "new" application of blockchain technology could be unpatentable if it uses conventional data recording methods without changing the blockchain process. This leaves potential blockchain patentees with two options: measure data to be stored on a blockchain in an *un*conventional way and/or somehow improve the blockchain itself.

Alternatively, the Federal Circuit could avoid a broad-based decision and instead study whether a specific application of blockchain technology, even if wrapped up in conventional methods, is adequately transformative to comply with Section 101. The upcoming oral argument might shed significant light on how practitioners should evaluate blockchain applications in the context of patent subject matter eligibility.

[1] https://ipwatchdog.com/2023/10/10/supreme-court-going-declare-patent-eligibility-restoration-act-unconstitutional/id=168079/ ("Don't be surprised when the Supreme Court declares [the Patent Eligibility Restoration Act] unconstitutional.").

"In conclusion, the claims of Plaintiff's '250 patent fail under the Alice test, and, therefore, Plaintiff's patent infringement claim is dismissed."

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