

Okay—Now What? Fractured Federal Circuit Issues Five Opinions in CLS Bank International Case

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A fractured U.S. Court of Appeals for the Federal Circuit published its long-awaited *en banc* decision in ***CLS Bank International v. Alice Corporation***. With Judge Taranto sitting on the sideline, the remaining 10 members of the *en banc* court split, resulting in a *per curiam* affirmance of the district court holding that method, computer-readable medium and system claims for technology related to “the management of risk relating to specified, yet unknown, future events” were not directed to patentable subject matter under 35 U.S.C. § 101. *CLS Bank International v. Alice Corporation*, Case No. 11-1301 (Fed. Cir., May 10, 2012) (*en banc*). However, the court remained divided on the issue of whether the claims drawn to a system of implementing instructions that essentially correspond to those recited in the method claims are patent eligible, notwithstanding that a majority of the *en banc* court agreed that neither the corresponding method claims or computer-readable media (*i.e.*, *Beauregard*) claims are patent eligible.

Plainly contemplating the likelihood that, as a consequence of the deadlock in this case, § 101 likely will be considered (once again) by the Supreme Court of the United States, in each of the published opinions the author attempts to divine the likely direction the Supreme Court will turn should it agree to consider § 101 in the context of patent claims drawn to a system for implementing a non-patent-eligible method.

The Statute

The applicable statute, 35 U.S.C. § 101, replicated on few of opinions, states, “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.”

Procedural History and Posture

Alice Corporation owns several patents, each of which share a common specification and have method, computer-readable medium and system claims directed to “the management of risk relating to specified, yet unknown, future events.” In particular, the patents relate to a computerized trading platform for using a trusted third party to create a form of an escrow account to ensure the performance of financial obligation by parties to a transaction.

CLS filed suit against Alice, seeking a declaratory judgment of non-infringement, invalidity and unenforceability of Alice's patents. CLS moved for summary judgment on the basis of ineligible subject matter under § 101. For purposes of summary judgment analysis, the district court and the parties agreed that the claims required a computer including a processor and a memory for implementation. However, the district court still concluded that Alice's method claims "are directed to an abstract idea of employing an intermediary to facilitate simultaneous exchange of obligations in order to minimize risk." The district court further held that Alice's system claims were not directed to patentable subject matter because those claims "would preempt the use of an abstract concept ... on any computer." Alice appealed.

Judge Lourie's Concurrence

Judge Lourie, in a concurring opinion joined by Judges Dyk, Prost, Reyna and Wallach, found all three classes of claims presented (method, machine-readable media and system) to be patent-ineligible. (As pointed out by Judge Lourie, seven of the 10 members of the *en banc* court agreed that the method and machine-readable media claims were non-statutory).

As with almost all of the opinions published in *CLS Bank*, Judge Lourie's analysis starts with an examination of the statute and Supreme Court cases construing it. Citing *Gottschalk v. Benson*, Judge Lourie explained that, while § 101 is broad in scope, "laws of nature, natural phenomena, and abstract ideas" are excluded from patent protection. Under well-settled law, a law of nature, a natural phenomenon or an abstract idea cannot be patented. However, as Judge Lourie explained, all inventions rely, to some degree, on laws of nature, natural phenomena or abstract ideas. Thus, in this case, the court must draw a line regarding at what point "laws of nature, natural phenomena, and abstract ideas" morph into a "process, machine, manufacture, or composition of matter."

In his analysis, Judge Lourie cited the 1948 Supreme Court decision in *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, noting that a concern that runs through the Supreme Court's jurisprudence on § 101 is that the fundamental tools of discovery—laws of nature, natural phenomena and abstract ideas—must remain "free to all ... and reserved exclusively to none," and thus must be denied patent protection. Patenting the fundamental tools of discovery preempts the use of those tools in making other discoveries, and thus serves a purpose opposite that which the patent laws are designed to serve—encouraging innovation. In its analysis of patentability under § 101, the Federal Circuit attempts to "guard ... against the wholesale preemption of fundamental principles. ... Claims should not be coextensive with a natural law." In other words, according to Judge Lourie, to be statutory under § 101, a claim cannot "subsume the full scope of a fundamental concept ... [and cover] the concept's every practical application." The threshold question is "whether [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." The abstract idea must be tied down to a particular useful application of the principle that is not well understood or conventional in light of the principle.

Judge Lourie cautioned against an overly "formalistic" approach to the subject matter eligibility analysis or the use of bright line rules that do no more than invite manipulation by clever claim drafters by encouraging "highly stylized language," "hollow field of use limitations" or "token post solution activity."

In the instant case, the patents relate to a method of reducing settlement risk by facilitating a trade through third-party intermediation. As explained by Judge Lourie, third-party intermediation is an abstract idea that was discovered, not invented. Thus, the question under § 101 becomes whether

the inventors added “significantly more” to the abstract idea to make it patentable.

