

# Client Alert

June 2014

## Supreme Court Strikes Down Alice Corporation's Computer-Implemented Business Methods and Systems as Patent Ineligible

On June 19, 2014 the US Supreme Court handed down its much-anticipated decision in *Alice Corp. v. CLS Bank International*, affirming a fractured Federal Circuit decision invalidating Alice Corporation's claims to a computer-implemented system for limiting "settlement risk" by using a third-party intermediary. The Court held that the claims were "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." (Slip Op. at 1.)

Alice's patents at issue described systems of managing certain forms of financial risk. The claims recited a computerized scheme for mitigating the risk that only one party to an agreed-upon financial exchange will meet its obligation. In the claimed invention, a computer system facilitates the exchange of financial obligations between two parties by creating and updating "shadow" credit and debit records that mirror the balances in the parties' bank accounts. It then instructs the banks to carry out the "permitted" transactions only when the shadow balances remain above zero, thus mitigating the risk that only one party will perform the agreed-upon exchange. Alice's patent claims included the methods for exchanging obligations, the computer system used to perform the method, and a computer-readable medium containing program code for performing the method.

In 2007, CLS Bank filed a declaratory judgment action against Alice, arguing that Alice's patent claims were invalid under 35 U.S.C. 101 as drawn to patent-ineligible subject matter, namely an abstract idea. The district court granted summary judgment of invalidity, finding that the claims were all drawn to the abstract idea of "employing a neutral intermediary to facilitate simultaneous exchange of obligations in order to minimize risk." (*Id.* at 3-4.) A divided panel of the United States Court of Appeals for the Federal Circuit reversed, but upon *en banc* rehearing, the Federal Circuit vacated the panel decision and affirmed the judgment of the district court in a one-paragraph *per curiam* opinion. (*Id.* at 4.)

Writing for a five-member plurality, Judge Lourie held that the Supreme Court's decision in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, required courts to first "identify the abstract idea represented in the claim" and then determine "whether the balance of the claim adds 'significantly more.'" (*Id.*) Using that test, the plurality concluded that Alice's claims "draw on the abstract idea of reducing settlement risk by effecting trades through a third-party intermediary," and that the use of a computer to maintain, adjust and reconcile shadow accounts added nothing of substance to that abstract idea. (*Id.*) Judge Rader, writing for four of the judges, would have held the system claims patent eligible since they recited computer hardware "specifically programmed to solve a complex problem." (*Id.* at 4-5.) Three of the judges filed separate dissenting opinions arguing that all of the claims were patent eligible.

A unanimous Supreme Court affirmed the *per curiam* opinion striking down Alice's claims. The Court did not explicitly endorse any of the Federal Circuit opinions, though his analysis seemed to track most closely to Judge Lourie's. It began by reiterating the "framework" set forth in *Mayo* for determining patent eligibility:

First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts [*i.e.*, laws of nature, natural phenomena and abstract ideas]. If so, we then ask, what else is there in the claims before us? To answer that question, we consider the elements of each claim both individually and as an ordered combination to determine whether the additional elements transform the nature of the claim into a patent-eligible application. (*Id.* at 7.)

The Court described this second step “as a search for an ‘inventive concept’ — *i.e.*, an element or combination of elements that ensures the patent in practice amounts to “significantly more” than a patent upon the ineligible concept itself. (*Id.*) Applying this two-step framework, the Court first found Alice’s claims drawn to a patent-ineligible abstract idea, namely, “a fundamental economic practice long prevalent in our system of commerce.” (*Id.* at 7-8.) The Court next found that, as the claims “merely require generic computer implementation,” they “fail to transform that abstract idea into a patent eligible invention.” (*Id.* at 10.) In reaching this decision, the Court discussed several previous cases, concluding:

Stating an abstract idea while adding the words ‘apply it’ is not enough for patent eligibility. Nor is limiting the use of an abstract idea to a particular technological environment. Stating an abstract idea while adding the words ‘apply it with a computer’ simply combines those two steps, with the same deficient result. Thus, if a patent’s recitation of a computer amounts to a mere instruction to implement an abstract idea on a computer, that addition cannot impart patent eligibility. (*Id.* at 13.)

Based on this standard, the Court found that Alice’s method claims failed to recite patent-eligible subject matter because they merely instruct a practitioner to implement the abstract idea of intermediated settlement on a generic computer. (*Id.* at 14.) “Taking the claim elements separately, the function performed by the computer at each step of the process is purely conventional” since each recited computer function is “well-understood, routine, conventional activities previously known to the industry.” (*Id.* at 14-15.) Nor, when “[v]iewed as a whole,” did the claims fare any better. They did not, for example, “purport to improve the functioning of the computer itself,” or “effect an improvement in any other technology or technical field.” (*Id.* at 15.) Put another way, the claims “amount to ‘nothing significantly more’ than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer,” which the Court held was “not enough to transform an abstract idea into a patent-eligible invention.” (*Id.* at 15-16.)

Turning to Alice’s system and media claims, the Court held that they fail “for substantially the same reasons” as the method claims. (*Id.* at 16.) Although the system claims recited “specific hardware” configured to perform specific computerized functions — such as a “data processing system” with a “communications controller” and “data storage unit” — the Court concluded that each was “purely functional and generic.” According to the Court, nearly every computer will include such components “capable of performing the basic calculation, storage, and transmission functions required by the method claims.” (*Id.*) As such, none of the recited hardware “offers a meaningful limitation beyond generally linking the use of the method to a particular technological environment, that is, implementation via computers.” (*Id.*)

Justice Sotomayor, joined by Justices Ginsburg and Breyer, agreed that Alice’s method claims were drawn to an abstract idea, but noted their agreement with Justice Stevens’ view in *Bilski v. Kappos* that a “claim that merely describes a method of doing business does not qualify as a ‘process’ under §101.”

*Alice* is the latest in a string of recent Supreme Court decisions dealing with the thorny issue of patent eligibility under Section 101. The holding appears to be consistent with its earlier decisions denying broad patent protection to computer-implemented business systems and methods, while refusing to shut the door completely on such systems and methods. It will be left to the Federal Circuit and the United States Patent Office to determine what impact *Alice* has on the thousands of issued and pending business method patents. And, of course, patentees will be reading *Alice* carefully to look for clues to how to claim such discoveries in the future so as to avoid Alice’s fate.

**Contacts**

**David A. Kelly**  
dkelly@hunton.com

**Daniel G. Vivarelli, Jr.**  
dvivarelli@hunton.com

**Robert A. King**  
rking@hunton.com