

## Largely Uncontested Portion of Plurality Opinion in U.S. Court of Appeals for Federal Circuit in *CLS Bank International v. Alice Corp. Pty. Ltd. En Banc* Decision Regarding Section 101 Follows Reasoning in NYIPLA Amicus Brief

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On May 10, 2013, the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) issued a split decision on the patent eligibility of computer-implemented inventions under 35 U.S.C. § 101 in *CLS Bank International v. Alice Corp. Pty. Ltd.*, No. 2011-1301 (Fed. Cir. May 10, 2013) (“*CLS III*”).

In *CLS III*, although the *en banc* Federal Circuit agreed on the patent ineligibility of the claims-at-issue, the court’s rationale was divided. While the decision ultimately provides patent practitioners with no definitive guidance as to how to apply a Section 101 analysis to computer-implemented claims, one largely uncontested portion of the plurality opinion written by Judge Lourie (“Lourie Opinion”) that lays out the basic questions to be asked in a Section 101 analysis follows the reasoning set out in the NYIPLA Amicus Brief filed in this case. *Compare* Brief of Amicus Curiae N.Y. Intellectual Property Law Ass’n in Support of Neither Party, *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, No. 2011-1301 (Fed. Cir. Dec. 7, 2012), available at <http://www.nyipla.org/images/nyipla/Documents/Amicus%20Briefs/CLSvAliceCorpNo2011-1301.pdf>, with *CLS III*. Anthony F. Lo Cicero, Charles R. Macedo and Michael J. Kasdan of Amster, Rothstein & Ebenstein LLP prepared the NYIPLA Amicus Brief.

### Background

This case relates to the method and system claims of four patents owned by Alice Corporation concerning a computerized trading platform. In 2007, CLS Bank International filed suit seeking declaratory judgment of non-infringement, invalidity and unenforceability of Alice’s patents. Alice, in its turn, countersued CLS. Four years later, the U.S. District Court for the District of Columbia granted CLS’s motion for summary judgment, finding the claims-at-issue patent ineligible under Section 101. 768 F. Supp. 2d 221.

Alice appealed to the U.S. Court of Appeals for the Federal Circuit, where a split judicial panel reversed the District Court decision to find the claims patent eligible. 685 F.3d 1341(2012). However, shortly thereafter, the Federal Circuit granted CLS’s petition for rehearing the case *en banc*, and vacated the July 9, 2012 panel decision. 484 F. App’x 559.

### The NYIPLA Amicus Brief

The NYIPLA filed an amicus brief not supporting either party to offer its views that guiding principles from existing Supreme Court jurisprudence could cut through

the current confusion on the patent eligibility of computer-implemented inventions. The brief argued that the mere presence of a computer in a claim should not alter the fundamental analysis as to whether the claim as a whole preempts an abstract idea, which is patent ineligible, or whether there are other ways to apply the abstract idea outside the claim, which indicates that the claim is directed to one particular patent-eligible application of an abstract idea. However, while the presence of a computer in a claim that preempts an abstract idea should not in and of itself be sufficient to establish patent-eligible matter, it is not insignificant to the analysis. For example, in the context of the “mental steps” doctrine, the use of a machine (*i.e.*, a computer) to meaningfully participate in the claimed actions can overcome these categories of objections to patent eligibility. Finally, the brief set out that whether a computer-implemented invention is claimed as a method, system, or storage medium should not affect the Section 101 analysis.

More specifically, the NYIPLA Amicus Brief argued that:

The [Supreme] Court has consistently framed the [Section 101] inquiry based on two questions:

1. Does the claimed subject matter fall within one of the four statutory categories of patent-eligible subject matter: (i) process, (ii) machine, (iii) manufacture, or (iv) composition of matter (or any improvement thereof)?
2. If so, is the claimed subject matter directed to one of three so-called “fundamental principles,” *i.e.*, laws of nature, natural phenomena or abstract ideas, which are exceptions to patent-eligible subject matter?

\* \* \*

With respect to this second inquiry, however, as discussed in *Diehr*, *Bilski* and *Mayo*, ample, and in some cases ancient, precedent has recognized that an invention may nonetheless be directed to the *practical application* of a fundamental principle and be patent eligible.

