



Intellectual Property ADVISORY ■

JUNE 23, 2014

Supreme Court Provides Further Guidance on Patent Subject Matter Eligibility of Computer-Implemented Inventions

Overview

On June 19, 2014, the U.S. Supreme Court unanimously held that patent claims directed to computer-implemented methods for mitigating settlement risk in financial transactions are not patent-eligible subject matter. The Supreme Court's ruling attempts to clarify the test for determining whether patent claims directed to methods that incorporate a computer are eligible for patent protection or whether such claims are drawn to unpatentable abstract ideas, but such clarification still remains elusive. *Alice Corporation PTY. LTD. v. CLS Bank International*, No. 13-298, slip op. (U.S. June 19, 2014) ("*Alice Corp.*").

Background

Alice Corp. concerns the limits of patent-eligible subject matter covered by the patent eligibility statute, 35 U.S.C. § 101. The Court of Appeals for the Federal Circuit (CAFC) has struggled to consistently apply Supreme Court precedent regarding the extent of the "abstract idea" exception to the broad categories of patent-eligible subject matter articulated in § 101. Prior to the grant of certiorari by the Supreme Court, *Alice Corp.* was the subject of an en banc rehearing by the CAFC. This hearing resulted in a fractured, per curiam opinion without any majority of the ten-judge panel agreeing on a uniform test for the subject matter eligibility of computer-implemented subject matter. Although a majority of the ten-judge panel agreed that the method and computer readable medium claims at issue were non-statutory as directed to ineligible subject matter, none of the judges were able to obtain the support of a majority of the panel as to precisely why these claims failed to pass muster.

U.S. Supreme Court Decision

On June 19, 2014, a unanimous U.S. Supreme Court decision affirmed the findings of the CAFC that the claims were invalid as falling within the "abstract idea" exception to 35 U.S.C. § 101. Justice Clarence Thomas, writing for the Court, held that the claims at issue were directed to "the abstract idea of intermediated settlement" and that adding the requirement of a "generic computer" to the claims was insufficient to transform that abstract idea into a patent-eligible invention.

This advisory is published by Alston & Bird LLP to provide a summary of significant developments to our clients and friends. It is intended to be informational and does not constitute legal advice regarding any specific situation. This material may also be considered attorney advertising under court rules of certain jurisdictions.

The Court began by acknowledging that, to a certain extent, all inventions rely upon the use of abstract ideas, laws of nature, or natural phenomena, which are otherwise unpatentable. The Court had previously defined a two-step process to distinguish these patent-ineligible concepts from patentable applications of said concepts in *Mayo v. Prometheus*, 566 U.S. _____. In the *Alice Corp.* opinion, the Court provides additional clarification and guidance to this process, with particular relevance to computer-implemented inventions.

The two-step analysis process first requires a determination of whether the claims at issue are directed to a patent-ineligible concept such as an abstract idea, a natural phenomenon or a law of nature. If the claims are directed to such a concept, the test then requires examination of the elements of the claim to determine whether the claim contains an “inventive concept” sufficient to “transform” the patent-ineligible concept into a patent-eligible application of said concept.

In order to determine whether the claims are directed to an “abstract idea,” the Court first requires an analysis as to whether the “basic concept” of the claim is directed to techniques known in the art. If so, then the claims will be determined to be directed to an abstract idea.

Applying the first step of the analysis to the claims at issue, the Court found that the claims are drawn to the concept of “intermediated settlement, i.e., the use of a third party to mitigate settlement risk.” The Court further stated that the concept of “intermediated settlement” is a “building block of the modern economy,” and therefore constitutes an “abstract idea” beyond the scope of § 101. Notably, the Court explicitly declined to define the “contours of the abstract ideas category,” instead relying on the fact that the concept of intermediate settlement is similar to the concept of “hedging risk” identified as an abstract idea in the Court’s prior decision in *Bilski v. Kappos*, 561 U.S. 593. Noting this similarity, the Court determined that the concept of “intermediated settlement” was also an abstract idea.

The Court then considered whether the claims recited an “inventive concept” sufficient to transform the claimed abstract idea into a patent-eligible application of said idea. Citing *Gottschalk v. Benson*, 409 U.S. 63; *Parker v. Flook*, 437 U.S. 584; and *Diamond v. Diehr*, 450 U.S. 175, the Court further stated that the mere use of a “generic computer” is insufficient to transform a patent-ineligible abstract idea into a patent-eligible invention.

Applying this analysis to the claims at issue, the Court found that since the claims at issue do no more than instruct the practitioner to “implement the abstract idea of intermediated settlement on a generic computer,” the claims failed to recite patent-eligible subject matter. The Court reviewed each of the claimed features, and found that the functions performed by the computer at each of these steps are “purely conventional,” and that the computer components of the claim “add nothing that is not already present when the steps are considered separately.” The Court further stated that the computer components of the claim failed to “improve the functioning of the computer itself,” or “effect an improvement in any other technology or technical field.” As such, the Court found that the addition of the “computer” elements of the claim to the underlying abstract idea was insufficient to transform the abstract idea into a patent-eligible invention.

