CLS Bank Ruling Provides No Guidance On Patent Eligibility

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Law360, New York (May 13, 2013, 11:50 AM ET) On May 10, 2013, the U.S. Court of Appeals for the Federal Circuit released its highly anticipated decision in CLS Bank International v. Alice Corp. Pty. Ltd., No. 2011-1301 (Fed. Cir. May 10, 2013) ("CLS III"), concerning the patent eligibility of computer implemented claims under 35 U.S.C. § 101. Although the court, considering the case en banc, did agree that the computer implemented claims-at-issue were not patent-eligible, the court's rationale, presented in six separate opinion with additional reflections by Chief Judge Randall Rader, was divided. Unfortunately, this decision provides patent practitioners with no definitive guidance as to how to apply a Section 101 analysis to computer implemented claims.

Procedural Background

This case relates to the method and systems claims of four patents owned by Alice Corporation concerning a computerized trading platform that conducts financial transactions where a trusted third party settles obligations between a first and second party so as to avoid the risk that the first or second party will fail to fulfill its financial obligations.

The case began in 2007, when CLS Bank International filed suit seeking declaratory judgment of noninfringement, invalidity and unenforceability of Alice's patents. Alice, in its turn, countersued CLS, alleging infringement. Two years later, following discovery, CLS filed a motion for summary judgment arguing that it could not possibly infringe Alice's patents since those patents were not patent-eligible under 35 U.S.C. § 101. The U.S. District Court for the District of Columbia granted CLS' motion in 2011, finding that Alice's patent claims-at-issue were "directed to an abstract idea of employing an intermediary to facilitate simultaneous exchange of obligations in order to minimize risk." CLS Bank Int'l v. Alice Corp. Pty. Ltd., 768 F. Supp. 2d 221, 243 (D.D.C. 2011) ("CLS I").

Alice appealed to the U.S. Court of Appeals for the Federal Circuit. On July 9, 2012, a split panel of the Federal Circuit reversed the district court's decision holding these claims to be patent-ineligible and held that the claims at issue covered patent-eligible subject matter. The majority decision, written by Judge Richard Linn and joined by Judge Kathleen O'Malley, found that the claims were not drawn to mere "abstract ideas" but rather were directed to "practical applications of invention." CLS Bank Int'l v. Alice Corp. Pty. Ltd., 685 F.3d 1341, 1343 (Fed. Cir. 2012) ("CLS II"). Judge Sharon Prost, however, authored a vigorous dissent claiming "precedent and common sense counsel that the asserted patent claims are abstract

ideas repackaged as methods and systems." Id. at 1356.

On Oct. 9, 2012, the Federal Circuit granted CLS's petition for rehearing the case en banc, and vacated the July 9, 2012 panel opinion. In its en banc order, the Federal Circuit asked the parties to file new briefs addressing the following two questions:

a. What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible "abstract idea"; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible idea?

b. In assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium; and should such claims at times be considered equivalent for § 101 purposes?

CLS Bank Int'l v. Alice Corp. Pty. Ltd., 484 F. App'x 559, 559-60 (Fed. Cir. 2012) (per curiam).

The current decision represents the Federal Circuit's failed attempt to address these issues in a conclusive manner. See CLS III, Newman Concurrence-in-Part at 2.

The Current Decisions

In a per curiam opinion, the Federal Circuit found that Alice's claims were not patent eligible under 35 U.S.C. § 101. However, the reasoning behind that decision is spelled out in five other separate opinions as well as in additional reflections by Chief Judge Rader.

The Lourie Concurrence

Judge Alan Lourie filed the primary concurring opinion, in which Judges Timothy Dyk, Prost, Jimmie Reyna and Evan Wallach joined. After a review of key Section 101 precedents since Gottschalk v. Benson, 409 U.S. 63 (1972), the opinion lays out "An Integrated Approach to § 101." CLS III, Lourie Concurrence at 15-23. This approach involves the familiar steps of first determining whether the claimed invention fits within one of the four statutory classes set out in Section 101 (i.e., processes, machines, manufactures and compositions of matter) and then, if so, determining whether the claimed invention is directed to one of the three judicial exceptions to patent-eligible subject matter (i.e., laws of nature, natural phenomena or abstract ideas). Id. at 18.

If a claim potentially falls within an exception by, for example, claiming an abstract idea, then that idea would need to be "unambiguously identified" for analysis to proceed further. Id. "With the pertinent abstract idea identified," the opinion continues, "the balance of the claim can be evaluated to determine whether it contains additional substantive limitations [i.e., inventive concepts] that narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself." Id. at 18-19. So long as the claim does not

cover the full idea, it is patent-eligible.

