Intellectual Property Advisory

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Supreme Court Rules Patent Claims Ineligible as Abstract Ideas, Affirming Federal Circuit in *Alice Corp Pty. Ltd. v. CLS Bank Int'l*

In a 9-0 decision written by Justice Clarence Thomas, the US Supreme Court affirmed the decision by the US Court of Appeals for the Federal Circuit in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, Case No.13-298, holding that all of the patent claims at issue were directed to unpatentable subject matter under 35 U.S.C. § 101. 573 U.S. __ (2014). The claims were directed to computer-implemented methods, systems and articles of manufacture (media) for mitigating settlement risk — the risk that only one party to a financial exchange will satisfy its obligation.

The Court first reaffirmed its long-held position that although § 101 broadly permits patents for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof," this provision does not apply to laws of nature, natural phenomena and abstract ideas. Slip Op. at 5 (citations omitted). "[T]he concern that drives this exclusionary principle" is "one of pre-emption." *Id*. (citation omitted). Because "[l]aws of nature, natural phenomena, and abstract ideas are the basic tools of scientific and technological work. . . . [m]onopolization of those tools through the grant of a patent might tend to impede innovation more than it would tend to promote it." *Id*. at 6 (citations and internal quotations omitted). Thus, the Court has "repeatedly emphasized this . . . concern that patent law not inhibit further discovery by improperly tying up the future use of these building blocks." *Id*. (citation and internal quotation omitted); *see also CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 1281 (Fed. Cir. 2013) (Lourie, J., concurring) ("What matters is whether a claim threatens to subsume the full scope of a fundamental concept . . . .").

In its analysis, the Court turned to its recent opinion in *Mayo Collaborative Servs. v. Prometheus Labs. Inc.*, 566 U.S. __ (2012), that "set forth a framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts." Slip. Op. at 7. First, the Court considers whether the claims are "directed to one of those patent ineligible concepts." *Id*. If the claims are so directed, the Court then asks whether "the elements of each claim both individually and 'as an ordered combination' . . . 'transform the nature of the claim' into a patent-eligible application [of the concept]." *Id*. (quoting *Mayo*, 566 U.S. __ (Slip Op. at 9, 10)).

As to the first step of the *Mayo* inquiry, the Court found that the claims were drawn to the abstract idea of "intermediated settlement." *Id*. In doing so, the Court did not articulate a new "test" for determining whether a claim was directed to an abstract idea — an issue that some judges and commentators have found difficult to articulate and apply. *See, e.g., CLS Bank*, 717 F.3d at 1277 (Fed. Cir. 2013) (Lourie, J., concurring) (recognizing that the difficulty with the patent-eligibility test "lies in consistently and predictably differentiating between, on the one hand, claims that would tie up laws of nature, natural

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phenomena, or abstract ideas, and, on the other, claims that merely 'embody, use, reflect, rest upon, or apply' those fundamental tools"). The Court recited its past formulations of "abstract idea" from its prior decisions in *Gottschalk v. Benson*, 409 U.S. 63 (1972), *Parker v. Flook*, 437 U.S. 584 (1978) and *Bilski v. Kappos*, 561 U.S. 593 (2010). Slip Op. at 7-9. It observed that the claims were most like those in *Bilski*: "Like the risk hedging in Bilski, the concept of intermediated settlement is a fundamental economic practice long prevalent in our system of commerce." *Id.* at 9 (internal quotations omitted). Pointing to its decision in *Bilski*, the Court rejected the petitioner's argument that "the abstract-ideas category is confined to preexisting, fundamental truth[s] that exis[t] in principle apart from any human action." *Id.* at 10 (internal quotations omitted). The rejection of petitioner's argument provides some insight that "abstract ideas" will be viewed more broadly than, for example, algorithms. But the Court was clear that its decision does not "delimit the precise contours of the 'abstract ideas' category in this case." *Id.*

Having found that the claims were directed to an abstract idea, the Court then applied step two of the *Mayo* inquiry to find that the method claims, "which merely require generic computer implementation, fail to transform that abstract idea into a patent-eligible invention." *Id.* For instruction on this issue, the Court turned to its prior decisions in *Mayo*, *Flook* and *Diamond v. Diehr*, 450 U.S. 175 (1981) for the proposition that "the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention." Slip Op. at 13. As to the specific claims at issue, the Court found that they did not "do more than simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer." *Id.* at 14. The Court looked at the claim elements separately and found that the function performed by the computer at each step of the process was "purely conventional." *Id.* at 15. Considered as an "ordered combination," the computer components of the claims added "nothing . . . that is not already present when the steps are considered separately." *Id.* Simply put, the method claims did not "purport to improve the functioning of the computer itself" or "effect an improvement in any other technology or technical field." *Id.* Instead, "the claims at issue amount to nothing significantly more than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer." *Id.* (internal quotation omitted).[1]

The Court's decision does not provide an easy test to identify whether a claim is directed to an abstract idea. It is, however, an incremental step in constructing arguments as to whether claims are patent eligible. The decision does make clear that once a claim is determined to be directed to an abstract idea, the addition of general-purpose computer limitations does not, without more, make it patent eligible. As in past decisions directed to § 101, the Court appears to be treading carefully to avoid precluding patent protection for emerging technology. The overarching rationale appears to be to prevent overly broad patent claims from chilling innovation.

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[1]   For the same reasons, the claims to a computer system and computer readable media also failed.

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