Patentability of Software Method and System Claims Post-CLS Bank

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On May 10, 2013, a deeply divided en banc panel of the United States Court of Appeals for the Federal Circuit affirmed a District Court’s grant of summary judgment of invalidity, holding that system and method claims directed towards a computer trading platform for eliminating settlement risk were patent ineligible under 35 U.S.C. §101. CLS Bank International, CLS Services Ltd. v. Alice Corporation Pty Ltd., 2011-1301 (Fed. Cir. May 10, 2013). However, the decision did little, if anything, to clarify what is an abstract matter or how to make that determination.

Although seven of the ten members of the panel agreed that the asserted patent method claims did not recite patent eligible subject matter, no majority of judges agreed as to the legal rationale leading to that conclusion. In addition, the Federal Circuit split evenly as to the issue of whether the patent system claims recited patent eligible subject matter; but eight members of the Court agreed that the patentability of the system and method claims should rise and fall together.

Background of Proceedings


The ’479, ’510, ’720 and ’375 patents claim systems and methods directed towards a computerized software trading platform in which a trusted third party intermediary settles obligations between the parties so as to mitigate or eliminate the risk that only one party’s obligations will be paid at the end of a transaction, leaving the other party at a loss, i.e., the settlement risk.

The parties filed cross-motions for summary judgment on whether the asserted claims were patent eligible subject matter under 35 U.S.C. §101. Under section 101 of the Patent Act, “[w]hoever 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.” Under judicial case law, laws of nature, physical phenomena, and abstract ideas are patent ineligible under this section. Bilski v. Kappos, 130 S. Ct. 3218, 3225 (2010).
In *CLS Bank*, the District Court found the asserted method claims invalid for being directed towards the fundamental idea of employing a neutral intermediary to ensure that parties to a proposed exchange honor their transactions and held the system claims invalid for representing an incarnation of this idea. *CLS Bank Int’l v. Alice Corp. Pty., Ltd.*, 768 F. Supp. 2d 221, 243-44, 252 (D.D.C. 2011). The decision was appealed to the Federal Circuit.

On July 9, 2012, a three-member panel of the Federal Circuit reversed the District Court’s summary judgment of invalidity, noting that the District Court’s decision had ultimately turned on whether the claimed subject matter was an “abstract idea.” See *CLS Bank Int’l v. Alice Corp.*, 685 F.3d 1341, 1346 (Fed. Cir. July 9, 2012). While the Federal Circuit found that the mere implementation on a computer of an otherwise ineligible abstract idea would not render an asserted invention patent eligible, it also noted that almost any claim could be simplified and characterized as an abstract idea. *Id.* at 1351.

Returning to the asserted claims, the Court found that the claims as a whole covered a practical application of a business concept in a specific way, which among other things, required maintaining an exchange institution by creating and maintaining electronic shadow credit and debit records held by an independent supervisory institution that were used to reconcile start-of-day balances obtained from exchange institutions, where adjustments to credit records could be based on only certain specified allowed transactions. The Court found that the presence of these specific limitations prevented it from finding it manifestly evident that the claims were patent ineligible under §101. *Id.* at 1355-1356.

On October 9, 2012, on petition of rehearing *en banc* by CLS Bank, the Federal Circuit vacated its July 9, 2012 opinion and requested new briefs to address the issue of: (i) the test the court should adopt to determine whether a computer implemented invention is patent eligible; and (ii) whether it should matter for section 101 purposes whether a computer implemented invention was claimed as a method, system, or storage medium. See *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 484 Fed. Appx. 559 (Fed. Cir. 2012).

**The CLS Bank En Banc Decision**

In its *en banc* decision, a seven member majority of the Court found the asserted method claims patent ineligible under section 101. In an opinion joined by Judges Dyk, Prost, Reyna, and Wallach, Judge Lourie opined that the question of whether the asserted claims recited an underlying abstract or ancient idea was not determinative as to patent eligibility under section 101. Instead, the analysis turned on whether the balance of the claims added anything “significantly more” to that idea. See *CLS Bank*, 2011-1301 at 27 (Lourie, J., concurring).

Under this approach, Judge Lourie opined that the proper analysis began with a determination of whether the claimed invention fits within one of the four section 101 statutory classes—process, machine, manufacture, or composition of matter. Where section 101 concerns arise, it was then necessary to identify the abstract concept at the core of the claims. *Id.* at 18. Once the core abstract concept was identified, the court could then make the appropriate determination of whether an “inventive concept” had been added—defined as “a genuine human contribution to the claimed subject matter” or “a produce of human ingenuity” as opposed to something that is discovered, but not invented. *Id.* at 20.

Looking to the balance of the claims, Judge Lourie found that none of the asserted limitations added anything “significantly more” to the underlying abstract idea, stating specifically that: (i) the claims lacked any express language to define the participation of a computer; (ii) the creation and maintenance of shadow credit and debit records recited the basic functions required of any financial
institution; and (iii) the provision of end-of-day instructions to exchange institutions to reconcile real-world accounts was a trivial limitation. *Id.* at 26-28.

Although Judges Rader and Moore agreed with the five-member concurring opinion that the method claims were patent ineligible, Judge Rader wrote a separate opinion, of which Judge Moore joined, focusing instead on the abstractness inquiry, reasoning that the asserted method claims as a whole implemented an idea long ago used in escrows, and the attempt to limit the escrow concept to a particular field was not sufficient for section 101 patentability purposes. *Id.* at 41-42 (Rader, C.J., concurring in part, dissenting in part).

On the issue of whether the asserted system claims were patent ineligible, the Court evenly split. Five members of the Court—Judges Lourie, Dyk, Prost, Reyna, and Wallach found that the patent system claims patent ineligible, reasoning that the system claims were not meaningfully distinct from the method claims and setting forth the same steps for performing the abstract method of third-party transaction intermediation through a computer. *Id.* at 34-36 (Lourie, J., concurring).

In contrast, five members of the Court—Judges Rader, Linn, Moore, O'Malley and Newman disagreed, opining that the asserted system claims were patent eligible. In an opinion joined by Judges Linn, Moore, and O'Malley, Judge Rader noted that the system claims covered the use of computer and hardware that were specifically programmed to solve a complex problem, including the disclosure of detailed algorithms for software with which the hardware was to be programmed. *Id.* at 31-35 (Rader, C.J., concurring in part, dissenting in part).

In a separate dissenting opinion written by Judge Moore and joined by Judges Rader, Linn, and O'Malley, Judge Moore noted that the asserted claims disclosed software that created a special purpose computer which had previously not existed. *Id.* at 9 (Moore, J., dissenting in part). Judge Moore further warned that failing to recognize the asserted system claims as patent-eligible would present an insurmountable hurdle to all inventors of all software, financial systems, and business software. *Id.* at 14.

**Conclusion**

It is unlikely the Federal Circuit’s *en banc* CLS Bank decision will mark the end of a debate over the patentability of software system or method claims under section 101. As Judge Rader observed, no portion of the opinion other than its *per curiam* judgment garnered a majority, and nothing beyond the judgment itself has the weight of precedent. As such, the Federal Circuit opinion does not provide definitive guidance as to how to assess the patentability of software method and system claims.

If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

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