June 20, 2014

Supreme Court Unanimously Affirms Federal Circuit's Decision in *CLS Bank*: *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, No. 13-298

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On June 19, 2014, the U.S. Supreme Court affirmed the Federal Circuit's decision holding that the method, computer-readable medium, and system claims at issue in *CLS Bank* are not directed to eligible subject matter under 35 U.S.C. § 101. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, No. 13-298 (June 19, 2014). Unlike the Federal Circuit's fractured *en banc* decision, the Supreme Court's opinion is unanimous and unambiguously defines the standard for applying the "abstract ideas" exception for patent eligibility determinations under 35 U.S.C. § 101. In particular, the Supreme Court made clear that (1) the "abstract idea" exception is not limited to preexisting, fundamental truths (the Supreme Court declined to consider the outer limits of the "abstract idea" exception) and (2) the implementation of an abstract idea in a particular technological environment—in *CLS Bank*, implementation via a computer—is not alone sufficient to transform an abstract idea into something that is patent-eligible.

Although the Supreme Court's opinion is not the death knell for business method patents, the *CLS Bank* standard will likely make it easier to challenge the validity of business method patents under § 101. Further, in a separate concurring opinion, Justices Sotomayor, Ginsburg, and Breyer made clear their belief that business methods are patent-ineligible because they do not qualify as a "process" under § 101. Finally, by issuing yet another unanimous opinion in a patent case, the Supreme Court again confirmed that it will continue to resolve core, and frequently divisive, patent-law issues, notwithstanding the specialized expertise offered by the Federal Circuit.

I. BACKGROUND

The U.S. District Court for the District of Columbia held that Alice's method, computer-readable medium, and system claims were invalid as directed to a patent-ineligible abstract idea. A three-judge panel of the Federal Circuit initially reversed the district court's decision. After rehearing *en banc*, a fractured Federal Circuit issued a 135-page opinion consisting of multiple non-precedential tests for the "abstract idea" exception under § 101. In a one-page precedential *per curiam* decision, the appellate court summarily affirmed the trial court's holding that the patent was unpatentable. For a more detailed account of the background in *CLS Bank*, please see our prior Client Alerts. *See* A Fractured Federal Circuit Creates More Questions Than Answers: *CLS Bank Int'l v. Alice Corp.*, No. 2011-1301 (May 13, 2013) and Will the Supreme Court Save Business Method Patents? *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, No. 13-298 (April 8, 2014).

II. SUPREME COURT AFFIRMS FEDERAL CIRCUIT'S DECISION

The Supreme Court granted certiorari to decide whether "claims to computer-implemented inventions—including claims to systems and machines, processes, and items of manufacture—are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101." In its unanimous opinion, the Supreme Court provided a single test

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for the "abstract ideas" exception. Using a two-step approach, courts should determine: (1) whether the claim is directed to an abstract idea; if so, (2) whether the claim has an "inventive concept" that amounts to "significantly more than a patent upon the ineligible concept itself." When searching for an "inventive concept," courts should "consider the elements of each claim both individually and 'as an ordered combination' to determine whether the additional elements 'transform the nature of the claim' into a patent-eligible application."

A. Claims Are Directed to Abstract Idea of "Intermediated Settlement"

Under the first step of the *CLS Bank* test, the Supreme Court found that Alice's claims, which use a third party to mitigate settlement risk, are directed to the abstract idea of "intermediated settlement." The Court made clear that "abstract ideas" are not confined to "preexisting fundamental truths that exist in principle apart from any human action." Because it was not necessary for resolution of the case, the Court did not specify the outer bounds of "abstract ideas." The Court relied extensively on *Bilski v. Kappos*, 561 U.S. 593 (2010) to support its decision that "intermediated settlement" is an abstract idea. In particular, the Court found that, much like "risk hedging" in *Bilski*—unanimously found to be an abstract idea—"intermediated settlement" is likewise "a fundamental economic practice long prevalent in our system of commerce" and "a building block of the modern economy."

B. Claims Merely Apply "Intermediated Settlement" to a Generic Computer

After finding that the claims are directed to an abstract idea, the Court applied the second step of the *CLS Bank* test and found that Alice's claims lack the "inventive concept" necessary to "transform the claimed abstract idea into a patent-eligible application." The Court reiterated that its prior cases (*i.e.*, *Mayo*, *Bilski*, *Flook*) "demonstrate that the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention," nor can "limiting the use of an abstract idea to a particular technological environment." Indeed, "wholly generic computer implementation is not generally the sort of additional feature that provides any practical assurance that the process is more than a drafting effort designed to monopolize the abstract idea itself."

Relying upon prior precedent, the Court found that Alice's claims do no more than "simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer." When taking the claim elements separately (*e.g.*, maintaining shadow accounts, adjusting account balances, etc.), the functions performed by the computer for each step are "well-understood, routine, conventional activities previously known to the industry." When considering the claim elements "as an ordered combination," the claims "amount to nothing significantly more than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer."

C. Concurring Opinion Seeks Death Knell for Business Method Patents

Justices Sotomayor, Ginsburg, and Breyer's separate concurring opinion suggests that Alice's claims are invalid because any "claim that merely describes a method of doing business does not qualify as a 'process' under § 101." Under this theory, the Court would not need to apply the "abstract ideas" exception because business method claims would not fall within one of the four statutory bases for patent protection. Interestingly, it appears that this position may have weakened since oral argument, where Justice Ginsburg stated that "four Justices of this Court" disagreed with Alice's counsel's representation that legislative history demonstrates Congress's intent to allow the business methods to be patented.

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III. IMPACT

Faced with uncertainty after the Federal Circuit's fractured decision, the Supreme Court provides clarity regarding the test for applying the "abstract ideas" exception under § 101. And the tenor of this decision, coupled with the concurrence, arguably suggests that many business method patents, may fail the two part test. In practice, *CLS Bank* may provide a defense against claims that fall within the scope of that decision, and also may require revisiting existing, ongoing, and contemplated prosecutions, given the real possibility that business method claims may no longer be patentable.

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