Finally, the Court addressed the issue of the system and computer readable medium claims. The Court stated, although the system claims explicitly recited specific hardware for performing specific functions, these claims “are no different from the method claims in substance,” since the system claims merely recite “generic computer components configured

to implement the same [abstract] idea,” and that these claims rise and fall with the method claims, as patentability should not turn upon “the draftsman’s art.” Following this analysis, the Court stated that the system and media claims added nothing of substance to the underlying abstract idea, and therefore these claims were also deemed drawn to patent-ineligible subject matter.

Significance of the Decision

Following on a similar trajectory to the decisions in *Bilski* and *Mayo*, the decision in *Alice Corp.* further clarifies the Court’s position that an examination of the state of the prior art is an essential component of the test for subject matter eligibility. Inventions involving application of a known concept in a manner having a predictable result (e.g., implementing known techniques with the novelty based upon the use of a computer) are likely to be susceptible to a challenge under § 101 even if prior art is not readily available to sustain a rejection under the anticipation and obviousness provisions of §§ 102 and 103.

Perhaps most relevant to practitioners is the fact that the mere recitation of “using a processor” or “implemented on a computer” is likely to be insufficient to overcome a challenge to a computer-implemented method as ineligible subject matter under § 101. However, the Court has left several doors open for arguing that a given claim is not directed to an abstract idea. For example, an argument that a claim improves the functioning of a particular device or offers an improvement in another technology or technical field may be persuasive in overcoming a rejection based on the abstract idea exception. Applicants should give thought to these arguments when drafting the specification to clearly articulate how some embodiments offer these improvements. To this end, the specification should highlight the novelty of the core concept of the invention and describe how the invention offers a technological improvement in the particular technical field. For example, applications directed to improved user interfaces may highlight how such inventions provide improved input accuracy, thereby reducing the processing effort otherwise expended on incorrect or lengthy input sequences. Applications directed to electronic financial services could describe how particular technical problems and solutions result from the use of electronic systems that distinguish the invention from the basic economic concepts the Court took issue with in *Alice Corp.*

Furthermore, the only test the Court has provided for identifying an abstract idea in the present context is to determine whether the “concept” of the claim was known in the prior art. As such, arguments that the “concept” of the claim is novel and non-obvious may be persuasive in overcoming rejections under the abstract ideas exception to § 101. Since the Court has not provided a clear rationale for determining the “concept” of the claims, applicants may bolster such arguments by clearly indicating their intended concept in the specification or preamble of their claims. A clear recitation of the intended concept in a manner favorable to the applicant made at the time the application is drafted is likely to reduce the chance of an unfavorable reading made by an examiner or judge later on.

Finally, since the system and computer readable medium claims were deemed unpatentable owing to their similarity to the unpatentable method claims, applicants may wish to consider drafting new applications without method claims that would otherwise invite heightened scrutiny under the test for abstract ideas described above. System and apparatus claims should be drafted carefully so as not to invite a comparison to an abstract idea, such as by reciting particular hardware configurations implementing the claimed invention.

Although many hoped that this decision would finally clarify the limits of patent-eligibility for computer-implemented inventions, practitioners have merely been provided with an additional data point for use in evaluating whether inventions contain patent-eligible subject matter—the instant claims do not contain patent-eligible subject matter, and adding a generic computer fails to remedy the deficiency.

It remains to be seen how the U.S. Patent and Trademark Office (USPTO) and Federal Circuit will interpret this decision. New guidelines for USPTO examiners taking into account the ruling are expected shortly, and with certiorari already granted in *Ultramercial v. Hulu* and a likely upcoming vacate and remand in view of the *Alice Corp.* decision, the Federal Circuit's interpretation should be forthcoming in the next year.

If you would like to receive future *Intellectual Property Advisories* electronically, please forward your contact information to ip.advisory@alston.com. Be sure to put "subscribe" in the subject line.

If you have any questions or wish to discuss further, please contact any of the following members of Alston & Bird's Intellectual Property Group:

