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A Fractured Federal Circuit Creates More Questions Than Answers: *CLS Bank Int'l v. Alice Corp.*, No. 2011-1301

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On Friday, the U.S. Court of Appeals for the Federal Circuit issued its *en banc* decision in *CLS Bank Int'l v. Alice Corp.* The decision includes seven separate opinions spanning 135 pages, but the only precedential portion appears to be the one-page *per curiam* opinion affirming the district court's holding that the asserted method, computer-readable medium, and system claims are not directed to eligible subject matter under 35 U.S.C. § 101.

Although none of the seven issued opinions commands a majority, seven out of ten members¹ of the *en banc* court concluded that the asserted method and computer-readable medium claims are patent-ineligible under § 101, and five of those seven members² also concluded that the system claims are patent-ineligible. Further adding to the confusion, the non-precedential opinions create three different tests for evaluating patent eligibility under § 101.

Below, we set out the five most important questions the Federal Circuit was unable to decide, followed by the two questions *CLS Bank* perhaps did answer.

***CLS Bank* left many questions unanswered, including:**

- What is an “abstract idea”?
- What is the test for determining whether a computer-implemented invention is a patent-ineligible “abstract idea”?
- When assessing patent eligibility under § 101, does the court consider the entire claim or only the portion of the claim that goes beyond a mere “abstract idea”?
- Can the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible “abstract idea”?
- Does the type of claim (*e.g.*, method, computer-readable medium, system) affect patent eligibility under § 101?

***CLS Bank* did provide guidance on two questions:**

- Does the presumption of validity apply to challenges to patent eligibility under § 101?
 - Most likely. A majority of the judges, albeit in separate concurring opinions, agreed that a presumption of validity applies when analyzing patent eligibility under § 101.

¹ Chief Judge Rader, Judges Lourie, Dyk, Prost, Reyna, Wallach, and Moore.

² Judges Lourie, Dyk, Prost, Reyna, and Wallach.

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- Is it better practice to keep system claims separate from applications containing method and computer-readable medium claims?
 - o Probably. After concluding that Alice's method claims recite merely an abstract idea, Judge Lourie proceeded to look at the differences between the method and system claims to determine the patent eligibility for the system claims, concluding that the recited hardware in the non-method claims offered no meaningful limitations beyond the implementation of the abstract idea via computers. Accordingly, it may be better practice to keep system and method claims separate, to avoid infection of system claims by infirmities in method claims.

I. BACKGROUND

In *CLS Bank*, the Federal Circuit granted rehearing *en banc* to decide two questions under § 101:

(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, 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?

The claimed subject matter in *CLS Bank* related to a computerized trading platform for exchanging obligations by way of a trusted third party to eliminate settlement risk for the exchanging parties. The U.S. District Court for the District of Columbia held that Alice's method, computer-readable medium, and system claims were invalid for being directed to an abstract idea that is patent-ineligible subject matter under § 101.³ Prior to rehearing *en banc*, a three-judge panel of the Federal Circuit reversed the district court's decision and held that Alice's patent claims were directed to patent-eligible subject matter under § 101.⁴

II. EN BANC DECISION

The Federal Circuit issued a *per curiam* opinion on May 10, 2013, affirming the district court's holding that the asserted method, computer-readable medium, and system claims recite patent-ineligible subject matter under § 101.⁵ The *per curiam* opinion was accompanied by five opinions concurring, concurring-in-part and dissenting-in-part, or dissenting. Along with authoring one of the concurring-in-part and dissenting-in-part opinions, Chief Judge Rader also issued a separate statement entitled “Additional Reflections of Chief Judge Rader.”

While none of the seven opinions reflects a majority for precedential purposes, there are some underlying agreements on the issues. At least nine members of the *en banc* court⁶ agreed that a presumption of validity applies when “§ 101 is raised as a basis for invalidity in district court proceedings.”⁷ Further, the same nine

³ *CLS Bank Int'l v. Alice Corp.*, 768 F. Supp. 2d 221, 255 (D.D.C., March 9, 2011).

⁴ *CLS Bank Int'l v. Alice Corp.*, 685 F. 3d 1341, 1356 (Fed. Cir. 2012) (Judges Linn and O'Malley; Judge Prost dissenting).

