



## 35 U.S.C. § 101

### Patentable Subject Matter:

“Whoever invents or discovers any new and useful process, machine, manufacture, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions of this title.”

## Alice Corp. v. CLS Bank: Supreme Court Decision

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On June 19, 2014, the Supreme Court of the United States unanimously affirmed the Federal Circuit holding that Alice Corp.’s patents were ineligible subject matter under 35 U.S.C. §101. The four patents at issue relate to a computerized trading platform used for conducting financial transactions in which a third party settles obligations between a first and second party to as to eliminate “settlement” risk. The Court adopted the two-step analysis from *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S.Ct. 1289, 1297 (2012), holding that Alice Corp.’s claims are directed at an abstract idea and that generic computer implementation is not enough of a real-world application to make the idea patent eligible.

In response to the outcome of the case, the U.S. Patent and Trademark Office (USPTO) issued new instructions to patent examiners on determining subject matter eligibility on June 25, 2014. Essentially, the USPTO outlined the two-step analysis adopted by the Court, pointing out that this framework now applies to all judicially created exceptions, including laws of nature, natural phenomena, and abstract ideas.

# “The mere recitation of a generic computer cannot transform a[n]...abstract idea into a patent-eligible invention.” - Justice Thomas

35 U.S.C. §101 dictates what subject matter is appropriate for patent eligibility. There are three judicially created exceptions – laws of nature, natural phenomena, or abstract ideas are not patentable. However, almost all inventions build off of abstract ideas or natural principles. Therefore, a patent should not be considered ineligible simply for describing a natural principle, as this might prevent any invention from being eligible for a patent.

Relying on framework laid out in *Mayo*, the Court dealt with the issue using a two-step analysis. First, the Court determined if Alice Corp.’s patents were directed at an abstract idea. The Court compared Alice Corp.’s claims to those dealing with risk hedging in *Bilski v. Kappos*, 130 S. Ct. 3218, 3231 (2010) and concluded that the concept of intermediated settlement is a fundamental economic practice. Moreover, third-party intermediaries make up one of the “building block[s] of modern economy.” These claims, therefore, were directed at an abstract idea.

The second step is to determine whether the patents describe “something more” that implements the idea, transforming the claim into a patent-eligible application of the abstract idea. Alice Corp.’s method claims simply described the concept of intermediated settlement as performed by a generic computer. The Court reasoned that this kind of generic computer implementation is not enough of a real-world application to make the idea patent eligible. The Court concluded, therefore, that Alice Corp.’s method claims were patent ineligible under §101.

While many thought this case would define a *per se* rule for software patents, the Court’s ruling will instead make determining eligibility of software patents a case-by-case inquiry. It will also have an effect on how software claims are drafted now that generic computer implementation was struck down as an inadequate application of an abstract idea.

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