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Supreme Court Affirms Computerizing Fundamental Economic Practice Too Abstract To Be Patentable

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The U.S. Supreme Court yesterday in *Alice Corporation Pty. Ltd v. CLS Bank International* unanimously continued its recent trend of finding certain patent claims too abstract to be patentable. The patents in question contained computer-based patent claims to a scheme for mitigating "settlement risk." The Court held that the claims did no more than instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer, added nothing of substance to the underlying abstract idea, and thus were patent ineligible subject matter.

Alice Corporation owns several patents disclosing a way to mitigate "settlement risk," which is the risk that only one party to an agreed-upon financial exchange will satisfy its obligations. The patented invention uses a computer system as a third-party intermediary to facilitate the exchange of financial obligations between the parties. The claims were presented in various forms typically used for computer-based inventions, and include a method for exchanging financial obligations, a computer system for carrying out the method of exchanging financial obligations, and a computer-readable medium containing program code for performing the method of exchanging obligations.

The District Court applied the Supreme Court's prior decision of *Bilski v. Kappos* to find that all of the claims were ineligible for patent protection because they were directed to an abstract idea. The Federal Circuit affirmed in a fractured *en banc* decision that provided several different, and potentially conflicting, approaches to the question of patentability, and caused substantial confusion in the patent community.

On appeal, the Supreme Court unanimously affirmed. It followed its two-step approach from *Mayo v. Prometheus*, which provides structured guidance as to how to approach the question of when computer-based claims are directed to a patent-ineligible abstract idea. The Court first determined that the claims at issue were directed to a patent-ineligible concept: the abstract idea of intermediated settlement. The Court held that this was "a fundamental economic practice long prevalent in our system of commerce," similar to the abstract idea of risk hedging that the Court found ineligible in *Bilski*.

The Court then asked whether the claim elements, considered both individually and as an ordered combination, transform the abstract idea of the claim into a patent-eligible invention. With regard to the method claims, the Court held that stating an abstract idea while adding the words "apply it with a computer" does not suffice. Viewed as a whole, the claims simply recite the concept as performed by a generic computer, and did not purport to improve the functioning of the computer itself or effect an improvement in any other technology or technical field. Using "some unspecified, generic computer" is not "enough" to transform the abstract idea into a patentable invention.

The Court reached the same conclusion with regard to the system and medium claims for substantially the same reasons. The supposed "specific hardware" listed in those claims was no more than "purely functional and generic." Thus, none of the hardware recited "offers a meaning limitation beyond generally linking the method to implementation by computers."

This decision raises a substantial question as to the validity of a number of computer-based method patents, particularly those referred to as "business method" or "software" patents. Owners and licensees of such patents should carefully review their portfolios to determine if any of the patents are at risk, and whether steps can be taken to correct any problems. Further, patent applicants should re-examine all pending applications with the same questions in mind, and take the opportunity to amend their claims, if necessary.

If you have any questions or want to discuss how this decision could impact your business, contact your Baker Donelson attorney or one of the attorneys in the Firm's Intellectual Property Group.

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