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Seamus Brugh, "Alice Corp. Pty. Ltd. v. CLS Bank Int'l 134 S. Ct. 2347 (2014)" (2014) 19:1 Intellectual Property L Bull 105.

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Alice Corp. Pty. Ltd. v. CLS Bank Int'l

134 S. Ct. 2347 (2014)

SEAMUS BRUGH*

BACKGROUND

Respondents, CLS Bank International and CLS Services Ltd. (collectively, “CLS”), operate an international network that facilitates currency transactions. Petitioner is Alice Corporation Pty., Ltd. (“Alice”), an Australia based company owning four patents on electronic methods and computer programs for financial trading that reduce settlement risk.

Alice claimed that in September of 2002, CLS began using a similar technology. Alice then contacted CLS the following month to inform them of the potential patent infringement, and the companies discussed licensing of the patents.

The patents (“Subject Patents”) claimed a system employing a supervisory institution acting as a third-party intermediary in a financial transaction system wherein parties exchange vouchers for a period, and then settle accounts at a designated time. This supervisory institution would maintain computerized “shadow accounts” calculating each party’s balance—accounting for unsettled vouchers—and would disallow transactions if either “shadow account” showed insufficient funds.¹

Section 101 of Title 35 of the United States Code describes the subject matters eligible for patent protection. In *Diamond v. Diehr*, the Supreme Court eliminated certain subject matter from inclusion under § 101 including “laws of nature, natural phenomena, and abstract ideas.”² The Court explained that such subject matter constitutes “the basic tools of scientific and technological work,”³ and their patenting would stymie further development. However, an otherwise disqualified idea can regain patent eligibility by qualifying for the exception devised in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, which requires the invention to have an additional step or characteristic which is sufficiently inventive or limiting, and not routine or conventional.⁴

PROCEDURAL HISTORY

In May of 2007, CLS filed a complaint seeking declaratory judgment

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1. Alice Corp. Pty. Ltd. v. CLS Bank Int'l, 134 S. Ct. 2347, 2352 (2014).
2. *Diamond v. Diehr*, 450 U.S. 175, 191 (1981).
3. *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972).
4. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1298 (2012).

of non-infringement, invalidity, and unenforceability of all the Subject Patents. Alice counterclaimed for infringement. Both sides submitted motions for summary judgment, accepting that the Subject Patents satisfied the explicit statutory language of § 101, but disagreed as to whether they were eliminated by the “abstract idea” exception to § 101 developed in *Diamond*.

The district court held that the Subject Patents were reducible to the workings of an escrow-type invention—a patent ineligible, abstract idea. However, a panel of the U.S. Court of Appeals for the Federal Circuit ruled that the Subject Patents were sufficiently limited to survive the coarse filter of § 101. The Federal Circuit then heard the case en banc. Seven of the ten judges upheld the district court’s decision but disagreed on the reasoning. The court then issued five different opinions. First, Judge Lourie, writing for the plurality, employed a two-part *Mayo* test for each of the three claims of method, system, and medium. She believed, at their core, that the Subject Patents embodied the “basic building block[s] of human ingenuity, untethered from any real-world application,”⁵ and the claimed steps in addition to the abstract idea were too insignificant to be patent eligible. Second, Chief Judge Rader concurred with the plurality on the eligibility of the method and media claims, but found the system claim to be patent-eligible. Unlike Judge Laurie, Judge Rader believed that the claims should each be considered in their whole, not dismembered in search of abstraction. Third, Judge Moore’s partial dissent spoke of the danger of widening the abstract idea exemption too far, causing the demise of countless individual patents, as well as “all business method, financial system, and software patents . . .”⁶ Judge Moore also expressed the imperative of considering each patent in its entirety instead of dissecting. Fourth, Judge Newman’s dissent called for a return to the language of the § 101, free from the judicially invented exemptions. Lastly, Judge Linn’s dissent considered the claims to be sufficiently limited to avoid the exemption to § 101, enabling patent consideration. In a separate, “additional reflection,” Chief Judge Rader agreed with Judge Newman in lamenting the precedent’s departure from the statute’s original language.

ISSUE

Are patent claims relating to a computerized scheme for mitigating “settlement risk” considered patent eligible subject matter under § 101?

DECISION

The Supreme Court held, in a unanimous decision, that the Subject Patents claimed ineligible subject matter under § 101.

5. CLS Bank Int’l v. Alice Corp. Pty. Ltd., 717 F.3d 1269, 1286 (2013).

6. *Id.* at 1313.

REASONING

The Supreme Court made clear from the beginning of its opinion that it was guided by principles of “pre-emption.”⁷ In other words, the Court acknowledged the fine line that its precedent and the relevant statutes create between rewarding and stifling innovation through supporting the monopolization of inventions. The Court employed the two-part test it created in *Mayo*, to determine the patentability of the claimed subject matter.

The Court first examined whether the claims at issue fell under one of the identified patent-ineligible concepts. The Court noted that the lower court and both parties described the Subject Patents as claiming an “intermediated settlement,” which it determined to be a fundamental economic concept.⁸ Relying on its ruling in *Bilski v. Kappos*,⁹ the Court categorized fundamental economic concepts as abstract ideas, thus satisfying the first portion of the *Mayo* test.

The Court next considered the only element claimed in the Subject Patents in addition to the abstract idea—application to a generic computer. To satisfy this second prong of the *Mayo* test, a claim must include “additional features” to ensure the fundamental concept is not already patented,¹⁰ as well as ensuring that something “new and useful” is provided.¹¹ The Court ruled that simply stating an abstract idea and then adding the words “apply it with a computer” serves to merely combine the idea and the computer, which was deemed inadequate to satisfy the “inventive concept” prong of *Mayo*.¹²

The Court held the Subject Patents did not satisfy § 101, and were excluded from patent eligibility.

CONCURRENCE

Justice Sotomayor wrote a concurrence, with whom Justice Ginsburg and Justice Breyer joined, agreeing that business methods should never be considered patent-eligible subject matter.

7. Alice Corp. Pty. Ltd. v. CLS Bank Int'l, 134 S. Ct. 2347, 2354 (2014).

8. *Id.* at 2355.

9. 561 U.S. 593, 611 (2010).

10. *Mayo Collaborative Servs.*, 132 S. Ct. at 1297.

11. *See Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948).

12. *Alice Corp. Pty. Ltd.*, 134 S. Ct. at 2358.

