Supreme Court Rules that a Generic Computer Application of a Fundamental Concept is Not Patent Eligible in *Alice Corp. v. CLS Bank*

On June 19, 2014, the Supreme Court in *Alice Corporation Pty. Ltd. v. CLS Bank International*, No. 13-298, unanimously held that software relating to a computerized scheme for mitigating "settlement risk" was not patent eligible under 35 U.S.C. § 101. Applying the two-part inquiry outlined by the Court in *Mayo Collaborative Servs. v. Prometheus Labs.*, the Court found that the claims at issue were drawn to an abstract idea, and that nothing in the claims rose to the level of an inventive concept sufficient to transform that abstract idea into a patent eligible invention.

The patent claims at issue in *Alice Corp.* generally concern a computerized platform through which a trusted third party, acting as an escrow or intermediary, can verify that each party to a financial transaction is able to perform its obligations under the transaction, before the parties actually perform. The patents included method claims, computer-readable media claims, and system claims.

The Federal Circuit *en banc*, in a one paragraph *per curiam* opinion, affirmed the district court's decision finding all asserted claims to be patent ineligible under § 101. A majority of the panel (7-3) voted to strike down the method and computer-readable media claims as merely claiming a patent ineligible abstract idea, whereas the panel was evenly split as to whether the system claims were directed to patent eligible subject matter – though this was sufficient to affirm the decision below. In addition, a majority of the panel (8-2) agreed that all claims, regardless of their type, should be validated or invalidated together. The fractured panel authored six opinions plus "additional reflections" by former Chief Judge Rader, none of which garnered majority support.

On appeal to the Supreme Court, Alice Corp. argued that claims are patent ineligible only if they merely recite, or simply use a computer to perform, a "fundamental truth" that is "equivalent to a law of nature" and "exist[s] in principle apart from any human action," such as a mathematical formula. All other claims – including those that apply a fundamental truth in a "very specific way" (such as the patents-in-suit, in Alice Corp.'s view) – are patent eligible. CLS Bank argued that the Court's precedents control the analysis in this case: *Bilski v. Kappos*dictates that the asserted claims, which are directed to a fundamental economic principle that is conceptually no different from the claims that were at issue in *Bilski*, recite an abstract idea; and *Mayo v. Prometheus* dictates that the asserted claims are not patent eligible because they lack an inventive concept sufficient to transform the underlying patent ineligible abstract idea into a patent eligible invention.

In determining that the claims were directed to a patent ineligible abstract idea that is beyond the scope of § 101, the Court drew heavily on its decision in *Bilski* to find that the claimed concept of intermediated settlement is "a fundamental economic practice long prevalent in our system of commerce." The Court emphasized that the concern driving § 101 is "pre-emption" – "that patent law not inhibit further discovery by improperly tying up the future use of these building blocks of human ingenuity." Thus, the Court was unmoved by Alice Corp.'s attempt to narrow § 101, again citing *Bilski*, in which all of the claims – including one that reduced an abstract idea to a mathematical formula – were held to be patent ineligible abstract ideas.

In determining that nothing in the claims transformed the abstract idea into a patent eligible invention, the Court, drawing on its precedents in *Mayo*, *Parker v. Flook*, and *Diamond v. Diehr*, found that the generic computer implementation of the claims was insufficient to supply the necessary inventive concept to transform an abstract idea into a patent eligible invention, noting that the process could be carried out on existing computers. While the Court's decision limits software patents, it does not eliminate them, especially

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those that "improve the functioning of a computer itself" or "effect an improvement in any other technology or technical field."

Justice Sotomayor wrote a separate concurrence, joined by Justice Ginsburg and Justice Breyer. Parroting Justice Stevens' concurrence in *Bilski v. Kappos* (which was also joined by Justices Sotomayor, Ginsburg, and Breyer), Justice Sotomayor stated her view that any claim that merely describes a business method is patent ineligible due to its failure to qualify as a process under § 101.

To find out how the Supreme Court's decision in *Alice Corp.* affects your interests, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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