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Nuggets in the Ashes: A Few Guideposts Unearthed from CLS Bank v. Alice Corporation

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The Federal Circuit released the results of its *en banc* hearing of a case involving the issue of what is patent eligible subject matter under section 101 of the Patent Act. (*CLS Bank International v. Alice Corporation Pty. Ltd.*, ____ F. 3d. ___, Case No. 2011 1301 (May 9, 2013).) The Federal Circuit's output consists of a *per curiam* opinion, five separate concurring, concurring-in-part, dissenting-in-part or dissenting opinions, and "[a]dditional reflections" by Chief Judge Rader. Unfortunately, the combined body of work in *CLS Bank* provides very little precedential value and few clear guideposts for businesses or litigants trying to make patent litigation or patent prosecution decisions. Nor do our district courts get easy tools to use to work their way through a section 101 analysis. As Judge Moore noted in her dissenting opinion, until the Supreme Court or Congress steps in, invalidity claims under section 101 are likely to multiply, particularly with respect to inventions directed to computer software or to hardware that implements software. *See* Moore op. at 2 (dissenting).

Faced with the question of whether Alice's computerized trading platform – in which a trusted third party ensures the exchange of the parties' financial obligations – is eligible for patent protection, the *en banc* Court affirmed the district court's ruling denying patent eligibility for all of Alice's claims in a *per curiam* opinion. In that *per curiam* opinion, a majority of the court agreed that Alice's method and computer-readable media claims are not patent eligible, and the Court split evenly on Alice's systems claims, thus affirming the district court's decision denying patent eligibility on those claims. While the actual *per curiam* opinion is well under 100 words, the five other opinions and Chief Judge Rader's "additional reflections" fill more than 100 pages. None of these other opinions are supported by a majority, with the opinion by Judge Lourie garnering the most support with five judges. While the Federal Circuit had hoped to clarify the inconsistent precedent concerning section 101, as one Judge reflects, "This remedial effort has failed." Newman op. at 2.

The implications of this case for innovators and the patent system are already being hotly debated. Judge Newman's prediction is likely to be prophetic: "With today's judicial deadlock, the only assurance is that any successful innovation is likely to be challenged in opportunistic litigation, whose result will depend on the random selection of the [Federal Circuit] panel." Newman op. at 2. As Judge Newman says, the Court's "irresolution" affects "all who invent and invest in new technology. The uncertainty of administrative and judicial outcome and the high cost of resolution are a disincentive to both innovators and competitors." *Id.*

Prior to hearing *CLS Bank* as an *en banc* court, the Federal Circuit had been saddled with difficult Supreme Court precedents in the form of, among others, *Bilski v. Kappos*, 130 S.Ct. 3218 (2010) and *Mayo Collaborative Servs. Inc. v. Prometheus Labs., Inc.*, 132 S.Ct. 1289 (2012). Now the Federal Circuit is clearly looking for outside help. Judge Moore, joined by Chief Judge Rader and Judges Linn and O'Malley,

exhorts: "[t]his case presents the opportunity for the Supreme Court to distinguish between claims that *are* and *are not* patentable subject matter." Moore op. at 3 (dissenting-in-part). Judges Linn and O'Malley, dissenting, state that "this court may not change the law to address one technological field or the concerns of a single industry." Linn/O'Malley op. at 13. Instead, "Congress can, and perhaps should, develop special rules for software patents." *Id.*

Fortunately, at least some operational guidance for active and prospective litigants can be distilled from the divergent *CLS Bank*, opinions. These are:

- First, the Federal Circuit appears unified in its view that patents challenged under section 101 have a presumption of validity, and that the challenger must prove ineligible subject matter by *clear and convincing evidence*. Lourie op. at 22-23; Rader op. at 25-27.
- Second, the standards proposed by various factions of the Court all focus, albeit in different ways and using different terminology, on the extent to which the patent claims preempt others from using an abstract idea. Thus, the Lourie opinion emphasizes the "practical likelihood of a claim preempting a fundamental concept," which is determined by whether the claim contains limitations that "tie down the claim so that, in practical terms, it does not cover the full abstract idea itself." Lourie op. at 19. The Rader opinion also looks to whether the patent claim preempts others from using the abstract idea, but in far less restrictive terms: "At bottom, 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." Rader op. at 22 (emphasis added). These differing approaches to the scope of preemption of an abstract idea led to different conclusions on patent eligibility in *CLS Bank*. Litigants should fashion their position, to the extent possible, to meet either standard.
- Third, the majority of the Court favors addressing the section 101 issue of patent eligibility *after* claim construction has occurred, particularly to "unambiguously" identify the abstract idea at issue: "*Although not required*, conducting a claim construction analysis before addressing section 101 may be especially helpful in this regard by facilitating a full understanding of what each claim entails." Lourie op. at 18 (emphasis added). Judges Linn and O'Malley are even more emphatic, asserting that development of a record "in which all claim construction issues were vetted" should have occurred in *CLS Bank* to enable proper review of the section 101 issues. While the parties in *CLS Bank* agreed to have the district court adopt constructions most favorable to the patentee, some judges still took umbrage at the issue of having only a limited record on appeal. Thus, the strategy of asserting a patent eligibility challenge under section 101 in the hope of resolving a case at the outset probably will not work, unless the parties stipulate to constructions of the relevant terms.
- Fourth, attempts by litigants to differentiate between patent eligibility based on claim format (method, media, system, apparatus) are not likely to be viewed favorably. Eight of the ten judges in *CLS Bank* concluded that the method, media and system claims "must rise and fall together; either they are all patent eligible or they are not." Linn/O'Malley op. at 1. Judges Linn and O'Malley base that conclusion on their view that the record makes clear that all of the claims are "grounded by the same meaningful limitations." *Id.* at 1-2. Judges Lourie, Dyk, Prost, Reyna and Wallach state: "when section 101 issues arise, the same analysis should apply regardless of claim format: Does the claim, in practical effect, place an abstract idea at risk of preemption." Consequently, attempts by litigants to obtain patent eligibility by tying software limitations to a "machine" such as a computer, without more, are not likely to succeed.
- Finally, based on the uncertainty existing in section 101 litigation, as well as a stated preference by the Federal Circuit that claim construction occur before a section 101 challenge, we expect that section 101 challenges will be made in many cases. However, about half of the Federal Circuit views section 101 as a "coarse filter" that has been stretched beyond its purpose and utility, and that considerations of "inventiveness" have improperly been imported into section 101 analyses. *See, e.g.,* Rader op. at 5-12.

Hence patent challengers will be wise to continue to pursue invalidity challenges such as anticipation and obviousness as alternatives to their section 101 arguments.

CLS Bank is the latest in a line of opinions regarding patentable subject matter that fail to provide clarity or certainty. The Supreme Court has again entered the fray, having recently heard argument regarding whether a human gene sequence can be patented. Whether the Supreme Court will accept Judge Moore's exhortation to resolve the Federal Circuit stalemate on software patents remains to be seen. In the meantime, the Federal Circuit balance may shift as new judges join that Court. Congress might step in with special rules for software patents. For now, businesses, innovators, patent prosecutors and litigators have to proceed carefully and thoughtfully based on the limited guidance available in the wake of *CLS Bank*.

If you have any questions regarding these matters, please contact:

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