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ALICE AND THE ABSTRACT IDEA

On June 19, 2014 the U.S. Supreme Court in *Alice Corporation Pty. Ltd. v. CLS Bank International*, 573 U.S. ____ (2014) (*Alice*) struck down method claims related to mitigating “settlement risk” in financial transactions as being drawn to an abstract idea. The Court further concluded that computer implemented claims for mitigating “settlement risk” in financial transactions were also ineligible for patent protection.

Alice Corporation (Alice Corp) owns several patents on managing risk of financial transactions via computer software. In May 2007, CLS Bank International (CLS Bank) filed suit against Alice asking for a declaratory judgment that the claims in Patent 5,970,479 (the ‘479 patent) are invalid.ⁱ Upon Alice Corp’s cross motion for infringement, the District Court held that all of the claims are patent ineligible because they are directed to an abstract idea. In an *en banc* decision, the Court of Federal Appeals (CAFC) affirmed, citing to *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. ____ (2012) (*Mayo*). Certiorari was granted by the U.S. Supreme Court on December 6, 2013.ⁱⁱ

The U.S. Supreme Court affirmed the decision of the CAFC that the claims were invalid for being drawn to a patent-ineligible abstract idea and are not patentable under 35 U.S.C. §101. In its analysis, the Court applied a two-step inquiry as set forth in the Court’s earlier holding in *Mayo*. Under *Mayo*, the Court must first consider whether the claims are directed to a patent ineligible concept.ⁱⁱⁱ If the first inquiry is answered in the affirmative, the Court then looks to whether the claimed elements add “an inventive concept” that transforms the nature of the claim from something that is patent *ineligible* into something that is patent *eligible*.^{iv}

The claims at issue relate to the use of a third party to mitigate settlement risk in financial transactions or to “the concept of intermediated settlement.”^v The Court states that much like risk hedging in *Bilski*, which was found to be an abstract idea, the concept of intermediated settlement in the ‘479 patent is also an abstract idea.^{vi} Specifically, the Court notes that the concept of intermediated settlement was “long prevalent in our system of commerce” and is thus an abstract idea.^{vii} Accordingly, because an abstract idea is a patent ineligible concept, the Court found that the claims met the first inquiry of *Mayo*.^{viii}

With respect to the second inquiry of *Mayo*, the Court found that the claims failed to recite “an inventive concept” that would transform the abstract idea to patent eligible subject matter.^{ix} The Court explains, based on its earlier decision in *Diehr* that the inventive concept may consist of an improvement to an existing technological process.^x The Court reasoned that the claims in *Alice* add a conventional computer or a general purpose computer to the intermediate settlement concept. The mere addition of the abstract idea to a general purpose computer fails to provide the inventive step that is necessary to transform an otherwise abstract idea into patent eligible subject matter.

The Court further examined various hardware devices (or “specific hardware”) such as “data processing system,” “communications controller,” and “data storage unit” and found that these hardware devices merely comprise generic devices that are necessary for inclusion in a conventional computer.^{xi} Thus, such devices fail to add any “meaningful limitation” to the claims.^{xii} Accordingly, the claims of the ‘479 patent failed to be patent eligible under *Mayo* at least because nothing transformed the nature of claims to be anything more than the abstract idea.

After the Court’s decision in *Alice*, the USPTO issued a memorandum on June 25, 2014 in which it reiterated that inquiries as to subject matter eligibility should be made using the two-part analysis in *Mayo*.^{xiii} The memorandum went on to explain that Examiners should first determine whether the claim is directed to one of the four statutory categories (*i.e.*, process, machine, manufacture, or composition).^{xiv} If the claim does fall within one of these categories, Examiners should then determine whether the claim falls into the first step of *Mayo* in that it is directed to a judicial exception (*i.e.*, law of nature, natural phenomenon, or abstract idea). The memorandum admits that the definition of an

abstract idea is not defined, but lists examples from *Alice* as including fundamental economic practices, methods of organizing human activities, and mathematical formulas.^{xv}

With respect to the second step, the memorandum explains that “inventions that integrate the building blocks of human ingenuity into something more by applying the abstract idea in a meaningful way are [patent] eligible.”^{xvi} Claim limitations that may qualify as an inventive concept when recited with an abstract idea may include (1) improvements to another technology or technical field; (2) improvements to the functioning of the computer itself; and (3) meaningful limitations beyond general linking the use of an abstract idea to a particular technological environment.^{xvii} The memorandum went on to state that regardless of whether the claims fail the two-part analysis, Examiners should proceed to determine patentability in accordance with the other requirements of 35 U.S.C. §§ 101, 112, 102 and 103.^{xviii}

Practical Implications

The *Alice* decision has been heavily commented on and in general, the Court’s decision aids somewhat in clarifying a complex area of patent law. Specifically, *Alice* appears to stand for the proposition that the addition of a known process or known set of operations (or some other abstract idea) to a general purpose computer fails to rise to the level of patent eligible subject matter. The impact of *Alice* may be more relevant or applicable to business method patents in general. *Alice* appears to increase the threshold to meet patent eligibility for business method inventions as it may be difficult to establish where the improvements lie in a particular technical field with these types of inventions. Furthermore, it is unlikely that a business method invention may lead to an improvement of the functioning of a computer. Courts will have to decide in the future whether claimed improvement steps of the business method itself actually rise to the level of qualifying as a meaningful limitation and therefore provide an “inventive concept.”

When reviewing inventions for patentable subject matter, particularly as it relates to inventions that attempt to claim a technological process, attempts should be made to claim aspects in the invention (or process) that provide an improvement to an existing technological process so as to establish the “inventive concept” as required by *Alice* to allow the claims to be patent eligible.

ⁱ *Alice Corporation Pty. Ltd. v. CLS Bank International*, 573 U.S. ___, __ (2014) (slip op., at 3).

ⁱⁱ *Id.*, slip op. at 3-4.

ⁱⁱⁱ *Id.*, slip op. at 7.

^{iv} *Id.* (internal quotations omitted).

^v *Id.*, slip op. at 9.

^{vi} *Id.*

^{vii} *Id.*

^{viii} *Id.*, slip op. at 10.

^{ix} *Id.*, slip op. at 11 (internal quotations omitted).

^x *Id.*, slip op. at 13.

^{xi} *Id.*, slip op. at 16.

^{xii} *Id.*

^{xiii} Hirshfeld, Andrew, Deputy Commissioner For Patent Examination Policy "Preliminary Examination Instructions in view of the Supreme Court Decision in *Alice Corporation Pty. Ltd. v. CLS Bank International, et al.*", internal memo to USPTO patent examining corps, June 25th, 2014.

^{xiv} *Id.* at 2.

^{xv} *Id.* at 2-3.

^{xvi} *Id.* at 2.

^{xvii} *Id.* at 3.

^{xviii} *Id.*