



Go ask Alice

Patentees have a new Supreme Court precedent to consider

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Abstract: In a recent decision, a unanimous U.S. Supreme Court continued its trend of finding business methods to be patent-ineligible abstract ideas. The Court, however, declined to squarely define “abstract ideas.” This article examines the Court’s reasoning, while a sidebar describes guidance issued by the United States Patent and Trademark Office in response.

- *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, No. 13-298, June 19, 2014 (Supreme Court)
- *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, No. 10-1150, March 20, 2012 (Supreme Court)
- *Gottschalk v. Benson*, No. 71-485, Nov. 20, 1972 (Supreme Court)
- *Parker v. Flook*, No. 77-642, June 22, 1978 (Supreme Court)
- *Bilski v. Kappos*, No. 08-964, June 28, 2010 (Supreme Court)
- *Diamond v. Diehr*, No. 79-1112, March 3, 1981 (Supreme Court)

Business method patents have been the subject of much debate and litigation in recent years. In its latest decision in the area, *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, a unanimous U.S. Supreme Court continued its trend of finding business methods to be patent-ineligible abstract ideas. The Court, however, declined to squarely define “abstract ideas.”

Seeking a judgment

Alice Corp. owns several patents for mitigating “settlement risk” related to a computerized trading platform used for conducting financial transactions in which a third party settles obligations between two other parties to eliminate the risk that only one party will fulfill its obligation. The patents include system, method and computer-readable medium claims.

In 2007, CLS Bank sued Alice, seeking a declaratory judgment of the noninfringement, invalidity and unenforceability of Alice’s patents. Alice counterclaimed, alleging infringement. The district court held that all of the challenged claims were patent ineligible because they were directed to an abstract idea. Alice appealed, and the Federal Circuit affirmed the district court’s holding.



Settling on the approach

Under Section 101 of the Patent Act, patent protection is available for a new and useful process, machine, manufacture or composition of matter, as well as a new and useful improvement thereof.

The Supreme Court has long recognized exceptions to patent eligibility, including for abstract ideas. In applying the exception, courts must distinguish between patents that cover the “building blocks” of human ingenuity — which are patent ineligible — and those that integrate the building blocks into “something more,” thereby transforming them into a patent-eligible invention.

To make this distinction, a court must apply the two-part framework described in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* First, the court determines whether the patent covers an abstract idea. If so, the court then asks, “What else is there in the claims?” To answer this, the court considers whether the patent’s claims include an “inventive concept” that transforms the nature of the claim into a patent-eligible application. To answer the latter question, the court considers the elements of each claim both individually and “as an ordered combination.”

Writing the abstract

The Supreme Court has previously found the following to be ineligible for patent:

- An algorithm for converting binary-coded decimal numerals into pure binary form (*Gottschalk v. Benson*),
- A mathematical formula for computing “alarm limits” in a catalytic conversion process (*Parker v. Flook*), and
- A method for hedging against the financial risk of price fluctuations (*Bilski v. Kappos*).

Then again, the Court found a process for molding synthetic rubber to be patent eligible in the case of *Diamond v. Diehr*.

In *Alice*, the Supreme Court regarded the concept of intermediated settlement (the use of a third party to mitigate settlement risk), like the risk hedging in *Bilski*, to be “a fundamental economic practice long prevalent in our system of commerce” and a building block of the modern economy. Therefore, intermediated settlement is also a patent-ineligible abstract idea.

Unfortunately, because the Court found no meaningful distinction between the concepts of risk hedging and intermediated settlement, it felt no need to “labor to delimit the precise contours of the ‘abstract ideas’ category in this case.” It did, however, make clear that the category isn’t confined to “preexisting, fundamental truths.”



Transforming the claims (or not)

The Supreme Court next considered whether the patent claims' elements transformed the nature of the claims into a patent-eligible application.

Evaluating the method claims, the Court explained that merely appending conventional steps to a method that's already well known in the relevant art isn't sufficient to provide the inventive concept needed to make the transformation. The analysis isn't changed by:

- Introducing a computer into the claims,
- Adding the words "apply it with a computer" to an abstract idea, or
- Limiting the use of an abstract idea to a particular technological environment.

The Court concluded that the method claims here did no more than instruct the user to implement the abstract idea of intermediated settlement on a generic computer. And the function performed at each step — such as creating and maintaining "shadow" accounts and obtaining data — is "purely conventional." The method claims didn't, for example, purport to improve the functioning of the computer itself or improve any other technology or technical field.

Because the system and media claims added "nothing of substance" to the underlying abstract idea, the Supreme Court found that they, too, were patent ineligible.

Reading the tea leaves

Going forward, some believe that business method claims will fail the two-part test — including three of the judges involved in this decision. In their concurring opinion, the justices made it clear that they don't think business method claims even qualify as patent-eligible processes.

Sidebar: USPTO issues post-*Alice* guidance

Less than a week after the Supreme Court released its ruling in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* (see main article), the United States Patent and Trademark Office (USPTO) issued a memo to its Patent Examining Corps with preliminary instructions for conducting patent exams in the wake of the ruling.

The instructions address the patent eligibility of claims involving abstract ideas — particularly those that are computer-implemented. The USPTO describes a two-step process for establishing patent eligibility:

- 1. Determine whether the patent claim covers one of the four categories of invention.** These categories are process, machine, manufacture or composition of matter. If it doesn't cover one of these categories, reject that claim as covering a nonstatutory invention.



2. *Determine whether the claim is a patent-eligible application of the abstract idea (if the claim does, in fact, fall into one of the four categories).* In other words, does the claim amount to significantly more than the abstract idea alone?

After performing the analysis in Step 2, patent examiners are instructed to determine whether the patent satisfies the other requirements of federal patent law — including utility, novelty and nonobviousness.

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