



CLS BANK: IS THIS THE “DEATH OF HUNDREDS OF THOUSANDS OF PATENTS”?

Many software and internet companies have secured patents on their technology to protect their investments. For some companies, such as startups, their software or business method patents may be their only valuable assets. However, in recent years, an unexpected thorn in the side of such patents has arisen to attack their validity. Specifically, the attacks have alleged that such software or business method patents are too abstract and, hence, do not claim eligible subject matter under 35 U.S.C. § 101. This has been welcome news for companies defending against software or business method patents in litigation, but it has also made the situation more difficult for those wishing to patent, license, and enforce such patents.

The Supreme Court has decided several cases regarding patent eligibility under Section 101. Indeed, in just the last few years, they handed down two influential decisions, *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) and *Mayo Collaborative Servs. v. Prometheus Labs., Inc.* 132 S. Ct. 1289 (2012). Even with the Supreme Court's precedent as guidance, the Federal Circuit has had some difficulty uniformly applying Section 101. This was on display in the Federal

Circuit's recent *en banc* decision in *CLS Bank, Intl. v. Alice Corp.*, where a highly fractured court affirmed a district court's holding that the patents at issue recited patent ineligible subject matter under Section 101. The court announced its ruling in a one-paragraph *per curiam* decision, followed by five opinions, none of which garnered the support of a majority of judges, and as a result have no precedential effect on future cases.

BACKGROUND

The patents at issue related to a computerized platform to eliminate risk in conducting financial transactions between two parties by using a neutral intermediary. The neutral intermediary, essentially an escrow, ensured that each party met its respective obligations before any obligations were actually exchanged. The patents at issue shared substantially the same specification and contained method claims, computer readable media claims, and system claims. While some of the claims did not explicitly claim computer implementation, the parties agreed for the purposes of summary judgment that all of

the claims should be construed to require a computer that included at least a processor and memory.

On summary judgment, the district court held that the claims at issue were invalid under 35 U.S.C. § 101. A three-judge panel of the Federal Circuit reversed the district court’s decision, and the Federal Circuit granted a petition for rehearing *en banc*. The Federal Circuit’s *en banc* decision consisted of a one-paragraph *per curiam* opinion followed by five lengthy concurring or dissenting opinions. The opinions espoused various approaches regarding the proper inquiry for analyzing claims of patent eligibility under Section 101. Judge Lourie drafted the lead concurring opinion for five judges, and he was joined by Judges Dyk, Prost, Reyna, and Wallach. Additional opinions were filed by Judge Rader, Judge Moore, Judge Newman, and Judge Linn. After a tally of the votes, seven of the 10 judges hearing the appeal agreed that the method and computer readable medium claims failed to recite patent eligible subject matter. The court voted 5–5, however, as to the patent eligibility of the system claims. As a result of the court’s equal division on the system claims, the appellate court affirmed the district court’s judgment regarding those claims. The various opinions, and the judges joining them, are summarized in the table below.

No Claims Are Patent Eligible	System Claims Are Patent Eligible	All Claims Are Patent Eligible
Lead Opinion (Lourie; joined by Dyk, Prost, Reyna, and Wallach)	Second Opinion (Rader; joined by Moore, Linn, and O’Malley; Rader and Moore would have held that only the system claims are patent eligible)	Fourth Opinion (Newman)
	Third Opinion (Moore; joined by Rader, Linn, and O’Malley; Rader and Moore would have held that only the system claims are patent eligible)	Fifth Opinion (Linn and O’Malley)

JUDGE LOURIE’S LEAD OPINION

Judge Lourie’s opinion—for himself and Judges Dyk, Prost, Reyna, and Wallach—urged the court to affirm the district court’s judgment of ineligibility of all claims in its entirety.

He emphasized that the patents at issue claimed abstract ideas that were devoid of sufficient innovation to warrant patent protection. Before addressing the patent claims, he laid out a framework for analyzing the patent eligibility of claims under Section 101. He first reviewed notable Supreme Court precedent related to Section 101. From this review, he identified common themes that should guide a Section 101 inquiry. After reviewing these basic principles, Judge Lourie announced a specific analysis that, in his view, should be applied in determining whether a computer-implemented claim is patent eligible under Section 101.

First, a court should determine whether the claimed invention fits within one of the four statutory classes set out in Section 101—a process, machine, manufacture, or composition of matter. If it does, the court should then determine whether the claim is drawn to subject matter that is ineligible for patent protection: abstract ideas, laws of nature, or physical phenomena. To do so, the court should define “whatever fundamental concept appears wrapped up in the claim.” After the pertinent abstract idea is identified, the court should evaluate 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.” Judge Lourie noted that these limitations must be the product of human ingenuity, rather than being merely appended to the underlying abstract idea.

Applying these concepts, Judge Lourie determined that the claims at issue encompassed the abstract idea of reducing settlement risk by effecting trades through a third-party intermediary. Next, he analyzed the substantive limitations in the method claims, concluding that those limitations, even those related to computer implementation, did not add anything of substance to the claim. As he explained, a computer does not confer a claim with patent eligibility, “[u]nless the claims require a computer to perform operations that are not merely accelerated calculations.” According to Judge Lourie’s interpretation of the patents at issue, the claims did not recite essential or improved computer technology. Rather, the computer implementation was merely “‘insignificant post solution activity’ relative to the abstract idea.” In addition, the computer implementation in the patent failed “to supply an ‘inventive concept’ that represents a nontrivial, non-conventional human contribution or materially narrows

the claims relative to the abstract idea they embrace.” Therefore, in his opinion, upholding the method claims would preempt use of the abstract idea.

