



# ***CLS BANK INT'L v. ALICE CORP.:* CLEARER SOFTWARE PATENT GUIDANCE?**

by  
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The U.S. Court of Appeals for the Federal Circuit has ordered a rehearing *en banc* of *CLS Bank Int'l. v. Alice Corp.* (Fed. Cir. 2012). In its initial panel opinion on July 9, 2012, a divided panel held that various data processing claims were patent eligible. That opinion has been vacated in light of the rehearing *en banc*, oral arguments in which will be heard February 8.

The U.S. District Court for the District of Columbia had initially ruled that the patent claims lacked subject matter eligibility. Judge Linn, joined by Judge O'Malley in the majority opinion, reversed the district court and held the claims patent eligible.

The asserted claims are directed generally to the exchange of obligations between parties using a computer. The court found that the different form of the various claims (method, system, and media) “does not change the patent eligibility analysis under § 101.”

The court held that “when—after taking all of the claim recitations into consideration—it is not manifestly evident that a claim is directed to a patent ineligible abstract idea, that claim must not be deemed for that reason to be inadequate under § 101.” The court held that in this case, “we must leave the question of validity to the other provisions of Title 35.”

The majority also noted that although § 101 has been characterized as a threshold test, and “certainly *can* be addressed before other matters touching the validity of patents, it need not *always* be addressed first, particularly when other sections might be discerned by the trial judge as having the promise to resolve a dispute more expeditiously or with more clarity and predictability.” (emphasis in original).

One claim that is representative of the method claims recites:

33. A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:

(a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;

(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;

(c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these

[sic] transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and

(d) at the end-of-day, the supervisory institution instructing one of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

Judge Prost wrote in dissent and argued that the majority improperly ignored the Supreme Court's most recent statements found in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012). The majority responded to the dissent in various footnotes, stating that the "majority merely recognizes that before the 'implicit' exception for abstractness recognized by the Supreme Court and acknowledged by this court is allowed to overtake the intent of Congress as reflected in the broad statutory language of § 101, the determination of abstractness must be manifest." The majority further criticized the dissent for "flawed analysis" by "stripping the claims of jargon" and making a table of a plain English translation for each claim element.

The majority stated that "[u]nlike the *Bilski* line of cases" (which it characterized as *Bilski* and three other recent Federal Circuit decisions) it is "difficult to conclude that the computer limitations here do not play a significant part in the performance of the invention or that the claims are not limited to a very specific application of the concept of using an intermediary to help consummate exchanges between parties." The majority opinion also noted that the parties agreed to a claim construction at the district court, where all the claims, including the method claims, require computer implementation. The majority opinion emphasized that the court must review the "claims as a whole" and not just computer implementation limitations standing alone, to determine the boundaries of the claims.

The questions presented in the *CLS en banc* order are:

- a. What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible "abstract idea"; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible idea?
- b. In assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium; and should such claims at times be considered equivalent for § 101 purposes?

Judge Linn, author of the *CLS Bank* majority opinion, moved to Senior Status in November 2012. Senior judges ordinarily do not decide whether to hear cases *en banc* and do not sit *en banc*, but a senior judge will be a part of the *en banc* panel if that judge was a part of the original panel that heard the case, which is the situation here with Judge Linn.

Conflicts among panel decisions at the Federal Circuit have led to uncertainty in what exactly constitutes patent eligible subject matter since at least 2008, when *In re Bilski* was initially decided *en banc* by the Federal Circuit. After the Supreme Court reversed the Federal Circuit in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), it appears that § 101 has developed an even stronger bite. Prior to *Bilski*, § 101 issues were not routinely raised in litigation. In the few years since the *Bilski* decision, various panels of the Federal Circuit have decided at least seven appeals dealing directly with § 101 issues. The Federal Circuit has invited the USPTO as *amicus curiae* and other *amicus briefs* will be reviewed. It remains to be seen whether the *en banc* court will attempt to reconcile all of the previous panel decisions or if the court will provide more guidance to the patent bar on the controversial § 101.