

## ARTICLES

June 30, 2014

### ***ALICE CORP. V. CLS BANK: ANOTHER UNPATENTABLE BUSINESS METHOD PATENT***

On June 19, 2014, the Supreme Court unanimously decided *Alice Corp. v. CLS Bank Int'l.* and held that the claimed computer-implemented business method did not recite patent-eligible subject matter. The *Alice* decision examines the subject matter eligibility of computer-related patents under 35 U.S.C. § 101 and is the latest since *Bilski v. Kappos* to review the abstract idea exception to patent subject matter eligibility. The decision applies a two-part test to determine whether a patent claim falls under the abstract idea exception. Justice Thomas wrote the opinion of the Court.

The business method patents at issue in *Alice* were directed to a computer-implemented scheme for mitigating settlement risk in certain financial transactions. The claims included a method, a computer-readable medium, and a system.<sup>1</sup>

The Court began its analysis by reaffirming the traditional three exceptions to subject matter eligibility in §101, namely laws of nature, natural phenomena, and abstract ideas. Next, the Court applied a test for the abstract idea exception, relying on its analysis of the laws of nature exception from *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* The test contains two parts: first, determine whether the claims are drawn to an abstract idea; and second, if so, determine whether the claims contain an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application.

As to the first part, the Court declined "to delimit the precise contours of the 'abstract ideas' category." Similar to the result in *Bilski*, the Court found that the claims at issue recited the abstract idea of intermediated settlement. "Like the risk hedging in *Bilski*, the concept of intermediated settlement is a fundamental economic practice long prevalent in our system of commerce. The use of a third-party intermediary (or 'clearing house') is also a building block of the modern economy. Thus, intermediated settlement, like hedging, is an 'abstract idea' beyond the scope of § 101."

As to the second part, the Court noted that a "claim that recites an abstract idea must include additional features to ensure that the claim is more than a drafting effort designed to monopolize the abstract idea." To transform an abstract idea into patent eligible subject matter, the transformation "requires more than simply stating the abstract idea while adding the words 'apply it.'" Further, "the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention." Also, "limiting the use of an abstract idea to a particular technological environment" is not enough to transform a patent-ineligible abstract idea into a patent-eligible invention. As such, "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." "Given the ubiquity of computers, wholly generic computer implementation is not generally the sort of additional feature that provides any practical assurance that the process is more than a drafting effort designed to monopolize the abstract idea itself."

Applying the second part of the test, the Court found that the claims did no "more than simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer." As to the method claim, "each step does no more than require a generic computer to perform generic computer functions." As such, the method claims did not recite eligible subject matter. Likewise, as the computer-readable medium claims were stipulated to rise or fall with the method claims, they too were found invalid. Contrary to the method claims, the system claims recited specific hardware: a data processing system, a communications controller, and a data storage unit. However, the Court found that these system claims were also directed to a patent-ineligible abstract idea. The Court reasoned that the claimed specific hardware was purely functional and generic and that "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." Hence, the Court ruled that all of the claims were directed to the abstract idea exception of patent-eligible subject

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matter and, as a result, were invalid.

Although the decision was unanimous, a three-justice concurring opinion was filed by Justice Sotomayor. The concurrence agreed that the claims fall under the abstract idea exception, but would have also held that business method patents in general do not qualify as patent-eligible subject matter.

Stopping short of ruling that all business method patents are patent-ineligible, the Supreme Court tightened the patent-eligible standard in ruling that a patent must do more than require a generic computer to perform generic computer functions. In applying its two-part test to the above-mentioned computer-related patents, the Supreme Court took a big step in clarifying which types of software inventions are patent-eligible. This test will likely continue to be refined.

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<sup>1</sup> The following is a representative method claim:

33. A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:

(a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;

(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;

(c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only those transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and

(d) at the end of day, the supervisory institution instructing on[e] of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time-invariant obligations placed on the exchange institutions.