⁵ Judge Lourie filed a concurring opinion and was joined by Judges Dyk, Prost, Reyna, and Wallach. Chief Judge Rader filed a concurring-in-part and dissenting-in-part opinion and was joined by Judges Linn, Moore, and O'Malley for all but part VI of that opinion; Judge Moore also joined as to part VI. Judge Moore filed a dissenting-in-part opinion and was joined by Judges Linn and O'Malley. Judge Newman filed a concurring-in-part and dissenting-in-part opinion. Judges Linn and O'Malley jointly filed a dissenting opinion.

⁶ Chief Judge Rader, Judges Lourie, Dyk, Prost, Reyna, Wallach, Linn, Moore, and O'Malley.

⁷ *Judge Lourie Concurring Op.* at 22-23.

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members confirmed the basic structure for assessing whether a claim recites patent-eligible subject matter under § 101. The first step asks whether the “claimed invention fits within one of the four statutory classes (*i.e.*, processes, machines, manufactures, and compositions of matter) set out in § 101.”⁸ If the answer is yes, then the next question is whether the claims are subject to one of the three judicial exceptions to subject-matter eligibility (*i.e.*, laws of nature, natural phenomena, or abstract ideas).⁹ However, the judges differ on how to apply the judicial exception for an abstract idea.

A. Judge Lourie’s “significantly more” test

In his concurring opinion for five members of the Court,¹⁰ Judge Lourie reviewed Supreme Court precedent and concluded that the following considerations should frame any analysis under § 101: (1) “an abiding concern that patents should not be allowed to preempt the fundamental tools of discovery”;¹¹ (2) “caution against overly formalistic approaches to subject-matter eligibility that invite manipulation by patent applicants”;¹² and (3) preference for a “flexible, claim-by-claim approach to subject-matter eligibility that avoids rigid line drawing.”¹³

Applying these principles, Judge Lourie articulated a “significantly more” test. First, the court must identify the “abstract idea” that is at risk of preemption.¹⁴ Once identified, the next step is to remove the “abstract idea” from the claim and determine whether the balance of the claim “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.”¹⁵

Put another way, in order to be patent-eligible under § 101, a claim must include one or more additional substantive limitations that add “significantly more” to the basic abstract idea.¹⁶ This requirement for “significantly more” has been referred to as an “inventive concept,” which requires a “genuine human contribution to the claimed subject matter.”¹⁷ Human contributions that are “merely tangential, routine, well-understood, or conventional, or in practice fail to narrow the claim relative to the fundamental principles therein, cannot confer patent eligibility.”¹⁸

Regarding computer claims, Judge Lourie explained that a computer does not itself confer patent eligibility

⁸ *Id.* at 18; *Chief Judge Rader Concurring-In-Part and Dissenting-In-Part Op.* at 11 (“[A]ny analysis of subject matter eligibility for patenting must begin by acknowledging that any new and useful process, machine, composition of matter, or manufacture ... is eligible for patent protection.”).

⁹ *Judge Lourie Op.* at 18; *Chief Judge Rader Op.* at 39 (“[T]he inquiry shifts to seek clear and convincing evidence that the claim, nonetheless, is ineligible for patenting because it falls within one of the judicial exceptions.”).

¹⁰ Judges Dyk, Prost, Reyna, and Wallach joined Judge Lourie’s opinion.

¹¹ *Judge Lourie Op.* at 15.

¹² *Id.* at 16.

¹³ *Id.* at 17.

¹⁴ *Id.* at 18.

¹⁵ *Id.* at 18-19.

¹⁶ *Id.* at 16.

¹⁷ *Id.* at 20.

