

Litigation Alert:

Federal Circuit Split on Patent Eligible Subject Matter Analysis

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Last week, the Federal Circuit, sitting *en banc*, issued a much-anticipated decision in *CLS Bank Int'l, et al., v. Alice Corporation Pty, Ltd.* involving the test for when computer-related inventions are unpatentable “abstract ideas” under § 101 of the Patent Act. Seven opinions issued from the fundamentally-divided court, none of which a majority of the judges signed, leaving a lack of clarity on important questions of law that Congress and/or the Supreme Court will likely be asked to answer.

Patentee Alice Corp. claimed a computerized trading platform used for conducting financial transactions in which a third party settles obligations between the two parties to the underlying transactions. The third party mitigates risk that only one of the parties will actually pay its obligation, so-called “settlement risk.” Alice claimed its invention as a method, system, and computer media.

Following the Supreme Court’s *Bilski v. Kappos* decision, the district court granted summary judgment that Alice’s claims were invalid as “abstract ideas,” one of the judge-made exceptions to patentable subject matter defined in § 101 of the Patent Act. A panel of the Federal Circuit reversed, holding that the claims at issue, including claimed methods, computer-readable media, and systems, were all patent eligible under § 101. Granting CLS’ petition for rehearing *en banc*, the Federal Circuit vacated the panel opinion and requested briefing on two issues: (1) the test to determine whether a computer-implemented invention is a patent ineligible “abstract idea;” and (2) whether it should matter in assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention that the invention is claimed as a method, system, or storage medium; and should such claims at times be considered equivalent for § 101 purposes.

The *en banc* court issued six different opinions in addition to the per curiam opinion affirming the district court’s decision: (1) a concurring opinion by Judge Lourie, joined by Judges Dyk, Prost, Reyna and Wallach (“Lourie opinion”) that affirms the district court’s holding that all the asserted claims (system, method and media) are invalid as not directed to patent eligible subject matter; (2) an opinion by Chief Judge Rader that dissents from holding the system claims invalid (that Judge Moore joins) (the “Rader opinion”) and otherwise concurs (joined in this part by Judges Linn, Moore and O’Malley); (3) Judge Moore’s dissent-in-part, in which Judges Rader, Linn and O’Malley join (“Moore opinion”); (4) Judge Newman’s opinion; (5) Judges Linn and O’Malley’s opinion which dissents from all aspects of the judgment entered by the Court, and (6) Judge Rader’s “additional reflections.”

This summary analyzes the two main opinions, those by Judge Lourie and Chief Judge Rader as having the most substantive discussion and analysis of the Court’s patent eligible subject matter jurisprudence. While differing in rationale, both opinions hold the method and media claims unpatentable; in addition, a majority of the court agrees that in the § 101 analysis of these claims, the method, system, and media claims should rise or fall together.

The Lourie opinion sets out the two-step patent-eligibility analysis. First, a court must determine “whether the claimed invention is a process, machine, manufacture, or composition of matter” as required by 35 U.S.C. § 101. Lourie slip op. at 8. If it is not, the claim is ineligible under the statute. However, if the invention falls into one of the statutory categories, the Court must determine whether “any of the three judicial exceptions . . . law of nature, natural

phenomenon, or abstract idea” apply and bar the claim from being patent eligible. *Id.* at 9. “Only claims that pass both inquires satisfy § 101.” *Id.*

For Judge Lourie, the first step in the patent eligibility analysis is identifying and defining “whatever fundamental concept appears wrapped up in the claim”. *Id.* at 18. The Rader opinion fundamentally disagrees with such an approach, and argues that it could make all inventions unpatentable: “[A]ny claim can be stripped down . . . , until at its core, something that could be characterized as an abstract idea is revealed.” Rader slip op. at 13.

