

CLIENT ALERT

Patent Law Alert: A Deeply Divided Federal Circuit Fails to Bring Clarity to Patent Eligibility of Software-Related Inventions in Closely Watched Case

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In *CLS Bank International v. Alice Corp. Pty. Ltd.*, Appeal No. 2011-1301 (Fed. Cir. May 10, 2013) (en banc), a closely watched appeal with over twenty amicus filings, a divided court reversed its previous panel decision and held that the claims at issue were not directed to eligible subject matter under 35 U.S.C. § 101. The court's one-paragraph per curiam opinion was followed by five separate non-precedential opinions and an "Additional Reflections" section by Chief Judge Randall Rader presenting diverging views on the proper analytical framework for assessing patent eligibility under 35 U.S.C. § 101. The failure of a majority of the court to agree on a particular analytical framework means that absent a decision by the Supreme Court, there will be much uncertainty as to whether any particular software patent claim is patent-eligible under 35 U.S.C. § 101.

CLS Bank International (CLS) brought an action against Alice Corporation (Alice) seeking declaratory judgment of noninfringement, invalidity, and unenforceability of three of Alice's patents. The claims at issue were directed to systems, computer-readable mediums, and methods related to mitigating risk in financial transactions through the use of third-party validation of the parties' obligations. The district court granted summary judgment of invalidity under 35 U.S.C. § 101, and entered final judgment in favor of CLS.

Judge Lourie authored the five-member concurring decision presenting a three-step analytical framework for assessing patent eligibility. The first question is whether the claims fall within one of the four categories of patent-eligible subject matter specified in Section 101—"process, machine, manufacture, or composition of matter."¹ If so, the claims are evaluated to determine whether they nevertheless fall within one of the three judicially created exceptions to patent-eligibility—"laws of nature, natural phenomena, and abstract ideas."² This second step involves identifying the abstract idea that may be at risk of preemption. Once the abstract idea at risk of preemption is identified, the third step is to evaluate the remainder of the claim "to determine whether it contains additional substantive limitations that narrow, confine, or otherwise tie down the claim so that . . . it does not cover the full abstract idea itself."³

Using this analytical framework, Judge Lourie characterized Alice's claimed method for reducing settlement risk by facilitating a trade through a third-party intermediation as a "disembodied fundamental concept," noting that the claim "lacks *any* express language to define the computer's participation."⁴ He stated that apart from the idea of "third-party intermediation," none of the limitations add anything of substance to the claims.⁵ With respect to the process claims, Judge Lourie found little significance in the parties' agreement that the claims were computer-implemented, noting that "unless the claims require a computer to perform operations that are not merely accelerated calculations, a computer does not itself confer patent eligibility."⁶

Addressing the computer-readable media claims, Judge Lourie noted that courts must look past "drafting formalities," to focus on the true substance of the analysis.⁷ He found Alice's computer-readable medium claims to be ineligible because the term "computer-readable medium" is stated in broad and functional terms and every limitation present in the body of the claim pertains to the method steps of the program code "embodied in the medium."⁸ Regarding the system claims, the concurring

opinion found the recitation of hardware such as "a data storage unit," and "a computer" insufficient to rescue Alice's claims, because "none of the recited hardware offers a meaningful limitation beyond generally linking 'the use of the [method] to a particular technological environment,' that is implemented via computers."⁹

Four opinions dissented from Judge Lourie's conclusion that all of the claims were patent ineligible. The fiercest division within the court involved the patent eligibility of the system claim, with five of the ten judges concluding that the system claim should be found patent eligible.

Chief Judge Rader penned an opinion joined in part by three other members that concurs in part with Judge Lourie's opinion but faults his analytical framework for stripping down the claim to reveal an abstract idea rather than considering the claim as a whole. Focusing on the claim as a whole, Chief Judge Rader's analytical framework assesses whether it "includes *meaningful* limitations restricting it to an application, rather than merely an abstract idea."¹⁰ This involves analyzing the claim elements to determine whether each is inherent in the underlying abstract idea. Under this framework, Chief Judge Rader finds that the system claims have a narrow preemptive effect on the underlying abstract idea because "of the number and specificity of the structural limitations" contained in the system claims.¹¹

The concerns with Judge Lourie's analytical framework noted in Chief Judge Rader's concurrence-in-part are amplified in the lead dissenting opinion by Judge Moore, joined by three other members of the court, including Chief Judge Rader. Judge Moore criticized Judge Lourie's analysis for giving "staggering breadth to what is meant to be a narrow judicial exception" and ignoring the "mountain of precedent that requires us to evaluate each claim as a whole when analyzing validity."¹²

In a separate opinion concurring in part and dissenting in part, Judge Newman presents the simplest framework, which focuses on the categories enumerated in Section 101. Under this framework, a claim directed to one of the statutory categories is deemed patent-eligible and "the laws of novelty, utility, prior art, obviousness, description, enablement, and specificity" are relied upon to eliminate abstract and unduly preemptive patent claims.¹³

Dissenting from the court's holding, Judge Linn pens an opinion joined by Judge O'Malley finding that, based on the trial record, all of the claims should be found to be patent-eligible. Judge Linn criticizes the other opinions for ignoring that trial record, and particularly the parties' stipulation and the trial court's finding that the claims were computer-implemented and the detailed description of that implementation in the patent specification.

Following the last opinion of the court, Chief Judge Rader signaled his deep disappointment with the result of the per curiam opinion in a special "Additional Reflections" section, commenting:

As I start my next quarter century of judicial experience, I am sure that one day I will reflect on this moment as well. I can only hope it is a brighter reflection than I encounter today.¹⁴

Many in the patent bar and the computer software industry had hoped that the en banc Federal Circuit would finally bring much-needed clarity to the issue of whether and when inventions implemented in computer software are eligible for patent protection, but this recent decision shows there is relatively little agreement among the members of the court as to the appropriate test. It therefore appears likely, as reflected in comments by Judge Moore, that the United States Supreme Court will have to step in to resolve this difficult legal issue:

Our court is irreconcilably fractured over these system claims and there are many similar cases pending before our court and the district courts. It has been a very long time indeed since the Supreme Court has taken a case which contains patent eligible claims. This case presents the opportunity for the Supreme Court to distinguish between claims that are and are not directed to patentable subject matter.¹⁵

¹CLS, No. 2011-1301, slip op. at 8 (Lourie, J., concurring).

² *Id.* at 8 (quoting *Diamond v. Diehr*, 450 U.S. 175, 185 (1981)).

³ *Id.* at 19.

⁴ *Id.* at 26.

⁵ *Id.*

⁶ *Id.* at 27.

⁷ *Id.* at 30.

⁸ *Id.*

⁹ *Id.* at 21, 35 (quoting *Bilski v. Kappos*, 130 S. Ct. 3218, 3230 (2010)).

¹⁰ CLS, No. 2011-1301, slip op. at 16 (Rader, C.J., concurring in part and dissenting in part).

¹¹ *Id.* at 37.

¹² CLS, No. 2011-1301, slip op. at 2-3 (Moore, J., dissenting).

¹³ CLS, No. 2011-1301, slip op. at 4 (Newman, J., concurring in part and dissenting in part).

¹⁴ CLS, No. 2011-1301, slip op. at 5 (Rader, C.J., "Additional Reflections of Chief Judge Rader").

¹⁵ CLS, No. 2011-1301, slip op. at 3 (Moore, J., dissenting).

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