¹⁸ *Id.*

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“[u]nless the claims require a computer to perform operations that are not merely accelerated calculations...”¹⁹ Further, “simply appending generic computer functionality to lend speed or efficiency to the performance of an otherwise abstract concept does not meaningfully limit claim scope for purposes of patent eligibility.”²⁰

Under the “significantly more” test, Judge Lourie explained that the asserted claims recite patent-ineligible subject matter. Judge Lourie stated that the relevant portion of the claim was an abstract idea because “it is a ‘disembodied’ concept, a basic building block of human ingenuity, untethered from any real-world application.”²¹ After removing the abstract idea from the claim, Judge Lourie concluded that the remaining limitations did not add “significantly more” to the abstract idea.²² Judge Lourie also clarified that the system claims recite subject matter that was not patent-eligible and were “akin to stating the abstract idea of third-party intermediation and adding the words: ‘apply it’ on a computer.”²³

B. Chief Judge Rader’s “meaningful limitations” test

In his opinion for four members of the Court,²⁴ Chief Judge Rader described Judge Lourie’s “significantly more” test as too narrow and in tension with the 1952 Patent Act. Chief Judge Rader instead proposed a “meaningful limitations” test for determining the patent eligibility of claims involving abstract ideas. The main inquiry asks “whether a claim includes *meaningful* limitations restricting it to an application, rather than merely an abstract idea.”²⁵

Unlike the “significantly more” test, Chief Judge Rader’s test requires a court to “consider the asserted claim as a *whole* when assessing eligibility,” as opposed to removing the abstract idea from the claim and then considering the remaining limitations.²⁶ For computer-related claims, the question in Judge Rader’s view 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.”²⁷ Indeed, “where the claim is tied to a computer in such a way that the computer plays a meaningful role in the performance of the claimed invention, and the claim does not pre-empt virtually all uses of an underlying abstract idea, the claim is patent eligible.”²⁸ However, “[i]f, to implement the abstract concept, one *must* perform the additional step, then the step merely separately restates an element

¹⁹ *Id.* at 27.

²⁰ *Id.* at 27; *id.* at 21 (“[B]are field-of-use limitations cannot rescue a claim from patent ineligibility where the claim as written still effectively preempts all uses of a fundamental concept within the stated field.”).

²¹ *Id.* at 26.

²² *Id.* at 26-27.

²³ *Id.* at 36.

²⁴ Judges Linn, Moore, and O’Malley joined all but part VI of Chief Judge Rader’s opinion.

²⁵ *Chief Judge Rader Op.* at 16; *Judge Moore’s Concurring-In-Part and Dissenting-In-Part Op.* at 5 (“The key question is thus whether a claim recites a sufficiently concrete and practical application of an abstract idea to qualify as patent-eligible.”).

²⁶ *Chief Judge Rader Op.* at 13.

²⁷ *Id.* at 21.

²⁸ *Id.* at 22.

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of the abstract idea, and thus does not further limit the abstract concept to a practical application.”²⁹

Applying these principles, Chief Judge Rader explained that Alice's system claims are patent-eligible, because “the number and specificity of the structural limitations” would result in a narrow preemptive effect, and the use of a computer is not inherent in the abstract idea.³⁰ Chief Judge Rader further clarified that “whether the additional steps were routine in some other context is not the inquiry... the question is whether these steps are inherent in [the abstract idea].”³¹

Chief Judge Rader also disagreed with Judge Lourie's requirement that a computer “perform operations that are not merely accelerated calculations” to confer eligibility,³² noting that “[e]verything done by a computer can be done by a human ... [and] [r]equiring a computer to do something that a human could not would mean that computer implementation could never produce patent eligibility.”³³ According to Chief Judge Rader, “[i]f tying a method to a machine can be an important indication of patent eligibility, it would seem that a claim embodying the machine itself, with all its structural and functional limitations, would rarely, if ever, be an abstract idea.”³⁴

Regarding the method and computer-readable medium claims, Chief Judge Rader and Judge Moore agreed that the “recited elements only recite the steps inherent in [the abstract idea] and implement those steps according to methods long used [in that field]....”³⁵ Therefore, Chief Judge Rader and Judge Moore would still affirm the district court's holding that the method and computer-readable medium claims are patent-ineligible, albeit applying a different test than Judge Lourie's concurring opinion. Judges Linn and O'Malley disagreed with Chief Judge Rader and Judge Moore's proposed holding on the method and computer-readable medium claims and filed a separate dissenting opinion.³⁶

C. Judge Newman's “three basic principles”

Judge Newman suggested that the Court's deadlock demonstrated that “an all-purpose bright-line rule for the threshold portal of § 101 is as unavailable as it is unnecessary.”³⁷ Instead, Judge Newman proposed “three basic principles”: (1) “section 101 is an inclusive statement of patent-eligible subject matter”;³⁸ (2) “the form of the claim

²⁹ *Id.* at 23-24.

