WHITE & CASE

# Client**Alert**

## Intellectual Property

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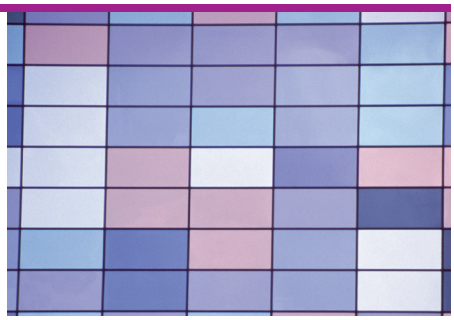

# *CLS Bank v. Alice Corp.* Further Muddies §101 Patent Eligibility

On May 10, 2013, the Federal Circuit issued deeply divided opinions on the standards to be applied to determine patent eligibility of software and business method patents, further opening the door to challenges of such patents under 35 U.S.C. § 101. *CLS Bank Int'l v. Alice Corp.*, No. 2011-1301 (Fed. Cir. May 10, 2013). In a short per curiam opinion, the Court reversed the earlier panel opinion and affirmed by a majority that the method and computer-readable media claims are not directed to patent-eligible subject matter under § 101 and affirmed, by an equally divided Court, that corresponding systems claims were likewise not directed to patent-eligible subject matter.

The Court, however, could not reach a consensus on the standard for analyzing the abstract idea exception to patent eligibility for computer-implemented method claims and systems claims.[1] In short, patent applicants and litigants are left with little concrete guidance regarding the determination of patent-eligible subject matter.

## Background

CLS Bank International and CLS Services, Ltd. ("CLS Bank") initially filed suit against Alice Corporation ("Alice") seeking declaratory judgment of noninfringement, invalidity and unenforceability of Alice's patents. Alice counterclaimed alleging infringement. The four asserted patents described a computerized trading platform used to conduct financial transactions. The asserted claims were directed to methods and computerized systems for exchanging financial obligations, while mitigating risk by using a third party to eliminate "settlement risk." Alice's patents eliminated the risk that a deal would fall apart between the agreement and execution of the deal by having a third party validate that the agreeing parties could fulfill their obligations before their actual exchange.

Following the Supreme Court's decision of *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), CLS Bank moved for summary judgment, arguing that the asserted claims were patent-ineligible subject matter under § 101. On March 9, 2011, the US District Court for the District of Columbia granted summary judgment in favor of CLS Bank, holding that no asserted claim

1 Five opinions accompanied the per curiam opinion: (1) Lourie, J., concurring (joined by J. Dyk, Prost, Reyna and Wallach); (2) Rader, J., concurring-in-part and dissenting-in-part (joined by J. Linn, Moore and O'Malley, with J. Linn and Moore joining the opinion as to all but part VI of the opinion); (3) Moore, J., dissenting-in-part (joined by J. Rader, Linn and O'Malley); (4) Newman, J., concurring-in-part and dissenting-in-part; and (5) Linn, J., dissenting (joined by J. O'Malley). In addition, Chief Judge Rader provided his reflections. No part of the decision, except the judgment [the per curiam opinion], has precedential effect.

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contained patent-eligible subject matter. *CLS Bank Int'l v. Alice Corp.*, 768 F. Supp. 2d 221 (D.D.C. 2011). A panel of the Federal Circuit reversed the lower court. C*LS Bank Int'l v. Alice* Corp., 685 F.3d 1341 (Fed. Cir. 2012). In response to CLS Bank's request, the Federal Circuit granted *en banc* consideration to address the following questions:

> 1. "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;" and
>
> 2. "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 [purposes] of § 101."

## *En Banc* Decision

In its short per curiam opinion, a majority of the Federal Circuit judges affirmed the district court judgment of invalidity of Alice's method and computer media claims. The Court, by virtue of a tie vote, also affirmed the district court judgment of invalidity of the system claims. Seven of the judges (Chief Judge Rader and Judges Lourie, Dyk, Prost, Reyna, Wallach and Moore) voted to affirm the decision regarding the ineligibility of the method and computer media claims. Five judges (Judges Lourie, Dyk, Prost, Reyna and Wallach) also voted to uphold ineligibility for the systems claims. Moreover, a majority of the judges agreed that § 101 is a meaningful limitation to deciding the patent eligibility of each asserted claim of software and business method patents. Despite this accord, the Court was deeply fragmented over how to determine patent eligibility under § 101.

## No agreement regarding how to evaluate when an abstract idea is patent-eligible.

Judge Lourie's plurality opinion stated that once a § 101 exception ("Laws of nature, natural phenomena, and abstract ideas") applies, the "abstract idea" must be isolated from the underlying claim. The claim limitations are then evaluated to determine if they possess the requisite "inventive concept" needed to make "abstract ideas" patentable. If the claims add "significantly more" than the abstract idea itself, the claims will then be patent-eligible. Judge Rader, joined by Judges Linn, Moore and O'Malley, however, disagreed; he reasoned that the whole claim must be evaluated without separating the claim from the abstract idea and that an abstract idea may only be claimed if the claim includes "meaningful limitations" that restrict the idea to a specific application. "Meaningful limitations," according to Judge Rader, are those limitations essential to the invention that do "more than recite pre- and post-solution activity" and are "central to the solution itself."

## Implications

*CLS Bank v. Alice Corp.* is the Federal Circuit's most recent consideration of patent eligibility under § 101. The Court again failed to articulate a coherent framework for analyzing the abstract idea exception to patent eligibility under § 101 and did not specifically define the terms "abstract ideas," "inventive concepts" or "meaningful limitations"—which are critical to determining patent eligibility.

Despite these shortcomings, this decision raises several potential implications:

- Business method and software patents will continue to be subject to invalidity challenges pursuant to § 101, in particular those claims with generic computer elements or functions.
- Given the Court's divisions over how to determine patent eligibility under § 101, appellate review of patent eligibility of software and business method patents will likely vary by appellate panel until settled by another *en banc* panel, the Supreme Court or Congress.[2]

Patent eligibility under § 101 is not a threshold question and may be adjudicated at the trial court's discretion. Moreover, patents are presumed eligible under § 101; thus, a challenger must prove patent ineligibility by clear and convincing evidence. Unfortunately, this decision leaves more questions than it provides answers, which are unlikely to be resolved until the Supreme Court takes up the issue of patent eligibility of software and business method patents.

The full text of the opinion can be found here.

2 The Federal Circuit also appears divided on who should resolve some of the remaining questions regarding the patent eligibility of software and business methods. Judge Moore's dissent, which supports the patent eligibility of the system claims only, suggests that the Federal Circuit has taken the Supreme Court's patent-eligibility decisions too far and that the Supreme Court can further clarify the § 101 standard by reviewing this case. Meanwhile, Judge Linn's dissent, which would support finding all of the claims patentable and counsels against broadening the "narrow exception" to statutory subject matter, recommends that any concern that such patents deter innovation are more appropriately handled by Congress.

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