For Judge Lourie, once the concept is identified, the court is to analyze the claim and determine whether it also contains “additional substantive limitations that narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.” Lourie slip op. at 18–19. Judge Rader, on the other hand, proposes focusing the inquiry on “whether a claim includes meaningful limitations restricting it to an application, rather than merely an abstract idea.” Rader slip op. at 16. In this last aspect, the most basic aspect of the judges’ differing views is highlighted. The Lourie opinion views its analysis as mandated by the Supreme Courts recent (and older) § 101 jurisprudence; the Rader opinion views the statute and Congressional intent behind it as mandating no further exception to what is patent eligible.

In applying this analytical framework to the claims at issue, Judge Lourie found that the method claims did not include patent-eligible subject matter because they simply recited a “disembodied concept” and “lacked any express language to define the computer’s participation.” Lourie slip op. at 26. Judge Lourie refused to find patentable subject matter “in a claimed method comprising an abstract idea, [where] generic computer automation of one or more steps evinces little human contribution.” *Id.* The Lourie opinion viewed the computer-assisted steps described in the patent as insignificant post-solution or pre-solution activity. *Id.* at 26–27. By contrast, Judge

Rader would find the claim “meaningfully limited, if it requires a particular machine implementing a process or a particular transformation of matter.” Rader slip op. at 19. He was further critical of Judge Lourie’s opinion for employing hindsight regarding today’s routine practices to a patent which originated in the early 1990s. *Id.* at 20, n.4. Judge Lourie found patent eligibility of the the computer-readable medium claims fell with the method claims described above. Lourie slip op. at 30–31.

Again, Judge Lourie found that since the system claims recited “a handful of computer components in generic, functional terms that would encompass any device capable of performing the same ubiquitous calculations”, they were not patent eligible. *Id.* at 34. Judge Rader focused on the specific configuration of the computer disclosed and “at least thirty-two figures which provide detailed algorithms for the software” to find that the system claims were not directed to patent ineligible subject matter. *Id.* at 38.

In summary, a seven-judge majority found the method claims and computer readable medium claims to be not directed to patent-eligible subject matter. Disposition on the issue of systems claim could not get a majority either way. The prior panel having been vacated, the district court’s decision was affirmed.

Several members of the panel expressed frustration with the Court’s divided opinions. For example, Judge Newman wrote criticizing the Court for propounding “at least three incompatible standards” which would create further uncertainty for inventors. Newman slip op. at 1. She went on to make three recommendations of what the Court should do to resolve the matter once and for all: (1) “hold that section 101 is an inclusive statement of patent-eligible subject matter”; (2) “hold that the form of the claim does not determine section 101 eligibility”; and (3) “confirm that experimental use of patented information is not barred.” *Id.* at 3–4.

The judges’ diverging opinions in *CLS Bank* reveal divisions among the Federal Circuit judges about what ought to be patent eligible subject matter and the

role the Patent Act and Supreme Court have reserved for judges in deciding that question. The upshot of these divisions, as noted above, is a lack of guidance about what inventions in this commercially-important area are patent eligible. The inventors, Patent Office, and district courts confronting the unpredictability this creates likely will continue to press for some clear standard — from the Supreme Court, Congress, or both. Chief Judge Rader’s views on the history of the statute and the scope of judicially-created exceptions to patentable subject matter can be seen as an attempt to change the debate from how to define the meets and bounds of the exception to what is the proper scope of any judge-made exception to § 101. In the § 101 cases the Supreme Court has taken recently, *Bilski*, *Mayo*, and *Myriad*, it has recognized this issue to some extent, but not tackled it head-on and it remains to be seen whether a majority of the Court could be persuaded to defer in this way. Until further clarity from one source or another, litigants will continue to challenge issued patents which the Lourie opinion would hold invalid, and inventors will press the Patent Office to allow claims the Rader opinion would find patent eligible. Thus, the debate appears far from over, and those seeking patent protection for their inventions and to invalidate patents believed to be not patent eligible will want to continue to monitor the area as the law evolves and the courts and Patent Office develop approaches to handle the current lack of clarity.

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