Applying this analytical plan, the opinion determines that the abstract idea at issue is "reducing settlement risk by facilitating a trade through third-party intermediation" and that "[n]one of th[e] limitations adds anything of substance to the claim." Id. at 25-26. Because there was nothing added to this abstract idea, he then concluded that all the claims — whether directed to computer implemented methods, computer media or computer systems — were not patent-eligible.

The Rader Concurrence-in-Part, Moore Dissent-in-Part and Linn Dissent

Chief Judge Rader and Judges Linn, Moore and O'Malley wrote an opinion concurring-in-part and dissenting-in-part, finding Alice's systems claim to be patent-eligible. Their analysis, as opposed to the analysis laid out in Judge Lourie's opinion, starts from the premise that any requirement for "inventiveness" beyond Sections 102 and 103 is inconsistent with the Patent Act, notes that claims must be analyzed as a whole with courts considering the actual language of the claim, and concludes that a "court cannot go hunting for abstractions by ignoring the concrete, palpable, tangible limitations of the invention the patentee actually claims." CLS III, Rader Concurrence-in-Part and Dissent-in-Part at 13.

Accordingly, the key to the inquiry into Alice's claims is "whether the claims tie the otherwise abstract idea to a specific way of doing something with a computer, or a specific computer for doing something: if so, they likely will be patent eligible, unlike claims directed to nothing more than the idea of doing that thing on a computer. While no particular type of limitation is necessary, meaningful limitations may include the computer being part of the solution, being integral to the performance of the method, or containing an improvement in computer technology." Id. at 21.

An analysis of Alice's system claim, they opine, reveals that "the claimed data processing system is limited to an implementation of the invention that includes at least four separate structural components" and that "at least thirty-two figures . . . provide detailed algorithms for the software with which this hardware is to be programmed." Id. at 31. Moreover, "someone can use an escrow arrangement in many other applications, without computer systems, and even with computers but in other ways without infringing the claims." Id. at 35. Finally, "these limitations are not stated at a high level of generality." Id. at 37. They therefore conclude that the "'abstract idea' present here is not disembodied at all, but is instead integrated into a system utilizing machines," and would find Alice's systems claim patent-eligible. Id. at 38. (Judge Moore reiterated this conclusion in a separate dissent-in-part. CLS III, Moore Dissent-in-Part at 1-3.)

On the other hand, Chief Judge Rader and Judge Moore find that while Alice's method claims "do not simply state 'use an escrow,'" they "add nothing beyond the well-known procedures used in the concept of an escrow." Id. at 40-41. Therefore, they join the majority in finding the method claims to be patent-ineligible under Section 101.

Judges Linn and O'Malley, who wrote a separate dissent on this point, find that the record reflects that Alice's method claims must be computer implemented by using specified "shadow credit records" and "shadow debit records." Therefore, the specific functionality found by Chief Judge Rader and Judges Linn, Moore and O'Malley regarding the systems claims applies just as much to the method claims that must utilize that computer implementation. CLS III, Linn Dissent at 7-8. Stating that "all asserted claims must rise or fall together, because they all contain the same computer-based limitations," Judges Linn and O'Malley would find all of the Alice claims patent-eligible. Id. at 10-11.

The Newman Concurrence-in-Part

Disappointed at the court's impasse, Judge Pauline Newman wrote a separate opinion concurring-in-part and dissenting-in-part to clarify "a misunderstanding of patent policy" that is the root of the problem. CLS III, Newman Concurrence-in-Part at 3. The debate regarding the application of judicial exceptions to patent-eligible subject matter under Section 101 reflects the anxiety that overbroad patents will preclude scientific inquiry and technological innovation. "Judicial clarification," the opinion explains, "is urgently needed to restore the understanding that patented knowledge is not barred from investigation and research." Id.

Criticizing the narrowing of the experimental use defense, the opinion finds that if there were "clarification of the right to experiment with the information disclosed in patents, it would no longer be necessary to resort to the gambit of treating such information as an 'abstraction' in order to liberate the subject matter for experimentation." Id. at 5-10. Judge Newman then proposes abandoning all judicial exceptions to patent-eligible subject matter. Id. at 11-13. Accordingly, because Alice's claims all fit within the four statutory classes set out in Section 101, Judge Newman would find them all patent-eligible. Id. at 14.

Practical Significance

This decision spotlights the Federal Circuit's serious divisions on Section 101 analysis. In the face of these divisions, decisions by Federal Circuit panels as to patent eligibility of specific claims under 35 U.S.C. § 101 will continue to be inconsistent. That the Federal Circuit is unable to resolve these issues, which are of great importance to our country's business community and computer industry, suggests that the U.S. Supreme Court will need to weigh in on these issues in the near future.

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