As for the computer readable media and system claims, Judge Lourie found that despite being drawn to physical objects, these claims were still patent ineligible. For the computer readable media claims, the physical object, the “computer readable storage medium,” was stated in broad and functional terms, and each substantive limitation was directly related to the subject matter of the method claims. The computer readable media claims were, therefore, not truly drawn to the computer readable storage media but, rather, to the underlying method.

Turning to the system claims, Judge Lourie analyzed a representative claim and determined that it recited a computerized system configured to carry out a series of steps that mirrored the method claims at issue. He explained that the system’s computer limitations were claimed in generic, functional terms that “would encompass any device capable of performing the same ubiquitous calculations, storage, and connectivity functions required by the method claims.” To Judge Lourie, these system claims were unpatentable because they were “akin to stating the abstract idea of third-party intermediation and adding the words: ‘apply it’ on a computer.”

THE OTHER OPINIONS OF THE COURT

In the second opinion, Judge Moore joined Chief Judge Rader’s opinion in its entirety. Judges Linn and O’Malley also joined as to all parts, except for the section regarding the method claims. In his opinion, Chief Judge Rader agreed that the method and media claims of the patents at issue were patent ineligible. Chief Judge Rader disagreed with Judge Lourie, however, regarding the system claims and the proper treatment of computer-specific limitations. After reviewing the text of Section 101 and Supreme Court precedent, Chief Judge Rader explained that “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.” Chief Judge Rader analyzed a representative system claim and

determined that it met that standard, finding that the claim “recites a machine and other steps to enable transactions.” He further noted that: “The claim begins with a machine acquiring data and ends with the machine exchanging financial instructions with other machines. The ‘abstract idea’ present here is not disembodied at all, but is instead integrated into a system utilizing machines.” Thus, Chief Judge Rader found the system claims to be patent eligible. Judges Linn and O’Malley believed that, if the method claims could be interpreted by Judge Rader, they would be patent ineligible. But, for the reasons stated in their separate opinion, they believed that, as properly construed on the record and in the procedural posture, the method claims were patent eligible.

The third opinion, written by Judge Moore and joined by Chief Judge Rader and Judges Linn and O’Malley, advocated for the patentability of the system claims at issue. In Judge Moore’s view, the system claims were not directed to abstract ideas but, rather, “to a system of tangible machine components with limited specialized functions programmed consistent with detailed algorithms disclosed in the patent.” To Judge Moore, such claims were clearly patent eligible. She explained that programming a general-purpose computer to perform particular functions, as was done in the patents at issue, creates a new, patent eligible machine. Further, modifying the circuitry of a known device to apply an abstract idea does not transform the device into an abstract idea. Judge Moore also warned of the negative consequences that a holding to the contrary like Judge Lourie’s could have: “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.”

In the fourth opinion, Judge Newman advocated that the court should hold that Section 101 provides an inclusive statement of patent eligible subject matter. As such, if a patent claims a process, a machine, a manufacture, or a composition of matter, those claims should meet Section 101. Under Judge Newman’s approach, claims directed to abstract ideas and those that are preemptive would be eliminated by application of the laws of patentability, including novelty, obviousness, and enablement. Because the claims were drawn to subject

matter included in the language of Section 101, Judge Newman concluded that the claims pass scrutiny.

In the fifth opinion, Judges Linn and O'Malley concluded that the claims at issue must rise and fall together, that is, they are all patent eligible or they are not. They based this conclusion not on the fact that all of the claims reference the same abstract concept, as they argued Judge Lourie did. Rather, they found that the record in the case made clear that the claims were all based on the same meaningful limitations. The claims at issue were patent eligible, despite having an abstract idea at their core, because they were directed to very specific ways of performing the abstract idea. As such, the claims did not preempt all commercial uses of the abstract idea.

Finally, at the end of the decision, Chief Judge Rader offered a five-page set of "Additional Reflections," in which he expressed his frustration with the decision. He urged that patent eligibility should be governed by the words of Section 101, rather than judicial abstractions, such as "inventiveness" and "preemption."

CONCLUSION

The *CLS Bank* opinion reflects the fact that the Federal Circuit is badly fractured when it comes to the proper interpretation and application of Section 101—at least as applied to computerized business-method inventions. None of the opinions in *CLS Bank* garnered a majority of the judges. Accordingly, none of the opinions other than the *per curiam* opinion has precedential value, and the *per curiam* opinion contains no reasoning that can be relied on by future panels—just the court's overall conclusion. Given the differing approaches to determine patent eligibility advocated by the Federal Circuit judges in the opinions in this case, however, the Supreme Court may be required to provide its guidance once again. Until then, the adjudication of patent eligibility under Section 101 in the Federal Circuit may remain highly dependent on the makeup of each individual panel. It remains to be seen whether Judge Moore's pronouncement of "the death of hundreds of thousands of patents" will result from the evolving patent eligibility jurisprudence.

In addition, it is worth noting that the *en banc* Federal Circuit that decided the *CLS Bank* case comprised nine active judges and one senior judge, Judge Linn. (Senior judges generally do not participate in *en banc* hearings and decisions unless the senior judge was a member of the panel that initially decided the case, as Judge Linn was here.) By statute, the Federal Circuit is entitled to 12 active judges. Since *CLS Bank* was argued, a 10th active judge—Judge Richard Taranto—has joined the court, and two more nominees are pending before the Senate (Ray Chen, the current Solicitor of the U.S. Patent and Trademark Office, and Todd Hughes, currently the Deputy Director of the Department of Justice's Commercial Civil Litigation branch). While Judge Taranto, as a current member of the court, could have participated in the *CLS Bank* decision, he chose not to do so. Thus, the newest Federal Circuit judges may well be able to swing the court's current divisions on Section 101 to a more coherent place in the upcoming months or years.

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