

Intellectual Property Alert

June 20, 2014

Supreme Court Limits Software Patents on “Abstract” Ideas

On June 19, in *Alice Corp. Pty. Ltd. v. CLS Bank Int’l et al.*, No. 13-298, the Supreme Court unanimously held that a party may not patent “generic computer implementation” of an abstract business idea. Relying on the Court’s recent patentability decisions, Justice Thomas explained that a claim directed to such an idea is patent eligible only if it contains an “inventive concept”: something “significantly more” than the abstract idea itself.

Background

The patents at issue in *Alice Corp.* concern “settlement risk,” “the risk that only one party to a financial transaction will pay what it owes.” That risk has long been mitigated by use of a third-party intermediary; someone who helps to ensure that no one will pay unless everyone does. Alice Corp. was assigned several patents aimed at using a computer system as that third-party intermediary. The computer’s method, in short, was to create “shadow” records reflecting the parties’ real-world bank accounts; update those records in real time throughout the day, permitting only transactions that all parties could afford; and at day’s end, instruct the real-world banks to carry out those transactions. The patents at issue claimed: (1) that “method for exchanging obligations”; (2) a computer system for effectuating the method; and (3) a “computer-readable medium containing program code for performing the method.”

CLS Bank facilitates currency transactions. It sought declaratory relief against Alice Corp., urging that the patent claims were invalid, unenforceable or not infringed. The district court held that the claims were patent ineligible “because they [were] directed to the abstract idea of ‘employing a neutral intermediary to facilitate simultaneous exchange of obligations to minimize risk.’” Sitting *en banc*, a deeply fractured Federal Circuit set aside a contrary panel opinion and affirmed.

Abstract Ideas Not Patentable Merely Because They Are Computer-Implemented

Section 101 of the Patent Act describes patent-eligible subject matter as “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof ***.” 35 U.S.C. § 101. Drawing on its longstanding rule that “[l]aws of nature, natural phenomena, and abstract ideas” are not patent-eligible under § 101, the Supreme Court explained that: (1) claims “directed to one of those patent-ineligible concepts” are patent eligible only if (2) the elements of each claim, individually or in combination, are “sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.”

Applying that framework, the Court held that Alice Corp.’s claims were “drawn to the abstract idea of intermediated settlement.” Those claims, Justice Thomas explained, were not meaningfully different from “the concept of risk hedging” deemed too abstract in *Bilski v. Kappos*, 561 U.S. 593 (2010). Accordingly, the Court refused to “labor to delimit the precise contours of the ‘abstract ideas’ category,” and moved on

to the second step of its inquiry: searching for an “inventive concept” that would “transform” the claimed abstract idea into a patent-eligible application.”

Surveying its prior cases, including *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), the Court explained that “if a patent’s recitation of a computer amounts to a mere instruction to ‘implemen[t]’ an abstract idea ‘on *** a computer,’ *** that addition cannot impart patent eligibility.” The question here was “whether the claims *** do more than simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer.”

The Court concluded that “[t]hey do not.” The steps of the claimed method were conventional; they simply required a “generic computer to perform generic computer functions,” like electronic recordkeeping and adjustment of account balances, rather than “purport[ing] to improve the functioning of the computer itself” or “effect[ing] an improvement in any other technology or technical field.” The method claim was therefore not patent-eligible. And, as Alice Corp. conceded, because its method claim was held invalid, its claim to a medium containing code for performing the method was invalid, too.

Finally, the Court rejected Alice Corp.’s system claim for merely “recit[ing] a handful of generic computer components configured to implement the same [abstract] idea.” Linking an abstract method to a particular (generic) technological environment is, in short, not enough to “transform” an abstraction into something patent eligible.

A More Restrictive View

Justice Sotomayor, joined by Justices Ginsburg and Breyer, issued a one-paragraph concurring opinion. Although embracing Justice Thomas’s opinion for the Court, they noted their “adher[ance] to the view that any ‘claim that merely describes a method of doing business does not qualify as a [patent-eligible] process ***.’” The Court’s opinion does not accept or reject that broader position, which would further limit the realm of patent-eligible subject matter.

Contact Information

Please contact any member of Akin Gump's intellectual property or Supreme Court and appellate litigation team for assistance with any questions you may have.

David Stein

dstein@akingump.com

949.885.4210

Irvine

Pratik A. Shah

pshah@akingump.com

202.887.4210

Washington, D.C.

Chad Everingham

ceveringham@akingump.com

903.297.7404

Longview