Wesley Cameron Achey wes.achey@alston.com 404.881.4930	Michael S. Connor mike.connor@alston.com 704.444.1022	Jim A. Harvey jim.harvey@alston.com 404.881.7328	Michael D. McCoy mike.mccoy@alston.com 704.444.1011	Holly Hawkins Saporito holly.saporito@alston.com 404.881.4402
Blas P. Arroyo blas.arroyo@alston.com 704.444.1012	Jason W. Cook jason.cook@alston.com 214.922.3407	John D. Haynes john.haynes@alston.com 404.881.7737	Todd S. McClelland todd.mcclelland@alston.com 404.881.4789	David M. Saravitz, Ph.D. david.saravitz@alston.com 919.862.2217
William M. Atkinson william.atkinson@alston.com 704.444.1026	Jason P. Cooper jason.cooper@alston.com 404.881.4831	Steven D. Hemminger steve.hemminger@alston.com 650.838.2029	Richard M. McDermott rick.mcdermott@alston.com 704.444.1045	Frank G. Smith frank.smith@alston.com 404.881.7240
Timothy J. Balts tim.balts@alston.com 704.444.1185	Jeffrey A. Cooper jeff.cooper@alston.com 404.881.7892	Donald M. Hill, Jr. donald.hill@alston.com 704.444.1006	George Douglas Medlock, Jr. george.medlock@alston.com 404.881.7765	W. Murray Spruill, Ph.D. murray.spruill@alston.com 919.862.2202
Ross R. Barton ross.barton@alston.com 704.444.1287	Sean P. DeBruine sean.debruine@alston.com 650.838.2121	Yitai Hu yitai.hu@alston.com 650.838.2020	Deepro R. Mukerjee deepro.mukerjee@alston.com 212.210.9501	M. Scott Stevens scott.stevens@alston.com 704.444.1025
Philippe Bennett philippe.bennett@alston.com 212.210.9559	Brian C. Ellsworth brian.ellsworth@alston.com 704.444.1265	Louis A. Karasik lou.karasik@alston.com 213.576.1148	Michael J. Newton mike.newton@alston.com 214.922.3423	David J. Stewart david.stewart@alston.com 404.881.7952
Kirk T. Bradley kirk.bradley@alston.com 704.444.1030	Patrick J. Flinn patrick.flinn@alston.com 404.881.7920	David C. Keating david.keating@alston.com 404.881.7355	Shane Nichols shane.nichols@alston.com 404.881.4540	R. Flynt Strean flynt.strean@alston.com 704.444.1430
Keith E. Broyles keith.broyles@alston.com 404.881.7558	Christopher J. Gegg chris.egg@alston.com 704.444.1024	S.H. Michael Kim michael.kim@alston.com 650.838.2100	Thomas J. Parker thomas.parker@alston.com 212.210.9529	George M. Taulbee george.taulbee@alston.com 704.444.1023
Rachel M. Capoccia rachel.capoccia@alston.com 213.576.1037	Daniel Gerst 213.576.2528 daniel.gerst@alston.com	Ryan W. Koppelman ryan.koppelman@alston.com 404.881.7742	Scott J. Pivnick scott.pivnick@alston.com 202.239.3634	Lance A. Termes 650.838.2045 lance.termes@alston.com
James Carroll jim.carroll@alston.com 704.444.1043	Joseph J. Gleason joe.gleason@alston.com 404.881.4966	Robert L. Lee bob.lee@alston.com 404.881.7635	S. Benjamin Pleune ben.pleune@alston.com 704.444.1098	David S. Teske david.teske@alston.com 404.881.7935
Romy L. Celli romy.celli@alston.com 650.838.2011	Jon M. Gordon jonathan.gordon@alston.com 213.576.1165	Joe Liebeschuetz, Ph.D. joe.liebeschuetz@alston.com 650.838.2038	Elizabeth H. Rader elizabeth.rader@alston.com 650.838.2008	Jamie D. Underwood jamie.underwood@alston.com 202.239.3706
Natalie C. Clayton natalie.clayton@alston.com 212.210.9573	Guy R. Gosnell guy.gosnell@alston.com 704.444.1029	Jitty Malik, Ph.D. jitty.malik@alston.com 704.444.1115	Bruce J. Rose bruce.rose@alston.com 704.444.1036	Katherine M. Wallace katherine.wallace@alston.com 404.881.4706

ALSTON & BIRD LLP

WWW.ALSTON.COM

© ALSTON & BIRD LLP 2014

ATLANTA: One Atlantic Center ■ 1201 West Peachtree Street ■ Atlanta, Georgia, USA, 30309-3424 ■ 404.881.7000 ■ Fax: 404.881.7777
 BRUSSELS: Level 20 Bastion Tower ■ Place du Champ de Mars ■ B-1050 Brussels, BE ■ +32 2 550 3700 ■ Fax: +32 2 550 3719
 CHARLOTTE: Bank of America Plaza ■ 101 South Tryon Street ■ Suite 4000 ■ Charlotte, North Carolina, USA, 28280-4000 ■ 704.444.1000 ■ Fax: 704.444.1111
 DALLAS: 2828 North Harwood Street ■ 18th Floor ■ Dallas, Texas, USA, 75201 ■ 214.922.3400 ■ Fax: 214.922.3899
 LOS ANGELES: 333 South Hope Street ■ 16th Floor ■ Los Angeles, California, USA, 90071-3004 ■ 213.576.1000 ■ Fax: 213-576-1100
 NEW YORK: 90 Park Avenue ■ 15th Floor ■ New York, New York, USA, 10016-1387 ■ 212.210.9400 ■ Fax: 212.210.9444
 RESEARCH TRIANGLE: 4721 Emperor Blvd. ■ Suite 400 ■ Durham, North Carolina, USA, 27703-85802 ■ 919.862.2200 ■ Fax: 919.862.2260
 SILICON VALLEY: 1950 University Avenue ■ 5th Floor ■ East Palo Alto, CA 94303-2282 ■ 650-838-2000 ■ Fax: 650.838.2001
 WASHINGTON, DC: The Atlantic Building ■ 950 F Street, NW ■ Washington, DC, USA, 20004-1404 ■ 202.756.3300 ■ Fax: 202.756.3333