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# Guidance on Software Patents from the U.S. Supreme Court in *Alice Corporation v. CLS Bank International*

By John S. Paniaguas, Michael M. Geoffrey / Jun 24, 2014

The U.S. Supreme Court handed down a long awaited decision on June 19, 2014 on the patentability of software patents in *Alice Corporation v. CLS Bank International* ("*CLS*"). [1] In that case, the Court found that claims related to a computer implemented scheme for mitigating risk in a financial transaction by way of a third party intermediary constituted an abstract idea and thus not patent-eligible.

Software related inventions, although not barred by law, have long been argued to constitute abstract ideas. A fundamental tenet of patent law is that abstract ideas, natural phenomenon and the laws of nature are not patentable subject matter. As such, software related claims, as in this case, have often been found to not be eligible for patent protection.

The problem is that previous Court decisions have failed to provide a clear definition of what constitutes an abstract idea, leaving patent practitioners and companies that develop software-related products in the dark. It was hoped that the decision by the Court would clarify the issues raised by the fractured *en banc* decision provided by the lower court [2] and provide guidance on the patentability of software patents.

Although the Supreme Court in *CLS* [3] has not explicitly defined the term "abstract," the decision does provide some guidance for determining whether software related inventions are patent eligible. Specifically, the Supreme Court has set forth a two-step test to resolve this problem. The test is as follows:

- Step (1): Are the claims directed to a patent-ineligible invention?
- Step (2): If so, do the claim elements considered, both individually and as an ordered combination, transform the nature of the claim into patent eligible subject matter?

In the case under review, the Court in its analysis under Step (1) held that the subject matter of the claims related to a known intermediated settlement and thus constituted an abstract idea. In its analysis, the Court found that the concept of an intermediated settlement is "a fundamental practice long prevalent in our system of commerce;" [4] citing several trade journal articles on economics that support that proposition. Even though the term "abstract" is not defined, the Court in *CLS* has appeared to equate "abstract" with the concept of "novelty" by arguing the claimed steps were long known in the art.

Moreover, even though the claims in *CLS* were found to recite an abstract idea, the Court examined the claim elements in combination to determine whether the claim elements contained additional features sufficient to transform the abstract idea into a patent-eligible invention. Upon reviewing the combination of elements, the Court found that the "introduction of a computer does not alter the analysis . . ." [5] The additional elements examined that were related to a computer were found to not transform the abstract idea into a patent-eligible invention.

The decision in *CLS* is consistent with the outcomes of *Bilski* [6] and *Mayo* . [7] In both of those cases, the Supreme Court found that the subject matter of the claims related to patent ineligible subject matter, based upon the fact that the subject matter was well known. In those cases, in the eyes of the Court, the combination of elements, including the computer elements, were not sufficient to transform the abstract ideas into patent eligible inventions. In analyzing the patent-eligibility of such cases, the Court reasoned that a computer implementation of a known abstract principle does not supply the necessary inventiveness, since the computer elements could be carried out by computers long in use.

In *Bilski*, the Court affirmed the Court of Appeals for the Federal Circuit's finding that claims directed to methods for hedging against risk of price changes were unpatentable because hedging was a known and long-prevalent economic practice. [8] Nonetheless, the Court noted that "[a] conclusion that business methods are not patentable in any circumstances would . . . violate the canon against interpreting any statutory provision in a manner that would render another provision superfluous." [9] The Court, however, rejected the rigid application of the so-called "machine or transformation" test and found that it was but one test that may be used to provide a clue as to whether or not claimed subject matter meets the statutory threshold under 35 U.S.C. § 101. [10]

In *Mayo*, a unanimous Court held that claims directed to a method for controlling the intravenous application of a drug by measuring a metabolite of the drug having a known functional threshold were not directed to patent eligible subject matter. [11] The Court initially recognized that the claims at issue were an application of the laws of nature and subsequently considered whether the claims "transformed these unpatentable natural laws into patent eligible applications of those laws." [12] The Court noted that the claims at issue apart from the natural laws contained "well-understood, routine, conventional activity previously engaged in by researchers in the field." [13]

The Court in *Bilski*, *Mayo* and *CLS* added long-prevalent practices to laws of nature, natural phenomena and abstract ideas, in the list of patent-ineligible subject matter. The long-prevalent practices, although indicative of patent ineligibility as either anticipating (35 U.S.C. § 102), or rendering, claims obvious (35 U.S.C. § 103), appear to have status in an analysis under 35 U.S.C. § 101, as the Court found in *CLS* and *Bilski*. The Court suggests that long standing business practices render a claim patent ineligible under 35 U.S.C. § 101. [14] Nonetheless, the Court has made it clear in *Diehr* and *Bilski* that there is no absolute bar to software or business method patents, generally, under the law.

## Guidance From the Court

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*Bilski*, *Mayo* and *CLS*, have successively added to the framework within which software patents (and business method patents) may be found patentable. From these cases we glean the following:

- Are the claims directed to patent ineligible subject matter?
  - To the list of patent-ineligible subject matter, comprising laws of nature, mathematical formulas, and abstract ideas, we can add long-prevalent industry practices; and/or
  - Well understood, routine, conventional activities, previously known in the art are patent-ineligible and remain patent-ineligible when computerized.
- If so, do the claim elements considered, both individually and as an ordered combination, transform the nature of the claim into patent-eligible subject matter?
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Please contact [Michael M. Geoffrey](#), [John S. Paniaguas](#), or another member of Clark Hill's Intellectual Property Team, if you have any questions.

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[1] *Alice Corp. Pty. Ltd. v. CLS Bank Int'l.*, slip op. No 13-298, S.Ct., June 19, 2014. <http://www.scotusblog.com/case-files/cases/alice-corporation-pty-ltd-v-clb-bank-international/> (" *CLS* ").

[2] *CLS Bank Int'l. v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269 (Fed Cir 2013).

[3] See footnote 1.

[4] See footnote 1, at 8.

[5] See footnote 1, at 11.

[6] *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). (" *Bilski* ").

[7] *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012). (" *Mayo* ").

[8] *Bilski*, 130 S. Ct., at 3231.

[9] *Id.* at 3228. The Court much earlier noted in *Diamond v. Diehr* ("*Diehr*") that software patents can be patentable. 101 S. Ct. 1048 (1981) (majority opinion) (holding a procedure for molding rubber that included a computer program is within patentable subject matter).

[10] *Bilski*, 130 S. Ct. at 3225-26. The *Bilski* Court emphasized that "the prohibition against patenting abstract ideas cannot be circumvented by attempting to limit the use of the formula to a particular technological environment or adding insignificant post solution activity". *Id.* In the "machine or transformation" test, claiming machine elements or the transformation of a material are *indicia* of patent-eligible subject matter.

[11] *Mayo*, 132 S. Ct. 1289 ( *passim* ).

[12] *Id.* at 1294.

[13] *Id.*

[14] Curiously, the Court does not discuss the effect of long-prevalent practices under either 35 U.S.C. § 102 or 35 U.S.C. § 103.