

Client Alert

Intellectual Property Practice Group

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Alice Corp.—Through the Looking Glass Darkly

Continuing its recent series of patent law decisions, the Supreme Court issued its opinion in *Alice Corp. v. CLS Bank International* on June 19, 2014. The question before the Court was whether Alice Corp.'s patent claims, directed to a computer implementation of a "settlement risk" mitigation scheme, recited subject matter that was eligible for patent protection under 35 U.S.C. § 101. More specifically, the issue was whether Alice Corp.'s claims recited more than abstract ideas, which are ineligible subject matter for patent protection. In a unanimous opinion, the Court affirmed the Federal Circuit's decision holding that Alice Corp.'s claims were directed to abstract ideas and thus ineligible subject matter. While not providing a bright line test, the Court's opinion provides additional guidance on how to evaluate the validity of business method and software patent claims.

The Court's analysis in *Alice Corp.* relied on the two-part test it set forth in 2012 in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, which addressed the patentability of a method for measuring metabolites in the blood to determine appropriate drug dosages. The first prong of this *Mayo* test is to "determine whether the claims at issue are directed to a patent eligible concept," which the Court has long held to exclude laws of nature, natural phenomena and abstract ideas. *Alice Corp.*, p. 7. If it is determined that an abstract idea has been claimed, the second prong of the *Mayo* test asks whether the claim elements, viewed individually or in combination, "transform that abstract idea into a patent-eligible invention." *Alice Corp.*, pp. 10-11.

Applying the first prong of this *Mayo* test, the Court held that Alice Corp.'s claims were merely recitations of abstract ideas. Rather than provide a clear rule for judging abstractness, however, the Court evaluated Alice Corp.'s claims by comparing them to the claims it had previously determined to be abstract in its *Bilski* decision from 2010. The Court held that Alice Corp.'s claims recited abstract ideas because, like the invalidated claims at issue in *Bilski* (reciting a method for hedging against price changes), Alice Corp.'s claims were based on an idea (using an intermediary to mitigate settlement risk) that was a well-known concept. The Court cited several scholarly publications to establish that the use of intermediaries for settlement risk mitigation was prevalent long before Alice Corp.'s patent and that this concept was now a fundamental aspect of

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commerce. In doing so, the Court appears to have set forth at least one evidentiary framework by which the abstractness of a claim may be determined.

Considering the second prong of the *Mayo* framework, the Court held that the recitation of computer elements in the claims recited a “generic computer implementation” of the abstract idea of intermediated settlement and failed to provide any “inventive concept” that could transform the application of the abstract idea into patentable subject matter. See *Alice Corp.*, p. 10. The Court again turned to its prior jurisprudence to evaluate whether Alice Corp.’s claims provided an “inventive concept.” Surveying several of its prior opinions, the Court concluded that “mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention.” *Alice Corp.*, p. 13. The Court held that use of a computer in Alice Corp.’s claims for tasks such as recordkeeping, retrieving data, adjusting account balances, and issuing automated instructions constituted “purely conventional” uses of a generic computer that did not provide an inventive concept.

The Court found that Alice Corp.’s claims directed to a computer *system* were also generic implementations of the abstract intermediated settlement idea, despite the recitation of several “specific” hardware components. The Court held that the “communication controller” and “data storage unit” components recited in the claims were generic components that would be found on “[n]early every computer” and thus offered no “meaningful limitation” beyond requiring a computer implementation of the underlying abstract idea. *Alice Corp.*, p. 16.

With this decision, the Court appears to have opened the door to an increase in Section 101 invalidity defenses, particularly regarding business method and software patents, especially those related to the financial services industry. Also, the decision is likely to impact prosecution of current U.S. utility patent applications.

On June 26, 2014, the Patent Office issued a memorandum providing examiners with guidance in applying *Alice Corp.* in evaluating patent eligibility of inventions, particularly with regard to abstractness. See http://www.uspto.gov/patents/announce/alice_pec_25jun2014.pdf. The memorandum notes that there are no categories of subject matter that are per se excluded, such as software or business methods, and no special requirements imposed for software or business method eligibility. The Patent Office adopted the two-part *Mayo* framework as the standard for evaluating the judicial exceptions to patent eligibility (i.e., laws of nature, natural phenomena, and abstract ideas) for all types of claims. This updated guidance is intended to provide a more coherent examination of patent eligibility in general by consolidating the patent eligibility standards from *Mayo* and *Bilski* into a single framework.

With regard to evaluating abstractness according to the first prong of the *Mayo* test, patent examiners are instructed to determine if the claim at issue is directed to an abstract idea. Examples given include “fundamental economic practices,” “methods of organizing human activities,” an “idea of itself,” and “mathematical relationships/formulas.” With regard to the second prong of the *Mayo* test, if the examiner finds that the claim invokes an abstract idea, the examiner is instructed to determine whether the claim “amounts to significantly more than the abstract idea itself.” The examples given include “[i]mprovements to another technology or technical field,” “[i]mprovements to functioning of the computer itself,” and “[m]eaningful limitations beyond generally linking the use of an abstract idea to a particular technological environment.” Reiterating the holding in *Alice Corp.*, the memorandum states that “requiring no more than a generic computer to perform generic ... functions that are well-understood, routine, and conventional practices previously known in the industry” will not suffice.

Patent applicants can expect that examiners will apply these new examination guidelines to patent applications for all invention classes. Drafters of software (and other) claims should be prepared to establish that the claims recite recent innovations rather than modern applications of well-known concepts and, whenever possible, to tie claims to non-generic hardware and software components.



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