



US Federal Circuit Remains Split On How To Approach Patent Eligibility

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CLS Bank Int'l v Alice Corp Pty Ltd, No 2011-1301, 2012 US App LEXIS 13973 (Fed Cir 9 July 2012) ('CLS I')

Abstract

A divided panel of the US Court of Appeals for the Federal Circuit held computer-implemented financial transaction claims patent-eligible under 35 USC §101 because it was not 'manifestly evident' that the claims were directed to a patent-ineligible abstract idea. The majority decision was accompanied by a vigorous dissent, questioning the approach to patent-eligibility taken by the majority.

Legal context

Since 2008 a divided view of patent eligibility of computer-implemented inventions and other inventions not necessarily tied to a machine has emerged in the US legal system. The US Supreme Court has twice spoken on this subject in the past two years, offering little if any clear guidance. The decisions of the US Court of Appeals for the Federal Circuit ('Federal Circuit') have further evidenced a wide divergence of views on patent eligibility. Some judges have used §101 as a 'fine sieve' while others have found it to be a 'coarse filter' by which to reject potentially dubious quality patents. Recently, a divided panel at the Federal Circuit has offered two dramatically different views of patent eligibility under 35 USC §101 in the context of claims directed to methods, systems, and program products for processing financial transactions.

Facts

The patents 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' (ie 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

1. creating shadow credit and debit records;
2. obtaining a balance for each credit and debit record;
3. 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
4. at the end of the day instructing an exchange institution to exchange credits or debits in accordance with the adjustments.

Representative system and product claims recite a computer implemented data processing system and a computer program product that perform the method.

CLS Bank International and CLS Services Ltd (collectively, CLS) moved for summary judgment that the asserted claims of the patents at issue are invalid under 35 USC §101. The district court delayed deciding this motion until the Supreme Court decided *Bilski v Kappos*, after which the district court held that each asserted claim is invalid for failure to claim patent-eligible subject matter (see *CLS Bank Int'l v Alice Corp*, 768 F Supp 2d 221 (DDC 2011) ('*CLS I*').

The district court found the method claims to be invalid under §101 as directed to the 'fundamental idea of employing a neutral intermediary to ensure that parties to an exchange can honor a proposed transaction, to consummate the exchange simultaneously to minimize the risk that one party does not gain the fruits of the exchange, and then irrevocably to direct the parties, or their value holders, to adjust their accounts or records to reflect the concluded transaction'. That court also held the system and product claims invalid for being directed to the same abstract idea without any further exposition or meaningful limitation.

Alice appealed to the Federal Circuit.

Analysis

On appeal, the Federal Circuit considered whether the method, system, and product claims at issue were directed to a patent-ineligible abstract idea. The Federal Circuit's decision issued after the Supreme Court decided *Mayo Collaborative Services v Prometheus Laboratories, Inc*, 132 S Ct 1289 (2012).

The split panel reversed the lower district court decision, holding that the claims covered patent-eligible subject matter under 35 USC §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'. Judge Prost authored a dissenting opinion which would have found the claims invalid as not patent-eligible because 'the asserted patent claims are abstract ideas repackaged as methods and systems'.



Although the majority 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. The majority 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 majority 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). Specifically, *CLS II* held that, while the guidance of the Supreme Court and Federal Circuit concerning patent-eligible subject matter must be applied, ‘[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 support of this analysis, *CLS II* continued to follow the 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, *CLS II* adds that, although the recent Supreme Court decision in *Mayo v Prometheus* reiterated the trilogy of ‘implicit’ exceptions to patent eligibility (‘laws of nature, physical phenomena, and abstract ideas’), it did not directly address *how* to determine whether a claim is drawn to an abstract idea. *CLS II* 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 II* concludes that the ‘the essential concern is not preemption, *per se*, but the extent to which preemption results in the foreclosure of innovation.’ *CLS II* found that the limitations requiring ‘shadow records’ contribute to the claims not pre-empting innovation involving the fundamental idea of using an intermediary to help consummate exchanges between parties. Furthermore, following *Prometheus*, *CLS II* found the claims to not be abstract because these limitations were ‘integral’ and not ‘token post-solution activity’.

CLS II also mentioned that, even though the Supreme Court characterized §101 as a ‘threshold test’ in *Bilski*, it ‘need not *always* be addressed first’. Rather, a court has discretion to choose which issues it addresses and in which order. Additionally, it 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 in *CLS II*, 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 the majority takes to determine subject matter eligibility, Judge Prost also disagreed 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.’

Practical significance

The sharp divide between the majority and dissenting opinions in *CLS II* suggests 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 the US Congress, the US Patent and Trademark Office, the Supreme Court, the Federal Circuit, and the US district courts, efforts to develop clear guidance for patentees have become muddled.

Footnotes

* Michael J. Kasdan was a partner, Charles Macedo is a partner and Sandra Hudak is a summer associate at Amster, Rothstein & Ebenstein LLP. Their practice specializes in intellectual property issues. Charles may be reached at cmacedo@arelaw.com.

Mr. Macedo is also the author of *The Corporate Insider’s Guide to U.S. Patent Practice*, published by Oxford University Press in 2009, and, along with Anthony F. LoCicero, was counsel on the amicus submission submitted by the New York Intellectual Property Law Association to the Supreme Court in *Mayo v. Prometheus*.