

# Client Alert

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## Will the Supreme Court Save Business Method Patents? *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, No. 13-298

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Last week, the U.S. Supreme Court heard oral argument in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* (No. 13-298) to decide “[w]hether claims to computer-implemented inventions . . . are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101.” The government and practitioners alike hope that the Court’s decision will finally clarify the “abstract ideas” exception under Section 101. Based on the questions posed at oral argument, a number of Justices appeared to be troubled about the patent eligibility of Alice’s asserted claims directed to intermediated settlements.

### I. BACKGROUND

Alice’s patents relate to a computerized trading platform for exchanging obligations. Typically, these transactions require parties to exchange an obligation at a future date. To avoid the “settlement risk” that one of the exchanging parties may not perform the exchange, the patented invention makes use of “shadow accounts” that correspond to the parties’ real-world bank accounts. These shadow accounts are adjusted on a real-time basis to reflect the parties’ obligations. Because parties may only enter into obligations that they can settle later according to their shadow accounts, the patented invention eliminates settlement risk. When it is time to settle and honor the obligations, the patented invention issues irrevocable instructions to require the parties’ bank accounts to make the required transfers.

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.

### II. FEDERAL CIRCUIT *EN BANC*

After rehearing *en banc*, a fractured Federal Circuit issued a 135-page opinion. In a one-page precedential *per curiam* decision, the appellate court summarily affirmed the trial court’s holding that the patent was unpatentable. The decision also contained seven separate opinions—none of which commanded a majority, and each of which proposed different tests for determining patent eligibility under Section 101. Seven out of ten judges concluded that the asserted method and computer-readable medium claims were patent-ineligible under § 101. Five of those seven, in turn, concluded that the system claims also were patent-ineligible.

Judge Lourie proposed a “significantly more” test that begins by removing the “abstract idea” from the claim. The remainder is then analyzed to determine if it “contains additional substantive limitations that narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.” Under Judge Lourie’s test, human contributions that are “merely tangential, routine, well-understood, or conventional, or in practice fail to narrow the claim relative to the fundamental principles therein, cannot confer patent eligibility.”

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Chief Judge Rader proposed a “meaningful limitations” test that asks whether the claim as a whole “includes *meaningful* limitations restricting it to an application, rather than merely an abstract idea.” For computer-implemented claims, the question is “whether the claims tie the otherwise abstract idea to a *specific way* of doing something with a computer, or a *specific computer* for doing something; if so, they likely will be patent eligible, unlike claims directed to *nothing more than the idea* of doing that thing on a computer.”

## III. BRIEFING BEFORE THE SUPREME COURT

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.”

### A. Alice’s Arguments

Alice contends that its asserted claims do not recite an abstract idea or, if they do, “are directed to a specific application of that idea—not to the idea itself.” Per Alice, “abstract ideas” are “preexisting fundamental truths, such as mathematical formulas that are ‘equivalent’ to a law of nature and that ‘exist’ in principle apart from any human action.” “Computer-implemented inventions that do *not* preempt use of a mathematical formula or other fundamental truth are [patent] eligible.” To decide whether the abstract idea exception applies, Alice proposes that the claims be reviewed in their “totality.” Alice’s position is supported, in whole or in part, by four amicus briefs, including briefs by the Intellectual Property Owners Association and Advanced Biological Laboratories.

### B. CLS’s Arguments

CLS contends that Alice’s claims are patent-ineligible under Section 101 “because they attempt to monopolize the abstract idea of intermediated settlement.” According to CLS, “an abstract idea is a building block of technology, of innovation, and of the economy.” CLS agrees with Judge Lourie that the ultimate question is whether the computer-implemented limitations add “significantly more” to the otherwise ineligible abstract idea. Reciting “only off-the-shelf computer components performing routine conventional functions . . . neither add[s] to nor subtract[s] from patent eligibility.” CLS’s position is supported, in whole or in part, by seventeen amicus briefs, including briefs by Google Inc. and Microsoft Corp.