NYIPLA Amicus Br. at 4-5.

The brief then laid out the following specific guidelines as to whether an idea invention is directed to a patent-ineligible abstract idea or a patent-eligible application of an abstract idea:

- Merely restricting an abstract idea to a particular field of use, like energy markets in *Bilski*, does not transform an abstract principle into a patent-eligible application of that principle.
- Merely tying a claim to a machine or computer in an extra-solutional manner is also not sufficient to transform an abstract principle into a patent-eligible application of that principle.
- As stated in *Bilski*, the so-called machine-or-transformation test, while useful, is not dispositive, and, as suggested in *Mayo*, satisfying the transformation prong is not necessarily a safe harbor.
- A claim must do something more than merely “apply” a fundamental principle to transform it into a practical application thereof.

*Id.* at 6.

The brief also pointed to specific objective factors that could be considered in a Section 101 analysis of computer-implemented claims. Patent-eligible claims might include:

- Claims to practical applications of a concept;
- Claims including limitations inextricably tied to the use of computers;
- Claims involving specific applications or improvements to technologies already in the marketplace;
- Claims involving controlled interactions over the internet or other network; and
- Claims where the abstract idea can be performed without infringing the claim.

On the other hand, patent-ineligible claims might include:

- Claims that preempt abstract ideas;
- Claims whose limitations merely define a field-of-use, as opposed to defining a particular way of practicing the idea; and
- Claims that merely “apply” fundamental principles.

*Id.* at 11-12.

In sum, the proper and consistent application of existing Supreme Court guidelines should suffice in determining when computer-implemented claims are patent eligible under 35 U.S.C. § 101 and when they are not.

## The Federal Circuit Decision

In the current *per curiam* opinion, the Federal Circuit agreed that Alice’s claims were not patent eligible under Section 101. However, the reasoning behind that decision is spelled out in five other separate opinions, as well as in additional reflections by Chief Judge Rader.

Although these multiple opinions spotlight the Federal Circuit’s serious divisions on Section 101 analysis, the degree to which the Court’s members agree on the basic framework of Section 101 analysis has been understated in current analysis of the decision, as has the rarity of situations in which these divisions would come into play. The basic framework for Section 101 analysis, set out in the entirety

of Sections II.A-II.B and in the first half of Section II.C of the Lourie Opinion, in many respects follows the same commonly accepted structure set out in the NYIPLA Amicus Brief, however with some significant deviations, particularly in its application in the later portions of the Lourie Opinion.

Unfortunately, the Federal Circuit was unable to agree on the manner in which the second inquiry (analyzing whether the claimed subject matter is directed to one of three fundamental principles that are exceptions to patent-eligible subject matter) should proceed. The Lourie Opinion advocates first clarifying the specific nature of the exception at issue and then evaluating the claim “to determine whether it 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.” *CLS III*, Lourie Op. at 18-19. However, the Rader and Linn Opinions find this to be too reductive a manner of proceeding, likely to lead courts to “ignor[e] the concrete, palpable, tangible limitations of the invention the patentee actually claims” and to instill an unwarranted “inventiveness” component into the inquiry. *CLS III*, Rader Op. at 13, 22-23. The Association has consistently advocated against carving out portions of claims to determine patent eligibility, consistent with the Supreme Court’s decision in *Diamond v. Diehr*.

Disappointed at the court’s impasse, Judge Newman explained separately that the debate on Section 101 reflects the anxiety that overbroad patents will preclude scientific inquiry and technological innovation. If there were “clarification of the right to experiment with the information disclosed in patents, it would no longer be necessary to resort to the gambit of treating such information as an ‘abstraction’ in order to liberate the subject matter for experimentation.” *CLS III*, Newman Op. at 10. Accordingly, Judge Newman proposes abandoning all judicial exceptions to patent-eligible subject matter.

This decision spotlights the Federal Circuit’s serious divisions on Section 101 analysis. In the face of these divisions, decisions by Federal Circuit panels as to patent eligibility of specific claims under 35 U.S.C. § 101 will continue to be inconsistent. That the Federal Circuit is unable to resolve these issues, which are of great importance to our country’s business community and computer industry, suggests that the U.S. Supreme Court will need to weigh in on these issues in the near future.

### (Endnotes)

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