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Federal Circuit Judges Stake Positions on Patent Eligibility in *CLS Bank*

***En banc* decision holds certain computer-implemented inventions patent ineligible but provides little other guidance.**

The US Court of Appeals for the Federal Circuit recently issued a fractured *en banc* decision in *CLS Bank International v. Alice Corp. Pty. Ltd.*, --- F.3d ----, 2013 WL 1920941 (Fed. Cir. May 10, 2013). In a short per curiam opinion, the court affirmed the district court's holding that none of the asserted method or computer-readable-medium claims are patent eligible under 35 U.S.C. § 101 and split five-to-five regarding whether the system claims were patent eligible under § 101. None of the six opinions explaining the rationale, however, garnered a majority of the court and therefore created precedent.

Accordingly, while the *en banc* court's result is significant and overturns the prior panel's holding that the claims at issue were patent eligible, the *en banc* decision ultimately provides little guidance to courts or practitioners on the way the Federal Circuit believes these issues should be analyzed. Instead, it merely highlights the lack of consensus among current Federal Circuit judges.

Background

CLS Bank sued Alice in the US District Court for the District of Columbia, seeking a declaration of noninfringement, invalidity and unenforceability. The asserted patents concerned computerized risk management and, more specifically, using a trusted intermediary to mitigate the risk that one party in a transaction will fail to comply with its obligations. The parties filed cross motions for summary judgment regarding the asserted claims' validity under 35 U.S.C. § 101. The claims fall into three categories: method claims, computer-readable media claims and system claims. The district court granted summary judgment in favor of CLS Bank, holding that all of these claims are invalid under § 101 for failure to recite patent-eligible subject matter.

Alice appealed. A panel of the Federal Circuit reversed 2-1, with Judges Linn and O'Malley in the majority and Judge Prost dissenting. The Federal Circuit then granted a petition for rehearing *en banc* filed by CLS Bank. The court heard oral argument on February 8, 2013, and issued its decision a relatively short time thereafter, on May 10.

The Federal Circuit's *En Banc* Decision

In a two-sentence, per curiam opinion, a majority of the court affirmed the district court's holding that the asserted method and computer-readable media claims are not directed to patent-eligible subject matter under 35 U.S.C. § 101. This is significant because the decision overturns the conclusion of the initial panel that the claims at issue were patent eligible. The per curiam opinion, however, failed to provide any controlling rationale for the court's decision.

The court then divided equally with regard to whether the system claims were patent eligible. But, while this equal split effectively affirms the district court's holding that the asserted system claims are likewise ineligible, the failure of any of the opinions to garner a majority also means that this decision is not precedent.

As a result, the Federal Circuit issued six separate, non-precedential opinions—including a full concurrence, a full dissent and Chief Judge Rader's "additional reflections." While each of these opinions (and reflections) is revealing about the views of individual Judges on the Federal Circuit, none is binding legal authority. As one separate opinion explained, "though much is published today discussing the proper approach to the patent eligibility inquiry, nothing said today beyond [the] judgment has the weight of precedent." And another member of the court candidly acknowledged that the Federal Circuit is "irreconcilably fractured."

Before the next chapter in patent eligibility is written by the Supreme Court or the Federal Circuit sitting *en banc* in another case, practitioners should be aware of the separate opinions issued in *CLS Bank*, look to current Supreme Court precedent and Federal Circuit precedent in other cases, and preserve arguments that might appeal to any panel of Federal Circuit judges.

Separate Opinions

Judge Lourie authored the primary concurring opinion, which Judges Dyk, Prost, Reyna and Wallach joined. The opinion highlighted three "common themes" that these judges gleaned from Supreme Court precedent. First, "claims should not be coextensive with a natural law, natural phenomenon, or abstract idea" and instead "must include one or more substantive limitations that ... add 'significantly more' to the basic principle." Op. at 16. Second, "overly formalistic approaches to subject-matter eligibility that invite manipulation by patent applicants" (e.g., highly stylized language, hollow field-of-use limitations and token post-solution activity) should be avoided. See *id.* Lastly, and similar to the preceding theme, "rigid line drawing" as opposed to a "flexible, claim-by-claim approach" should be avoided. See *id.* at 16-17.

Accordingly, the primary concurrence proposed the following approach to determine "whether a computer-implemented claim recites patent-eligible subject matter under § 101 or falls into the common law exception for abstract ideas":

- 1) Does the claimed invention fit within one of the four statutory classes set out in 35 U.S.C. § 101—i.e., process, machine, manufacture, and composition of matter?
- 2) Does the claim pose any risk of preempting an abstract idea?
- 3) Does the claim contain 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?

See *id.* at 18-19.

The primary concurrence then offered specific guidance on what does and what does not constitute a substantive limitation. According to these judges, “[I]mitations that represent a human contribution but are merely tangential, routine, well-understood, or conventional, or in practice fail to narrow the claim relative to the fundamental principle therein, cannot confer patent eligibility.” *Id.* at 20. In addition, “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.” *Id.* at 27.

The primary concurrence-in-part and dissent-in-part was filed by Chief Judge Rader and Judges Linn, Moore and O’Malley. These four judges stressed the importance of focusing on claims as a whole and grounding any patent-eligibility analysis in the language of § 101 itself. The “relevant inquiry” according to these judges, is “whether the claim contains limitations that meaningfully tie [the abstract idea] to a concrete reality or actual application of that idea.” Op. at 16. The focus on meaningful limitations sounds similar to the primary concurrence’s test, but the two camps have very different views of what constitutes a meaningful limitation for computer-implemented inventions. These judges believe that “[t]he key to this inquiry 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.” Op. at 21. Accordingly, these four judges would conclude that the system claims recite patent-eligible subject matter.

However, these four judges disagreed about the patent eligibility of the method and computer-readable media claims. Chief Judge Rader and Judge Moore would hold that these claims are ineligible for patenting because even assuming that the claims require a computer, the computer is not a meaningful limitation. Judges Linn and O’Malley did not join that portion of the opinion. Writing separately, Judges Linn and O’Malley—the original panel majority—would hold that these claims recite patent-eligible subject matter because “the record makes clear that they are grounded by the same meaningful limitations” as the system claims.

Judge Moore authored a separate opinion dissenting-in-part, joined by Chief Judge Rader and Judges Linn and O’Malley. This opinion expresses concern about the breadth of Judge Lourie’s primary concurrence and the state of patent-eligibility law. Judge Moore critiques the primary concurrence for purportedly failing to evaluate each claim as a whole, failing to view the invention at the time of the patent application rather than through the lens of hindsight and failing to adhere to the Federal Circuit’s 1994 decision in *Alappat*.

Judge Newman authored a separate opinion concurring-in-part and dissenting-in-part. Judge Newman would hold that all three categories of asserted claims recite patent-eligible subject matter. Also, she proposed that the court reaffirm the following principles: (1) § 101 is an inclusive statement of patent-eligible subject matter, (2) the form of the claim does not determine patent eligibility, and (3) experimental use of patented information is not barred.

Finally, Chief Judge Rader issued “additional reflections,” recounting his first twenty-five years of judicial service and expressing disappointment and frustration over the state of patent-eligibility law, which in Chief Judge Rader’s view has drifted away from the language of § 101 even though the statute remains the same.

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