### C. Government’s Arguments

The United States submitted an amicus brief supporting CLS, but taking a more aggressive stance against the patent-eligibility of business-methods. The government argues that “claims directed to the manipulation of abstract concepts or relationships, such as methods of organizing transactions and other human activities, are patent-ineligible under the abstract-idea exception to Section 101.” Under the government’s interpretation of Section 101, “an otherwise-abstract claim does not become patent-eligible merely because it incorporates a general-purpose computer to perform standard computing functions.” For business transactions and other human activities facilitated by a computer, “the question is whether the computer imposes a meaningful limitation on the claim, such that the claim may be said to be directed to an innovation in computing or other technical fields instead of to a generalized use of computing power to implement an abstract method of organizing concepts and relationships.”

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## IV. SUPREME COURT ORAL ARGUMENT

### A. Patent-Ineligibility of Alice's Claims

Although the Justices' questions at oral argument are not necessarily predictive of how they will decide a case, five Justices—Ginsburg, Breyer, Kennedy, Sotomayor, and Kagan—appeared to question seriously whether Alice's claims are directed to an abstract idea and are thus patent-ineligible under Section 101. Justice Ginsburg, for example, asked how an intermediated settlement is less of an abstract idea than hedging, which the *Bilski* Court previously held to be an abstract idea. Justice Breyer questioned why is it "less abstract than the computer says, stop," as opposed to King Tut's "abacus guy" tracking the king's gold or Justice Breyer's mother managing his checkbook. Justice Kennedy emphasized that "the innovative aspect [in Alice's idea] is certainly not in the creation of the program to make that work," as that would be "fairly easy to program." Justice Sotomayor queried why implementing Alice's claimed functions through a computer can make it "something new and not [a] function." Justice Kagan asked whether Alice's claims, aside from being implemented on a computer, are patentable.

### B. Chief Justice Roberts and Justice Scalia Appear to Defend System Claims

Chief Justice Roberts and Justice Scalia asked questions suggesting less skepticism of Alice's system claims. Justice Scalia asked "why . . . doing it through a computer" is not enough. Justice Scalia questioned whether a contrary rule would mean that "the cotton gin was not an invention because [it involved] doing through a machine what people used to do by hand." Justice Scalia asked whether the Court's precedent held only "that you can't take an abstract idea and then say *use* a computer to implement it," not "that you can't take an abstract idea and then say here is *how you use* a computer to implement it." (Emphasis added.) Chief Justice Roberts asked whether the patent-eligibility of system claims should depend on whether the alleged abstract idea is "impractical without looking to do it on the computer."

### C. Justices Hesitant to Sound Death Knell for Software or Business-Method Patents

The Justices generally appeared hesitant to adopt the government's argument to abolish business-method patents entirely. As Justice Sotomayor noted, the Court does not need to "announce a general rule with respect to software" to decide the case. Other Justices grappled with the scope of the government's argument. Justice Ginsburg asked whether the Solicitor General's view "would extinguish business-method patents and make all software ineligible for patent protection." Justice Breyer sought guidance on "what would the right words or examples be" if the Court went beyond the shell of patent-eligibility provided by *Bilski* and *Mayo*. Justice Breyer further asked whether there was a middle ground between abolishing software patents and making ideas implemented on computers patent-eligible.

At least some of the Justices, however, appeared to be prepared to abolish business-method patents. According to Justice Ginsburg, "four Justices of this Court" have disagreed with Alice's counsel that the legislative history demonstrates Congress's intent to allow the business methods to be patented. In response, Justice Scalia retorted that "four is not five."

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## V. CONCLUSIONS

Although the questions posed at oral argument are not necessarily predictive of outcomes, the majority of the Justices in the *Alice* case appear to be inclined to find Alice's claims to be patent-ineligible as directed to the abstract idea of intermediated settlements. Differences in opinion may lead to a narrow ruling, however, that does not abolish business method patents entirely. A decision is expected by late June 2014.

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