

Supreme Court Strikes Blow to Software Patents

June 20, 2014

The U.S. Supreme Court recently ruled that patent claims directed to an abstract idea do not become patent-eligible merely because they require a computer to generically implement the idea. The Court's decision in *Alice Corp. Pty. Ltd. v. CLS Bank International*, No. 13-298, --- S.Ct. ---- (June 19, 2014), affirmed the Federal Circuit's en banc opinion striking down Alice Corp.'s patents.

Alice's patents contained three types of claims—method claims, systems claims, and media claims—all directed to a computer-implemented scheme for mitigating “settlement risk” in the context of financial transactions. The lone issue before the Supreme Court was “whether these claims are patent eligible under 35 U.S.C. § 101, or instead are drawn to a patent-ineligible abstract idea.”

The Court began by explaining that while “[l]aws of nature, natural phenomena, and abstract ideas are not patentable” under section 101, “an invention is not rendered ineligible for patent simply because it involves an abstract concept.” Rather, such concepts remain patent-eligible if applied to a new and useful end. In order to distinguish between patents that claim abstract ideas from those that claim new and useful applications of those ideas, the Court looked to the framework set out in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. --- (2012). Under that framework, courts must (1) determine whether the claims at issue are directed to patent-ineligible concepts, and (2) if so, determine whether the additional elements of the claims are more than trivial and transform the nature of the claim into a patent-eligible application.

With respect to the first step, the Court held that Alice's claims were drawn to an abstract idea, and it relied heavily upon its decision in *Bilski v. Kappos*, 561 U.S. 593 (2010), to support its finding. Specifically, the Court explained that Alice's claims were drawn to the concept of using a third party (in this case, a computer) to mitigate settlement risk. It then reasoned that there is “no meaningful distinction” between such a concept and the concept of risk hedging at issue in *Bilski*, as each concept is “a fundamental economic practice long prevalent in our system of commerce.”

With respect to the second step, the Court surveyed a handful of prior cases in concluding that “the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention.” In so stating, the Court at least implicitly distinguished claims requiring “generic” or “purely conventional” computer implementation from claims that “purport to improve the functioning of the computer



itself” or that “effect an improvement in any other technology or technical field.” In this case, however, the Court concluded that Alice’s claims did “no more than require a generic computer to perform generic computer functions,” and were therefore patent-ineligible.

Although the Court’s decision provides some clarity concerning the inventive effect of reciting computer implementation within patent claims, there remains some ambiguity concerning how courts will define “abstract ideas” moving forward (indeed, the Court stated that it “need not labor to delimit the precise contours of the ‘abstract ideas’ category in this case”). If you have questions about this alert, please contact your Lathrop & Gage attorney or any of the attorneys listed above.