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CLS Bank Int'l v. Alice Corp. Pty. Ltd.

717 F.3d 1269 (Fed. Cir. 2013)

DANIEL TATE*

BACKGROUND

Defendant Alice Corporation (“Alice”) owns U.S. Patents 5,970,479 (the “‘479 patent”), 6,912,510 (the “‘510 patent”), 7,149,720 (the “‘720 patent”), and 7,725,375 (the “‘375 patent”), all of which involve the management of specified, yet unknown, future risks. Specifically, the patents relate to the use of a third party to reduce the settlement risk between a first and second party in financial obligations.

Plaintiffs CLS Bank International and CLS Services, Ltd. (collectively “CLS”) brought suit against Alice in the United States District Court for the District of Columbia, seeking a declaratory judgment of noninfringement, invalidity, and unenforceability with regards to the ‘479, ‘510, and ‘720 patents, followed by a request for summary judgment.¹ At issue in case was CLS’s assertion that Alice’s claims reflect ineligible subject matter and are therefore invalid under 35 U.S.C. § 101. The district court initially rejected CLS’s claim for summary judgment. Alice’s ‘375 patent, which had then issued, was then added to the complaint. In view of the newly added patent and the Supreme Court’s decision in *Bilski v. Kappos*,² CLS renewed its summary judgment request.

The district court did not conduct claim construction, but the parties stipulated that the patents at issue should all be interpreted to require a computer with a processor and memory for the purpose of deciding summary judgment. The district court granted CLS’s motion for summary judgment, finding Alice’s patents ineligible under 35 U.S.C. § 101. The district court stated that Alice’s claims “are directed to an abstract idea of employing an intermediary to facilitate simultaneous exchange of obligations in order to minimize risk.”³ Alice appealed, and the Court of Appeals for the Federal Circuit reversed the district court’s decision, finding that the claims at issue are all patent eligible under 35 U.S.C. § 101. CLS filed a petition for rehearing en banc, which was granted.

ISSUE

The United States Court of Appeals for the Federal Circuit, sitting en banc, considered *de novo* the issue of whether Alice’s ‘479, ‘510, ‘720, and

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1. CLS Bank Int'l v. Alice Corp Pty. Ltd. (*Alice I*), 768 F. Supp. 2d 221 (D.D.C. 2011).
2. *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).
3. *Alice I*, 768 F. Supp. 2d at 243.

‘375 patents are eligible for patent protection under 35 U.S.C. § 101.

DECISION

The Court of Appeals for the Federal Circuit issued a *per curiam* opinion, with the majority holding that the method claims and the computer-readable media claims described in Alice’s patents were not patent-eligible subject matter. The court was equally divided as to whether Alice’s system claims were patent-eligible subject matter. As a result, the tie went to the district court, and the Federal Circuit affirmed the ruling that the systems claims are not patent-eligible.

REASONING

The claims at issue were categorized into two distinct types, which received differing opinions from multiple judges. However, eight of the ten judges ruled that the different claim types must “rise or fall” together because all of the claim types at issue contain the same computer-based limitations.⁴

I. METHOD CLAIMS AND COMPUTER-READABLE MEDIA

The controlling, concurring opinion, filed by Judge Lourie and joined by four other judges, held that the method claims are patent-ineligible due to the abstract idea exception.

Using the process described in claim 33 of the ‘479 patent as representative of the method claims issue, Judge Lourie focused on whether the “process amount[ed] to no more than a patent-ineligible abstract idea.”⁵ Judge Lourie defined claim 33 as the abstract idea of reducing settlement risk by means of an intermediate third party. This disembodied concept, he determined, in and of itself, requires something more to clear the abstract idea exception threshold. In making this determination, Judge Lourie reasoned that the claim lacked any express language defining a computer’s participation in the process. Thus, he found that the claims failed to supply an inventive concept, something that would represent a nontrivial, nonconventional human contribution or materially narrow the claims relative to the abstract idea they embrace.

Judge Lourie further reasoned that certain claim language was merely extravagant language reciting basic functions of reducing any settlement risk through an intermediate. He stated that Alice had not asserted method claims that represented significantly more than the underlying abstract idea. Additionally, Judge Lourie found that the computer-readable media claims were, in substance, method claims, which were not truly drawn to a specific computer-readable medium. Thus, Judge Lourie, in the controlling opinion, found the computer-readable media claims patent-ineligible.