³⁰ *Id.* at 36-37.

³¹ *Id.* at 36.

³² *Id.* at 29, footnote 7 (citing *Judge Lourie Op.* at 27).

³³ *Id.*

³⁴ *Id.* at 28.

³⁵ *Id.* at 41-42.

³⁶ According to Judges Linn and O'Malley, the method, media, and system claims are all patent-eligible. Judges Linn and O'Malley Dissenting Op. at 14. Judges Linn and O'Malley signed on to Chief Judge Rader's opinion that would find the system claims patent-eligible under § 101. Taking that opinion one step further, Judges Linn and O'Malley claim that their colleagues “ignore the record of the lower court proceedings and the stipulations by which CLS agrees it must be bound” that require the method, media, and system claims to rise and fall together. *Id.* at 6.

³⁷ *Id.* at 2.

³⁸ *Id.* at 3.

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does not determine section 101 eligibility”;³⁹ and (3) “experimental use of patented information is not barred.”⁴⁰ According to Judge Newman, “a clarification of the right to experiment with information disclosed in the patents” will make it unnecessary to use the judicial exception of “abstraction” to “liberate the subject matter for experimentation....”⁴¹ Applying these principles, Judge Newman would have reversed the district court’s holding that the method, computer-readable medium, and system claims are patent-ineligible under § 101.⁴²

III. IMPACT

The Federal Circuit’s one paragraph *per curiam* opinion leaves more questions than answers. Chief Judge Rader’s opinion makes clear that “nothing said today beyond our judgment has the weight of precedent.”⁴³ Judge Newman took a more pessimistic view, stating that “we have propounded at least three incompatible standards, devoid of consensus, serving simply to add to the unreliability and cost of the system of patents as an incentive for innovation.”⁴⁴ Judge Moore was concerned with the negative impact on a whole field of patents: “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.”⁴⁵

Without a precedential opinion, it appears that district courts may have to employ all three tests when assessing patent eligibility under § 101, though a consensus may form in the district courts regarding which test is most convincing or useful. The lack of a majority opinion may also increase the chances that the Supreme Court grants *certiorari* to provide guidance on these issues. As Judge Moore suggests, the Supreme Court could take this case as an opportunity to “distinguish between claims that *are* and *are not* directed to patentable subject matter.”⁴⁶ While the odds of Supreme Court review in any particular case are low, the Court has shown increasing interest in § 101, though none of its recent decisions (*Bilski*, *Mayo*, and the soon-to-be-decided *Myriad*) have directly involved computer-related claims. Last Term, the Court remanded *Ultramercial*, a case presenting similar issues to *CLS Bank*, for reconsideration by the Federal Circuit in light of *Mayo*.⁴⁷ The Supreme Court could do the same in light of *Myriad* with any *certiorari* petition in *CLS Bank*, or the Court could decide that it is time to weigh in.

Judges Linn and O’Malley’s opinion, however, emphasized their belief that only Congress can make industry or technology-specific patent rules, stating that “Congress can, and perhaps should, develop special rules for

³⁹ *Id.* at 4.

⁴⁰ *Id.*

⁴¹ *Id.* at 10.

⁴² *Id.* at 14.

⁴³ Chief Judge Rader Op. at 2, footnote 1.

⁴⁴ Judge Newman Op. at 1-2.

⁴⁵ Judge Moore Dissenting-In-Part Op. at 1-2.

⁴⁶ Judge Moore Op. at 3.

⁴⁷ *Wildtangent, Inc. v Ultramercial, LLC*, 132 S.Ct. 2431 (2012).

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software patents.”⁴⁸ By contrast, according to Judges Linn and O’Malley, courts “may not change the law to address one technological field or the concerns of a single industry.”⁴⁹ Accordingly, comprehensive resolution of the issues presented by *CLS Bank* may require Congressional action, even if that currently seems unlikely in the near future.

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⁴⁸ *Judges Linn and O’Malley Op.* at 13.

⁴⁹ *Id.*