



The Patentability Exclusion for "Abstract Ideas" is Even More Abstract Post-Alice

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In *Alice Corp. Pty. Ltd. v. CLS Bank International*, 2014 U.S. Lexis 4303 (June 19, 2014, No. 13-298) the Supreme Court once again addressed what has been termed "business method" patents in the context of determining whether a business method is truly patentable or merely an expression of an unpatentable abstract idea. Declining to embrace a categorical exclusion for business methods, the Court instead broadened the traditional exclusion for "abstract ideas" to embrace particular business methods on a case-by-case basis. This expansion allowed the Court to invalidate the particular patent at issue in *Alice*, but has left practitioners scratching their head trying to figure out a key question: what exactly constitutes an "abstract idea"?

After roughly thirty years in which the Court said very little on the topic—allowing the Federal Circuit to expand patentable subject matter—the Court has in recent years invalidated patents for certain business methods finding them to be "abstract ideas." The purpose of the exclusion for "abstract ideas" (and for "laws of nature" and "natural phenomena") is to prevent patenting "basic tools of scientific and technological work" because patenting such discoveries "might tend to impede innovation more than it would tend to promote it." Historically, the exclusion for "abstract ideas" has been used to invalidate patents for mathematical algorithms and broadly defined terms.

The Court's wave of decisions expanding the application of the exclusion for "abstract ideas" started with *Bilski v. Kappas* (2010) 130 S.Ct. 3218, in which the Court invalidated a patent that provided a method for buyers and sellers of commodities to protect, or hedge, against the risk of price changes. The Court held that the method was not patentable because it reflected nothing more than an abstract idea. In so doing, however, the Court did not provide clear guidelines for courts to follow in evaluating whether a claimed invention is merely an unpatentable abstract idea.

Next, in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* (2012) 132 S.Ct. 1289, the court held that certain medical diagnostic claims (related to the effect of the use of certain drugs to treat autoimmune diseases) were not patentable because they simply stated a law of nature without adding "significantly more" to the law, and thus would preempt use of the law of nature. Again, the Court provided little guidance on when the laws of nature, natural phenomena and abstract ideas are not patentable.

Last month, the Court decided *Alice* which involved (a) a business method patent for reducing settlement risk in trading transactions among a number of banks worldwide and (b) a computer program to implement the process. The goal of the method is to prevent a circumstance where one institution at the end of a trading day does not have sufficient funds to settle up with another institution.

In considering whether an abstract idea was at issue, the Court noted that it must distinguish between patents that claim the "building[g] block[s]" of human ingenuity (not patentable) and those that integrate the building blocks into something more (patentable). The Court laid out a two-step framework for the analysis. In the first step the Court would determine whether the claim is directed to a patent-ineligible law of nature, natural phenomena or abstract idea. If so, in the second step, the Court asks whether the claim adds enough additional elements—or "inventive concept(s)"—to transform the ineligible subject matter into a patent-eligible invention. The Court has defined "inventive concept" as "an element or combination of elements that is 'sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'"

Applying this new framework to the patent in *Alice*, the Court held that "intermediated settlement" – i.e., the use of a third party to mitigate settlement risk – is an unpatentable abstract idea. Moving to step two of the analysis, the Court further held that the "method claims, which merely require generic computer implementation, fail to transform [the] abstract idea into a patent-eligible invention." Reciting an abstract idea and simply stating "apply it on a computer" does not pass step two. In the case, the function performed by the computer at each step of the process was purely conventional; it was, in effect, mere electronic recordkeeping.

By invalidating the patent at issue in *Alice* (and those in *Bilski* and *Mayo*), the Court stretched the meaning of "abstract ideas" far beyond prior usage such that that older cases provide little help to the courts and practitioners left struggling to figure out what the Court means by "abstract idea." This is especially frustrating to practitioners since the unpatentable abstract idea doctrine is a judge-made exclusion to patentability that currently must be done on a case-by-case basis

One hopes that in future cases, the justices will provide better guidance as to what constitutes a patentable business method. With the existing Congress, it is unlikely there will be any legislative solution. For the time being, the Court has left inventors and patent counsel at sea. What effect this will have on innovation remains to be seen.