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Supreme Court Holds in *Alice Corp.* that Generic Computer Automation of an Abstract Idea Is Not Eligible for Patenting

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In a case that could have broad implications for software patents, the Supreme Court last week held that an abstract idea does not qualify for patent protection merely by claiming that the idea can be implemented using a computer with generic hardware components. Rather, a patentee must claim “additional features” beyond generic components that transform the abstract idea into a particular application of the idea.

Alice Corp. Pty. Ltd. v. CLS Bank Int'l

In *Alice Corp.*, the Supreme Court decided that claims directed to using a computer as an intermediary to settle financial transactions were not eligible for patenting under 35 U.S.C. § 101.

Under § 101, a person may obtain a patent on “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” Despite the broad wording of § 101, courts have long recognized that certain subject matter is not eligible for patenting, including laws of nature, natural phenomena, and abstract ideas.

For many years, the Federal Circuit applied the “machine or transformation” test to determine whether a patent was directed to eligible subject matter under § 101. Under that test, a claimed invention was deemed patent-eligible if (i) it was tied to a particular machine or apparatus, or (ii) it transformed a particular article into a different state or thing. In 2010, however, the Supreme Court held in *Bilski v. Kappos*, 561 U.S. 593 (2010), that the “machine or transformation” test is not the exclusive test for patent eligibility. In that case, the Court held that a process does not become patent-eligible merely because it is performed by a computer. In particular, the Court held that the concept of using a computer to hedge risks in the energy market was a patent-ineligible abstract idea.

In 2013, the Federal Circuit issued an *en banc* decision in *CLS Bank v. Alice Corp.* addressing whether patent claims directed to the computer automation of escrow services were eligible for patenting under § 101. As in *Bilski*, the Federal Circuit held that a method that merely sets forth “generic computer automation” of an abstract concept (using a computer to implement an escrow arrangement) was not sufficient under § 101. The Judges of the Federal Circuit, however, were split on whether a system claim incorporating certain computer components (e.g., a “data storage unit” and a “communications controller”) would satisfy § 101. The Judges were split on whether “method” claims should be treated differently from “system” claims.

The Supreme Court agreed to review the *Alice Corp.* case and last week affirmed the Federal Circuit’s *en banc* decision, finding that the method, system, and computer-readable medium claims of the patents-in-suit were each directed to non-eligible subject matter under § 101. The Court explained that there is a two-part framework for analyzing patent eligibility. First, a court must determine whether the claims at issue are directed to a law of nature, natural phenomena, or abstract idea. If so, a court must next ask whether the elements of the claims set forth “additional features” that reflect an “inventive concept” that “transform[s] the nature of the claim into a patent eligible application.”

The Supreme Court held that the challenged claims in *Alice Corp.* were directed to the abstract idea of “intermediated settlement.” Although the Court declined to “delimit the precise contours of the ‘abstract ideas’ category,” it noted that there is no “meaningful distinction” between the concept at issue in *Alice Corp.* (intermediated settlement) and the concept of risk hedging, which was found to be an abstract idea in the Court’s prior decision in *Bilski*. Like the concept of risk hedging in *Bilski*, the concept of intermediated settlement in *Alice Corp.* has been “long prevalent in our system of commerce” and is “a building block of the modern economy.”

The Court next found that the challenged claims at issue in *Alice Corp.* did not contain “additional features” sufficient to transform the claims into a particular application of the concept of intermediated settlement. The Court noted that the elements of the challenged claims were “purely conventional” steps. “In short, each step does no more than require a generic computer to perform generic computer functions.” Although the patents recited various hardware components, the Court held that the hardware was also “purely functional and generic” and therefore did not provide a meaningful limitation on the concept of intermediated settlement.

The Supreme Court has left it to the lower courts to “delimit the precise contours” of what constitutes an abstract idea and when a claim sets forth “additional features” that are sufficient to satisfy § 101. The impact of the *Alice Corp.* decision could be dramatic for valuations of software patents. Read broadly, scores of software claims, as typically drafted, may now be patent ineligible since many, if not most, recite generic computer implementations which have now been found not to add the necessary “additional features” required for patent eligibility.

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