Alice argued that the computer, implied in the method claim, is sufficient to make the idea patentable. However, Judge Lourie characterized the mere use of a computer as “insignificant post solution activity.” As he explained, for a computer (express or implied) to render the claimed method patent eligible, the claim must involve a “specific or limiting recitation of essential or improved computer technology.” The computer must perform steps that are not merely accelerated (relative to human processing) calculations. Thus, Judge Lourie concluded that the method claims are not directed to statutory subject matter. Similarly, Judge Lourie concluded that the computer-readable medium claims are not patent eligible under § 101 because the computer-readable medium claims have similar (preemptive) scope to the method claims.

Turning to the system claims, Judge Lourie noted that, while the method and computer-readable medium claims recite a series of steps, “The system claims are different ... in that they also recite tangible devices as system components, including at least ‘a computer’ and ‘a data storage unit.’” However, as Judge Lourie explained, the system claims under consideration should not be evaluated differently from the method claims simply because they are directed to a physical object, *i.e.*, reciting such physical objects as a processor and a memory. Specifically, the court reasoned that “applying a presumptively different approach to system claims generally would reward ... clever claim drafting” and thus would allow patentees to obtain patents on ideas or principles, rather than implementations of inventions. However, Judge Lourie noted that, in some cases, “a system claim that builds on the same abstract idea as a patent-ineligible method claim may well incorporate sufficient additional limitations, computer-based or otherwise, to transform the idea into a patent-eligible application.” The sufficient additional limitations, however, must extend beyond those found in a typical computer. In other words, “computers that have routinely been adapted by software consisting of abstract ideas ... to do all sorts of tasks [e.g., third-party intermediation via escrow account] that formerly were performed by humans,” are not patent eligible. While computers *per se* are patent-eligible machines, “abstract methods coupled with computers adapted to perform those methods” are not necessarily patentable. In this regard, Judge Lourie distanced the five member concurrence group from *In re Alappat*, noting that as it relates to patent eligibility, “the Supreme Court has spoken ... and we must take note of that change.”

Chief Judge Rader’s and Judge Moore’s Opinions

Chief Judge Rader (joined by Judges Linn, Moore and O’Malley) and Judge Moore (joined by Chief Judge Rader and Judges Linn and O’Malley) cautioned against creating a “free fall” in the patent system by lumping method, media and system claims together and finding that all are directed to no more than an abstract idea and are patent ineligible under § 101. As explained by Judge Moore, “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 methods, financial system, and software patents as well as many computer implemented and telecommunications patents.”

Judge Moore directly invited the Supreme Court to consider the system claims, regarding which the Federal Circuit is “irreconcilably fractured,” and to take the opportunity “to distinguish between which claims *are* and *are not* directed to patentable subject matter.” (Emphasis in the original.)

Judge Newman’s Dissent

Judge Newman penned a dissent that appears directed more to the Supreme Court more than to the parties. She argued that § 101 provides an inclusive listing of the “useful arts” for patent purposes

that should be used to eliminate claims that are “abstract” or “preemptive.” In Newman’s belief, the court should not create a new all-purpose definition of “abstractness” and “preemption,” as she believes the Lourie concurrence did here; arguing that these concepts are better covered by the substantive elements of the patent law in §§ 102, 103 and 112. However, Newman agreed with the Lourie concurrence that patent eligibility should not depend on the form of the claim (e.g., system or method).

Regarding the concept of abstraction, as applied to patent eligibility under § 101, Judge Newman noted that “[W]hile a scientific truth, or the mathematical expression of it, is not a patentable invention, a novel and useful structure created with the aid and knowledge of scientific truth may be.” Citing *Diamond v. Diehr*, Newman noted her belief that the court should broadly interpret § 101 to cover “anything under the sun that is made by man.” Vehemently disagreeing with Judge Lourie’s analysis, Newman wrote, “it cannot be that computer-implemented developments may or may not be eligible under § 101 depending on how broadly they are sought to be claimed ... breadth of claiming, and undue breadth, are determined under §§ 102, 103, and 112, not § 101.”

Practice Note: System or apparatus claims should be included in every software-based case, pending possible Supreme Court review of *CLS Bank*. In fact, one possible prosecution strategy may be to forgo method claims (and almost definitely media claims) entirely, at least until system claims have been secured, as the inclusion of such claims may invite unwanted comparison with the apparatus or system claims. In *CLS Bank*, the Lourie concurrence went out of its way to note that patent eligibility should not depend on the ingenuity of the claim draftsman. Also, as Judge Moore has warned, in the wake of the *CLS Bank* decision, many concepts in the business method, finance, software and telecommunications fields may be more challenging to successfully claim.

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