June 20, 2014

On June 20, 2014, the Supreme Court issued a unanimous decision in *Alice Corporation Pty. Ltd. v. CLS Bank International*, No. 13-298, 573 U.S. ___ (2014), holding Alice's patent claims invalid as drawn to a patent-ineligible abstract idea under 35 U.S.C. § 101. By granting certiorari on the ultimate question of whether "claims to computer-implemented inventions…are directed to patent-eligible subject matter" and then refusing to address it, the Court endorsed the *status quo*, in which computer-implemented inventions and business methods remain patentable (assuming they satisfy the requirements for patentability and are novel).

The Court applied the same two-step test first announced in *Mayo*, determining (1) "whether the claims at issue are directed to a patent-ineligible concept" and, if so, (2) "whether the claim's elements, considered both individually and 'as an ordered combination,' 'transform the nature of the claim' into a patent-eligible application." *See Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. ___, (2012).

For the first step, the Court followed its decision in *In re Bilski* and determined that the claims at issue were directed to a patent-ineligible abstract idea—"[l]ike the risk hedging in *Bilski*, the concept of intermediated settlement is a fundamental economic practice long prevalent in our system of commerce." *Alice*, No. 13-298, slip op. at 9 (2014).

Applying the second *Mayo* step, the Court explained 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]." *Id.* at 11. The Court rejected Alice's argument that the addition of a computer to its claims contributed sufficient "additional features" to qualify for patent-eligibility. *Id.* at 15 (internal citations omitted). As a combination, the computer components added nothing "not already present when the steps are considered separately" and did not "effect an improvement in any other technology or technical field." *Id.* Rather, "the claims at issue amount[ed] to nothing significantly more than an instruction to apply the abstract idea … using some unspecified, generic computer." *Id.* (internal citations omitted).

Potential impacts

Though the *Alice* decision did not announce a new legal standard for patent-eligible subject matter, it is significant because the Supreme Court did not hold that all method claims are patent ineligible. Three members of the Court—Justices Sotomayor, Ginsburg, and Breyer—wrote a concurring opinion indicating that they would have held that all business method patents are invalid under § 101.

Lower courts will now grapple with defining what constitutes an unpatentable abstract idea. The Court's opinion does not provide any new guidance on the issue. For many litigants, the outcome of a § 101 challenge will hinge on how the essence of a patent claim is characterized. If the alleged infringer frames the debate and persuades a district judge or patent examiner that a claim is drawn to an abstract idea like hedging risk or the concept of intermediated settlement, a holding that the claim covers unpatentable subject matter may be foreordained.

Litigation Strategy: The Court's skeptical stance toward computer-based claim limitations offers alleged infringers broader invalidity arguments against software patents. Defendants accused of infringing software patents should consider whether asserted claims can be distilled to an abstract idea, and if so, whether there are additional claim limitations that significantly transform what is claimed. If not, a § 101 challenge is in order. A § 101 challenge may pay dividends even if it is ultimately unsuccessful, as the court's identification of an abstract idea and the additional limitations that render a claim patentable may be useful for damages

apportionment.

Claim Drafting: In line with *Mayo* and *Bilski*, the *Alice* decision is further evidence that patent drafters must do more than simply include computer-hardware elements in patent claims to satisfy the requirements for § 101 patent eligibility. As the Court noted, virtually all patent claims can be distilled to an abstract idea—so it is up to patent prosecution counsel to ensure that claims are adequately limited to avoid § 101 challenges.

Background

CLS Bank filed suit against Alice seeking a declaratory judgment of noninfringement, invalidity, and unenforceability as to U.S. Patents 5,970,479 ('479 patent), 6,912,510 ('510 patent), and 7,149,720 ('720 patent) and invalidity of U.S. Patent 7,725,375 ('375 patent) in the U.S. District Court for the District of Columbia. 768 F. Supp. 2d 221 (D.D.C. 2011).

Alice answered and counterclaimed, alleging infringement. *Id.* at 229. The challenged patents claim computerized methods, computer-readable media, and systems for conducting financial transactions by using a third party to settle obligations so as to mitigate "settlement risk"—the risk to each party in an exchange that only one of the two parties will actually pay its obligation.

A Federal Circuit panel reversed the District Court's invalidity ruling, holding that the claims at issue were all patent eligible under §101. 685 F.3d 1341 (Fed. Cir. 2012) Upon reconsideration en banc, the Federal Circuit vacated its panel decision and affirmed the district court's holding that the challenged claims were not directed to eligible subject matter. 484 F. App'x 559 (Fed. Cir. 2012). The Supreme Court affirmed the Federal Circuit's en banc holding. 573 U.S. ___ (2014).

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