



IP: Did the Federal Circuit invalidate 320,799 software patents?

THE COURT'S FRACTURED DECISION IN *CLS BANK V. ALICE CORP.* COULD HAVE DEVASTATING EFFECTS ON BUSINESS METHOD, FINANCIAL SYSTEM AND SOFTWARE PATENTS

On May 10, the Federal Circuit issued its *en banc* decision in *CLS Bank v. Alice Corp.* addressing the patentability of software claims issued to Alice Corp. The 10-judge panel issued seven separate opinions, able to agree on only a single paragraph *per curiam* decision. Although a majority of the court agreed that certain of the patent claims were not patent eligible, no majority of judges agreed on a rationale for that conclusion. As a result, no portion of any opinion beyond the judgment constitutes precedent of the court. Indeed, in Judge Randall Rader's separate, concurring-in-part and dissenting-in-part opinion, he noted that "though much is published today discussing the proper approach to the patent eligibility inquiry, nothing said today beyond our judgment has the weight of precedent." The court was evenly divided and "irreconcilably fractured" when addressing the standard for patent eligibility of computerized system claims.

Alice Corp. owns four patents describing the settlement of financial obligations by a trusted third party in a way that eliminates settlement risk—the risk that only one party will meet its obligations. The patents included three categories of claims directed to computerized systems, methods and computer readable media. Both parties agreed that all claims required the use of a computer, including at least a processor and memory, for implementation.

The district court granted summary judgment prior to claim construction finding that all of the patent claims were patent ineligible. On appeal, the Federal Circuit panel reversed the district court's decision and found that all of the challenged claims were patent eligible. CLS Bank sought rehearing *en banc*, which each of the judges seemed to agree was granted for purposes of providing clarity and certainty.

Eight judges of the court agreed

that all three categories of claims should rise or fall together, in part to prevent patent eligibility from depending simply on the draftsman's art. Judges Kimberly Moore and Rader disagreed, stating that the patent eligibility of each claim must be decided on its own merits.

The lead opinion written by Judge Alan Lourie, joined by four other judges, identifies a process for determining patent eligibility. First, the court must ask if the claimed invention falls within one of the four statutory classes that are eligible for patent protection. Next, the court needs to consider if the claim seeks to cover a law of nature, abstract idea or natural phenomena. If the claim raises any concerns that it might cover an abstract idea, the court must unambiguously identify that abstract idea. For this reason, the opinion encourages the completion of claim construction prior to analysis. Finally, the court must determine if the claim contains substantive

limitations that narrow the claim so that it does not preempt the full abstract idea itself, for example, limitations that confine the claims to a particular, useful application of the principle.

Applying this analysis to Alice Corp.'s claims, the lead opinion holds that none are patent eligible because they do not contain substantive limitations that confine the claims to something more narrow than the abstract idea. "Simply appending generic computer functionality to lend speed or efficiency to the performance of an otherwise abstract concept" was found insufficient to meaningfully limit the claim scope.

Judges Rader, Moore, Richard Linn and Kathleen O'Malley joined in a concurring-in-part, dissenting-in-part opinion in which they agreed that the system claims are directed to patent eligible subject matter. Citing the Supreme Court's guidance that the fact that a claim is tied to a machine is an important and useful tool for assessing patent eligibility, these judges said the claims are tied to explicitly disclosed structure for a special purpose computer and flowcharts setting forth the algorithms necessary to program that computer. Thus, the abstract idea the claims present is integrated and applied into a system using machines. Judge Moore's separate dissent-in-part, in which the other three named judges joined, questions the logic of the lead opinion in categorizing a system claim

directed to a tangible computer that could be put on your desk as an abstract idea.

The four were unable to agree, however, as to the method and media claims. Judges Linn and O'Malley found each of the asserted patent claims patent eligible. Finding no basis in the record for treating the method, system and media claims as varied in scope, Judges Linn and O'Malley apply the same rationale used in finding the system claims patent eligible in the dissent to the method and media claims. Judges Rader and Moore, however, found that the method and media claims merely recite general steps inherent to the concept of using a third-party intermediary in a financial transaction.

Judge Pauline Newman's dissenting opinion argued that neither the form nor the breadth of the claim at issue should determine its patent eligibility. She found all of the claims at issue in this case patent eligible.

Judge Moore's dissent-in-part expressed dismay at the potential effect of the decision if broadly applied, noting that "if all of the claims of these four patents are ineligible, so too are the 320,799 patents" granted from 1998 to 2011 in the technology area directed to computers and digital processing systems. They declared the rationale of Lourie's opinion as the death of all business method, financial system and software patents. Arguing that such a result would

decimate the electronics and software industries, the judges expressed their dismay that there has never been a case which could more damage the patent system than this one"

Several of the opinions of the court indicate an expectation that the Supreme Court will weigh in and provide the clarity that the extreme divide among this *en banc* rehearing was unable to offer. In the meantime, we can expect a rise in similar challenges in litigation and before the patent office.

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