ARE Litigation Alert: Federal Circuit Holds Computer-Implemented Financial Transaction Claims Patent-Eligible Because Not Manifestly Abstract

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(July 10, 2012) On July 9. 2012, the Federal Circuit once again considered the question of patent-eligibility under 35 U.S.C. § 101 of an invention implemented by computers, and in particular the issue of whether a claimed invention falls within the "abstract ideas" exception to patent-eligibility. *See CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, No. 2011-1301 (Fed. Cir. July 9, 2012).

In *CLS*, a split panel of the Federal Circuit reversed the district court decision, and held that the system, method, and media claims at issue covered patent-eligible subject matter under 35 U.S.C. § 101. The majority decision authored by Judge Linn and joined by Judge O'Malley, found that the claims were not drawn to mere "abstract ideas" but rather were directed to "practical applications of invention."

The patent claims at issue cover a computerized trading platform for exchanging obligations in which a trusted third party settles obligations between a first and second party so as to eliminate "settlement risk" (i.e. the risk that only one party's obligation will be paid). Representative method claims at issue recite a method of exchanging obligations between parties, including the steps of creating shadow credit and debit records, obtaining a balance for each credit and debit record, adjusting each parties credit or debit record to allow only those transactions that result in the value of the debit record being less than the value of the credit record at any time, and at the end of the day instructing an exchange institution to exchange credits or debits in accordance with the adjustments. Representative system claims recite a computer implemented data processing system that performs the method.

Although the Federal Circuit explained that "mere computer implementation cannot render an otherwise abstract idea patent eligible," it found that the claim limitations as a whole tied the underlying abstract idea to a patent-eligible specific application of that idea. It criticized the district court for ignoring the concrete limitations of the claim and overly generalizing them to their underlying abstract idea, noting that "nothing in the Supreme Court's precedent, nor in ours, allows a court to go hunting for abstractions by ignoring the concrete, palpable, tangible, and otherwise not abstract invention the patentee actually claims." Finally, the court held "that when—after taking all of the claim recitations into consideration—it is not *manifestly evident* that a claim is directed to a patent ineligible abstract idea, that claim must not be deemed for that reason to be inadequate under § 101" (emphasis added). The guidance of the Supreme

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Court and Federal Circuit concerning patent-eligible subject matter must be applied, but "[u]nless the single most reasonable understanding" is that the subject matter of the claims is abstract, the claims in question must be held patent-eligible and evaluated for validity under the other provisions of Title 35.

In this opinion, the Federal Circuit clearly continued to follow broad patent-eligibility principles set out by its own and Supreme Court precedent, quoting the Supreme Court in *Diamond v. Chakrabarty* that "Congress intended statutory subject matter to 'include anything under the sun that is made by man.'" However, the court mentions that, even though the recent Supreme Court decision in *Mayo v. Prometheus* reiterated the trilogy of "implicit" exceptions to patent-eligibility ("laws of nature, natural phenomena, and abstract ideas"), it did not directly address *how* to determine whether a claim is drawn to an abstract idea. The *CLS* court explains that the Supreme Court has repeatedly "looked to the notion of 'preemption' to further elucidate the 'abstract idea' exception." Emphasizing the constitutional purpose of patents "[t]o promote the Progress of Science and useful Arts," *CLS* concludes that the "the essential concern is not preemption, *per se*, but the extent to which preemption results in the foreclosure of innovation." In this case, *CLS* found that the limitations requiring "shadow records" contribute to the claims not preempting innovation involving the fundamental idea of using an intermediary to help consummate exchanges between parties. Furthermore, following *Prometheus*, *CLS* found the claims to not be abstract because the limitations were "integral" and not "token post-solution activity."

CLS also mentioned that, even though *Bilski* characterized § 101 as a "threshold test," it "need not *always* be addressed first." Rather, a court has discretion to choose which issue it addresses and in which order. Additionally, *CLS* clarified that a § 101 analysis is wholly separate from a novelty analysis, remarking that each of §§ 101, 102, 103, and 112 serves a different purpose to promote the goals of the patent system. This point was made to clarify confusion that has arisen as a result of a passage in *Prometheus*.

Judge Prost authored a vigorous dissent, noting that "precedent and common sense counsel that the asserted patent claims are abstract ideas repackaged as methods and systems." She criticized the majority for defying Supreme Court precedent to avoid the difficult task of patent-eligibility analysis under § 101 and for its holding that "we must now avoid deciding a § 101 case unless unpatentability is 'manifestly evident.'" The dissent provides several examples of how the majority purportedly disregards the guidance given by the Supreme Court in *Prometheus* , including that neither "[p]urely 'conventional or obvious' 'pre-solution activity'" nor presenting an abstract idea and then saying "apply it" are sufficient for a patent-eligible application of an abstract idea. In addition, the dissent claims that the majority does not inquire whether the asserted claims include an inventive concept, as required under *Prometheus* to be patent-eligible under § 101.

In addition to disagreeing with the approach of the majority takes to determine subject matter

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eligibility, Judge Prost also disagrees with the conclusion, declaring that the claims are directed to the abstract (and ancient) idea of credit intermediation: “So where is the invention? . . . Stripped of its jargon, [t]he claim in effect presents an abstract idea and then says ‘apply it.’ That is not enough.”

The sharp divide between the majority and dissenting opinions in *CLS* suggest that the courts will likely continue to struggle to develop and apply a cohesive view of patent-eligibility. With so many different authoritative players in the arena, including Congress, the PTO, the Supreme Court, the Federal Circuit, and the District Courts, efforts to develop clear guidance for patentees have become muddled.

Please continue to monitor our website for further developments on the issue of patent-eligibility under Section 101.

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