4. CLS Bank Int’l v. Alice Corp. Pty. Ltd. (*Alice II*), 717 F.3d 1269, 1311 (Fed. Cir. 2013).

5. *Id.* at 1275.

The minority opinion, concurring in part, filed by Chief Judge Rader and joined by one other judge, held that the method claims were patent-ineligible due to the abstract idea exception.

Also using claim 33 of the '479 patent as representative of the method claims at issue, the minority concurring-in-part opinion affirmatively acknowledged claim 33 as a process without discussion, focusing on the question of whether the claim was an abstract idea. In answer to this question, the minority concurring-in-part opinion found that the claim described the general and theoretical concept of using an intermediate third party and then tried to substantiate the claim with concepts "inherent" to the abstract idea. Citing four different elements of the claim (creating a shadow credit, obtaining values for the previously created accounts, adjusting the account balances to reflect trading activity, and instructions to pay or deduct funds), the minority concurring-in-part opinion stated such elements as inherent to the abstract idea of using an intermediate third party to reduce settlement risk. Also noted in the reasoning was that the method claims did not even mention a computer. However, since the question of whether the district court's allowance of the parties' stipulation to the assumption that the claims referred to the use of computers, the minority concurring-in-part opinion did not further address this issue.

The dissenting opinion, filed by Judge Linn and joined by one other judge, held that the method claims were patent-eligible.

The dissent reasoned that while the abstract idea governing the claims at issue may not be patent-eligible, the claim language at issue was directed to very specific ways of performing the abstract idea. Such specification was found to fall outside the scope of the abstract idea exception.

II. SYSTEM CLAIMS

The concurring opinion, filed by Judge Lourie and joined by four other judges, held that the system claims were patent-ineligible due to the abstract idea exception.

Using claim 1 of the '720 patent as representative of the system claims at issue, Judge Lourie reasoned that, similar to the method claims, the system claims failed to supply an "inventive concept" to the abstract idea. Unlike the method claims, where computer functions were implied by the district court, the system claims included computer hardware. The controlling opinion, however, maintained that none of the recited hardware offered a meaningful limitation beyond linking the abstract method to a computer. The limitations provided by the hardware were inherent in computer-related inventions. Thus, adding the hardware components to convert method claims into system claims did not change an abstract idea into an inventive concept. Judge Lourie stated, "merely adding existing computer technology to abstract ideas—mental steps—does not as a matter of substance convert an abstract idea into a machine."⁶

6. *Id.* at 1291–92.

The dissenting-in-part opinion, filed by Chief Judge Rader and joined by three other judges, held that the system claims were patent-eligible.

Using claim 26 of the '375 patent as representative of the system claims at issue, the dissenting-in-part opinion analyzed the system claims by looking for "meaningful limitations" in restricting an invention to application instead of an abstract idea. "Meaningful limitation" was defined in the opinion as satisfied if a claim requires a particular machine implementing a process or a particular transformation of matter. Meaningful limitation would require that, "in addition to the abstract idea, the claim recites added limitations which are essential to the invention."⁷ The key question addressed was whether the claims tied an otherwise abstract idea to a specific way of doing something with a computer, or to a specific computer for doing something.

Referring to claim 26 of the '375 patent, the dissenting-in-part opinion reasoned that the claim covered use of a computer and other hardware specifically programmed to solve a complex problem. An additional limitation could be found, for example, with the system requiring a structural configuration that "receives," "electronically adjusts," and "generates" according to specific requirements. The dissenting-in-part opinion stated that these specific functions were not inherent to third party intermediates to reduce settlement risk and perform functions that would allow others to reduce settlement risk without infringing. Thus, ignoring the wording of the claims, which included specific steps and limitations, would erroneously label the claims as an abstract idea.

The dissenting-in-part opinion acknowledged that the abstract idea exception is a judicially created doctrine and therefore must be narrowly tailored.

The other dissenting-in-part opinion, filed by Judge Moore and joined by three other judges, held that the system claims were patent-eligible, stressing the importance of the use of hardware and software in creating a pure system claim directed to a specific machine configured to perform certain functions.

7. *Id.* at 1301.

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