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CLIENT MEMORANDUM

Alice Corp. v. CLS Bank: Supreme Court Holds Computer Implementation Does Not Render Abstract Idea Eligible For Patent

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The Supreme Court Holds That Implementing an Abstract Idea on a Generic Computer Does Not Transform that Abstract Idea into a Patent-Eligible Invention under § 101

On June 19, 2014, the Supreme Court issued its opinion in *Alice Corp. v. CLS Bank*, holding that claiming generic computer implementation of the abstract idea of mitigating "settlement risk" does not transform that abstract idea into patent eligible subject matter under 35 U.S.C. § 101. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. __ (2014).

The Court's decision clarified that abstract ideas will not be patent eligible simply through implementation on a generic computer, and rejected arguments directed to the form of the claims, including system claims with specific hardware. However, the Court specifically declined to define what would be considered an abstract idea, stating simply that the concept of intermediated settlement at issue in this case was "squarely within the realm of 'abstract ideas' as we have used that term."

Computer-implemented inventions, in particular, those whose novelty is in an algorithm implemented through software, will continue to be subject to attack, although now the battleground will shift to whether the computer-implemented invention is based on an "abstract idea." This decision continues a trend in Supreme Court decisions against the types of

patents and strategies favored by non-practicing entities (NPEs), otherwise known as patent trolls. This decision also evinces a preference for dedicated physical elements over pure software implementations.

Background

Alice Corporation ("Alice") is the assignee of several patents that claim a computer-implemented method to mitigate the risk that one party to a transaction will not be able to fulfill its obligations by using a computer system as a third-party intermediary. The computer creates "shadow" account ledgers for each party to the transaction that are updated in real time to reflect the parties' real-world accounts. The computer then "allows" only those account debits and credits that will not impede the parties' ability to satisfy their respective obligations under the transaction and instructs the relevant financial institution to carry out only the permitted account changes. The patents in suit have claims directed toward (1) the method of mitigating transaction risk; (2) a computer system configured to carry out the method; and (3) a computer-readable medium containing program code for performing the method.

In 2011 the district court found the claims were patent ineligible because they were directed to an abstract idea. *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 768 F. Supp. 2d 221, 252 (D.C. 2011). On appeal, a divided panel of the Federal Circuit reversed the district court, holding that it was not "manifestly evident" that Alice's claims were directed to an abstract idea. *CLS Bank Int'l v. Alice Corp. Pty. Ltd.,* 685 F.3d 1341, 1352, 1356 (Fed. Cir. 2012). The Federal Circuit then granted rehearing en banc, vacated the panel opinion, and affirmed the judgment of the district court in seven highly fractured opinions. *CLS Bank Int'l v. Alice Corp. Pty. Ltd.,* 717 F.3d 1269 (Fed. Cir. 2013) (en banc). A majority of the en banc panel (seven out of ten judges) affirmed the district court's holding that the method and computer-readable media claims are not patent eligible under § 101. However, the panel was split equally regarding the subject-matter eligibility of Alice's system claims. Alice then appealed the decision to the Supreme Court.

Patent Eligibility and Abstract Ideas

"[A]ny new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof" is eligible for patent protection under 35 U.S.C. § 101. However, a judicially-created exception to this rule exists where the claimed invention is (1) a law of nature; (2) a natural phenomenon; or (3) an abstract idea.

In *Alice Corp. v. CLS Bank*, the Supreme Court emphasized that the focus of this exception is to prevent a monopoly over "the basic tools of scientific and technological work" because "[m]onopolization 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." *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. __ (2014) (slip op., at 6) (internal quotation omitted). However, an invention is not ineligible simply because it involves an abstract idea, because "[a]t some level, 'all inventions . . . embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas.'" *Id*. (citing *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293 (2012)). Thus, "in applying the § 101 exception, we must distinguish between patents that claim the 'buildin[g] block[s]' of human ingenuity and those that integrate the building

blocks into something more, . . . thereby 'transform[ing]' them into a patent-eligible invention[.]" *Id*. (internal citations and quotations omitted).

Abstract Ideas with Generic Computer Implementation Not Eligible for Patent Protection

In holding Alice's claims invalid as patent ineligible, the Supreme Court used a two-step framework for determining whether claims are directed toward patent-eligible subject matter. *Id.* (slip op., at 7-17).

First, the Court stated that the first step of an eligibility inquiry is to "determine whether the claims at issue are directed to a patent-ineligible concept." *Id*. (slip op., at 7). Alice argued that abstract ideas are limited to "'preexisting, fundamental truth[s]' that 'exis[t] in principle apart from any human action.'" However, the Court did not find this argument persuasive, citing the abstract idea of *Bilski* as a case that cannot be defined as a "fundamental truth." *Id*. (slip. op., at 10). After discussing the claims, the Court held that "[l]ike the risk hedging in *Bilski*, the concept of intermediated settlement is 'a fundamental economic practice long prevalent in our system of commerce.'" *Id*. (slip op., at 9) (internal quotations omitted). The Court noted that "[t]he use of a third-party intermediary (or 'clearing house') is also a building block of the modern economy." *Id*.

In the second step, the Court considered whether the elements of the claims contain an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible invention. *Id*. (slip op., at 11). The Court began by noting that "[s]tating an abstract idea while adding the words 'apply it' is not enough for patent eligibility . . . [n]or is limiting the use of an abstract idea to a particular technical environment." *Id*. (slip op., at 13) (internal quotations and citations omitted). Regarding the method claims, Alice argued that because the claims "require a substantial and meaningful role for the computer" the claims were patent eligible. *Id*. (slip op., at 14). The Court, however, did not give much weight to the substantial use of the computer, instead focusing on the type of use of the computer. The Court found that the steps performed by the computer were "'well-understood, routine, conventional activit[ies]' previously known to the industry" and thus the additional computer limitations did not "transform the abstract idea into a patent-eligible invention." *Id*. (slip op., at 15-16).

Regarding the system and computer-readable medium claims, the Court held that the recitation of specific hardware could not save an otherwise ineligible claim where the hardware does not offer "a meaningful limitation beyond generally linking 'the use of the [method] to a particular technological environment[.]'" *Id*. (slip op., at 16). Thus, the Supreme Court found all of the claims at issue patent ineligible under 35 U.S.C. § 101.

If you have any questions regarding this memorandum, please contact Eugene Chang (212 728-8988, echang@willkie.com), Tara Thieme (212 728-8489, tthieme@willkie.com) or the Willkie attorney with whom you regularly work.

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