

A Divided Federal Circuit Affirms *CLS Bank*, Finding No Patent-Eligible Subject Matter Under 35 U.S.C. § 101

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On May 10, 2013, the Federal Circuit issued its decision in *CLS Bank International et al. v. Alice Corporation Pty, Ltd.*, (2011-1301), which it decided *en banc* in order to address 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., 484 F. App’x. 559 (Fed. Cir. 2012).

In a short *per curiam* opinion, the court held:

[u]pon consideration *en banc*, a majority of the court affirms the district court’s holding that the asserted method and computer-readable media claims are not directed to eligible subject matter under 35 U.S.C. § 101. An equally divided court affirms the district court’s holding that the asserted system claims are not directed to eligible subject matter under that statute.

The court then issued six additional opinions, none of which was joined by a majority of the court.

Judge Lourie (in an opinion joined by Judges Dyk, Prost, Reyna and Wallach), restated the two-part test for determining patent-eligible subject matter:

We must first ask whether the claimed invention is a process, machine, manufacture, or composition of matter. If not, the claim is ineligible under § 101. If the invention falls within one of the statutory categories, we must then determine whether any of

the three judicial exceptions nonetheless bars such a claim—is the claim drawn to a patent ineligible law of nature, natural phenomenon, or abstract idea? If so, the claim is not patent eligible. Only claims that pass both inquiries satisfy § 101. *Lourie Op.* at 8-9.

Judge Lourie stated that this test has proved difficult to apply, which he suggested was due to the inability to consistently and predictably differentiate between claims that would tie up laws of nature, natural phenomena, or abstract ideas and claims that merely “embody, use, reflect, rest upon, or apply” those fundamental tools. *Lourie Op.* at 9 (citing *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293 (2012).)

Judge Lourie then identified three guideposts to a § 101 analysis based on US Supreme Court precedent:

1. patents should not be allowed to preempt the fundamental tools of discovery—those must remain “free to all . . . and reserved exclusively to none”;
2. courts should avoid overly formalistic approaches to subject-matter eligibility that invite manipulation by patent applicants; and
3. courts should apply a flexible, claim-by-claim approach to subject-matter eligibility that avoids rigid line drawing.

Lourie Op. at 15-17.

Addressing the asserted claims of the Alice patents, Judge Lourie identified the abstract idea and then looked to see whether the rest of the claim adds “significantly more.” *Lourie Op.* at 26. Finding that these claims did not, Judge Lourie found the asserted claims not directed to patent-eligible subject matter. *Lourie Op.* at 28 (“But for the implied requirement for computer implementation, the broad, non-technical method claims presented here closely resemble those in *Bilski*, which also explained a ‘basic concept of . . . protecting against risk.’” (citations omitted).)

In a concurring-in-part and dissenting-in-part opinion, **Chief Judge Rader** (joined by Judges Linn, Moore and O'Malley), began his analysis with Alice's asserted system claims, stating that a computer-implemented invention is eligible for patenting under § 101 because computers are “machines.” *Rader Op.* at 27. Thus, the issue was whether the system claims were barred from patent eligibility because they claimed an abstract idea. *Id.* at 28. Chief Judge Rader would have found that Alice's system claims are patent eligible because “[the system] claims do not claim only an abstract concept without limitations that tie it to a practical application.” *Id.* at 35. He stated that an escrow arrangement can be used in many applications without computer systems, and even with computers but in ways that do not infringe the claims. Next, Chief Judge Rader tested the additional elements beyond the abstract idea of an escrow present in the claim and found that the recited steps are not inherent in the process of using an escrow. In addition, Chief Judge Rader

found that these limitations are not stated at a high level of generality. “Because of the number and specificity of the structural limitations, these claims have narrow, if any, relevant pre-emptive effect.” Radar Op. at 37.

When reviewing Alice’s asserted method and media claims, Chief Judge Rader agreed that these claims are not eligible for patenting under § 101, finding that they were abstract: “each step individually recites merely a general step inherent within the concept of an escrow.” *Id.* at 41. He explained that an escrow is an abstract concept and “the attempt to limit the escrow concept to a particular field is not sufficient” to make it patent-eligible. *Id.* at 42.

Dissenting-in-part, **Judge Moore** (joined by Chief Judge Rader and Judges Linn and O’Malley), wrote to express her concern “that the current interpretation of § 101, and in particular the abstract idea exception, is causing a free fall in the patent system.” Moore Op. at 1-2. Specifically, Judge Moore wrote that “[h]olding that all of these claims are directed to no more than an abstract idea gives staggering breadth to what is meant to be a narrow judicial exception. And let’s be clear: if all of these claims, including the system claims, are not patent-eligible, this case is the death of hundreds of thousands of patents, including all business method, financial system, and software patents as well as many computer implemented and telecommunications patents.” *Id.* at 2. Noting that many of the recent Supreme Court § 101 cases found no patent eligible subject matter, Judge Moore indicated that this case presents an opportunity for the Supreme Court to distinguish between claims that are and are not directed to patentable subject matter.

In a concurring-in-part opinion, **Judge Newman** stated that she believed the court missed an opportunity to provide clarity to § 101 jurisprudence and proposed that “the court resolve the present impasse by returning to the time-tested principles of patent law”:

1. The court should hold that § 101 is an inclusive statement of patent-eligible subject matter. Newman Op. at 3.
2. The court should hold that the form of the claim does not determine § 101 eligibility. Newman Op. at 4.
3. The court should confirm that experimental use of patented information is not barred. *Id.*

In a dissenting opinion, **Judge Linn** (joined by Judge O’Malley) expressed his view that the Alice asserted method, media, and system claims must rise and fall together—either they are all patent eligible or they are not. He stated that the analyses of the method claims conducted by Chief Judge Rader’s opinion and Judge Lourie’s opinion are divorced from the record, including stipulations by which CLS agreed to be bound. Judge Linn would apply the same analysis Chief Judge Rader applied to the system claims to find the method, media and system claims patent eligible.

In additional reflections, **Chief Judge Rader** counseled that courts should focus on the language of

the patent statute. Chief Judge Rader noted that the statute offers patents to both inventions and discoveries, including simply an improvement on a known process or product, so long as they meet the conditions of patentability set forth in § 102 and 103 of the Patent Act. He stated that § 101 is not a condition of patentability and that the statute does not list § 101 among invalidity defenses to infringement.

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