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# Alice explained – US Supreme Court decision on computer-implemented inventions

The question presented in Alice was whether claims directed to a computer-implemented scheme for mitigating “settlement risk” are patent eligible under 35 U. S. C. §101. The Supreme Court unanimously affirmed the Federal Circuit’s holding that the claims at issue were drawn to the abstract idea of intermediated settlement, and that merely requiring generic computer implementation failed to transform that abstract idea into a patent-eligible invention.

## Observations

- Alice could have been much broader/worse. The Court did not wade into what is and is not an “abstract idea,” and did not say that software-related inventions are presumed abstract or otherwise unpatentable. Rather, the Court relied strongly on similar facts from previous cases to reach its decision, which may limit the applicability of Alice to factually similar cases.
- Alice may have a greater impact on business methods implemented by computer rather than other methods implemented by computer. While the Court made clear that mere computer hardware does not dispense with the Section 101 question, it also noted that “many computer-implemented claims are formally addressed to patent-eligible subject matter.” Using Diehr as an example of an improvement of “an existing technological process,” the Court seemed to imply that “conventional” business methods (e.g. risk hedging) are not “technological processes,” which is consistent with Covered Business Method (CBM) Review procedures that explicitly exempt “technological inventions.”

- Alice does not resolve the tension between Section 101 and the “implicit” exceptions to Section 101. Notably, Congress did not change the metes and bounds of patent-eligible subject matter with the America Invents Act (AIA), and there are good arguments that Section 102 and 103 are better suited for dealing with these patentability questions.
- Conventional claim sets may not afford much subject matter protection. The Court made quick work of the Computer-readable Medium (CRM) and apparatus claims since they were just transformed method claims. And the Court twice stated “[we have] long warned against interpreting §101 in ways that make patent eligibility depend simply on the draftsman’s art.”
- We may have to wait and see how this formally affects prosecution. The USPTO is likely to issue new guidelines to Examiners based on Alice. Though Alice provides no bright-line rules, we can expect more Section 101 challenges—particularly for anything business method related.
- This is not likely to affect late-stage litigations. Because Alice was decided consistently with the framework of Mayo (2012) and consistent with the facts of Bilski (2010), there is no good argument for a “material change of law” to prompt new invalidity theories

### **Factual and Procedural Background**

Alice’s patents are directed to facilitating the exchange of financial obligations between two parties by using a computer system as a third-party intermediary.

The District Court held that all of the claims are patent ineligible because they are directed to the abstract idea of “employing a neutral intermediary to facilitate simultaneous exchange of obligations in order to minimize risk.” The Federal Circuit initially reversed the district court, but then reheard the case en banc and affirmed the judgment of the District Court concluding that the claims “draw on the abstract idea of reducing settlement risk by effecting trades through a third-party intermediary,” and that the use of a computer to maintain, adjust, and reconcile shadow accounts added nothing of substance to that abstract idea.

### **Supreme Court Decision Reaffirms Mayo Framework**

The Court initially noted that Section 101 contains important implicit exceptions, including: laws of nature, natural phenomena, and abstract ideas, which are not patentable, but also noted that an invention is not rendered ineligible for patent simply because it involves an abstract concept. Accordingly, the Court reaffirmed the two-part Mayo framework for the Section 101 inquiry, which includes: (1) determining whether the claims at issue are directed to a patent-ineligible concept; and (2) then, examining the

elements of the claim to determine whether it contains an inventive concept sufficient to transform the patent-ineligible concept into a patent-eligible application.

Regarding the first part of the Mayo inquiry, the Court explicitly passed on defining the precise contours of the abstract ideas category. Rather, the Court relied on its prior holdings, including *Benson*, *Parker*, and *Bilski*, to establish some relative boundaries. Specifically, the Court noted that in *Bilski* it held that “hedging is a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class, and as such, the concept of hedging as recited by the claims was a patent-ineligible abstract idea.”

Turning to the claims at issue, the Court stated that “[l]ike the risk hedging in *Bilski*, the concept of intermediated settlement is ‘a fundamental economic practice long prevalent in our system of commerce’ ... Thus, intermediated settlement, like hedging, is an ‘abstract idea’ beyond the scope of §101.” Further, the Court dispensed with the significance of any mathematical formula applied to the risk hedging.

Regarding the second part of the Mayo inquiry, the Court stated that “a patent-eligible application requires more than simply stating the abstract idea while adding the words ‘apply it.’” Critically, the Court noted that “[t]he introduction of a computer into the claims does not alter the analysis at ... step two” because “simply implementing a mathematical principle on a physical machine, namely a computer, is not a patentable application of that principle.”

However, the Court noted that in *Diehr*, a computer-implemented process was patent eligible “because they improved an existing technological process, not because they were implemented on a computer.” Thus, “a mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention” despite the fact that “[t]here is no dispute that a computer is a tangible system (in §101 terms, a ‘machine’)” and “many computer-implemented claims are formally addressed to patent-eligible subject matter.”

Turning to the claims at issue, the Court then held that the claims amounted to nothing more than an instruction to apply the “purely conventional” abstract idea of intermediated settlement using a generic computer, which failed to transform that abstract idea into a patent-eligible invention.

Finally, the Court dispensed with the apparatus and CRM claims at issue by noting that (1) the system claims are no different from the method claims in substance and (2) the CRM claims “fall with the method claims.”

By Nick Transier