

A Strategy For Dealing With The CLS Bank Decision

Law360, New York (May 30, 2013, 5:21 PM ET) -- On May 10, 2013, the U.S. Court of Appeals for the Federal Circuit released its en banc opinion in *CLS Bank International v. Alice Corp. Pty. Ltd.*, No. 2011-1301 (Fed. Cir. May 10, 2013) regarding whether method, system, and computer readable media claims directed to management of risk in a computerized trading platform were patentable subject matter under 35 USC § 101. The court agreed in a per curiam judgment that all of the computer implemented claims at issue were not patent eligible.



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The majority of the judges (7-3) affirmed that the method and computer readable medium claims were not patent eligible. Eight of the 10 judges concluded that the method, system and computer-readable media claims should rise and fall together. The court was evenly split (5-5) on whether the system claims were patent eligible.

On the one hand, CLS Bank is nonprecedential and thus in the short run will likely not influence patent office proceedings and district court decisions. Additionally, to some degree the fractured opinions may be influenced by the fact that the claims are directed to broad business methods and their implementation on computers. However, the divided nature of the opinions and the inability of the Federal Circuit to arrive at a common framework of analysis has created uncertainty as to how individual panels in future Federal Circuit cases will apply U.S. Supreme Court precedents in determining whether computer implemented software inventions are patentable.

The fractured nature of the opinions means that there are at least three different standards proposed by the judges. Judges Alan Lourie, Timothy Dyk, Sharon Prost, Jimmie Reyna and Evan Wallach were of the opinion that all of the claims were patent ineligible, regardless of type. Judges Randall Rader and Kimberly Moore would have found the system claims patent eligible.

Judges Pauline Newman, Richard Linn and Kathleen O'Malley would have found the method, computer

readable medium claims and system claims patentable subject matter. As Judge Newman puts it, the en banc court was tasked to provide objective standards for 35 USC §101 patent eligibility, but instead has “propounded at least three incompatible standards, devoid of consensus, serving simply to add to the unreliability and cost of the system of patents ... [such that] 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 panel.”

The four patents at issue (U.S. Patent Nos. 5,970,479, 6,912,510, 7,149,720 and 7,725,375) were part of a closely related patent family directed to a trading platform for financial transactions. The four patents at issue present an interested fact pattern. The claims are directed to a business method for managing risk. The method claims were agreed to be interpreted as being computer implemented. The broadest system claims are effectively counterparts to the method claims with additional explicit machine limitations, such as a computer and data storage unit. For example, the claimed process of the '479 patent recites a “method for facilitating a previously arranged exchange between two parties requiring the use of ‘shadow’ records maintained by a third-party ‘supervisory institution.’”

The supervisory institution creates a shadow credit record and a shadow debit record for each stakeholder party that mirrors the parties' real-world credit and debit accounts held at their respective exchange institutions. At the start of each day, the supervisory institution obtains from the exchange institution a start of day balance for each shadow credit record and shadow debit record. Every transaction resulting in an exchange obligation is referred to the supervisory institution, which adjusts the shadow debit and credit records throughout the day and allows only those transactions for which the updated shadow records indicate sufficient resources to satisfy their mutual obligations (“allowing only these transactions that do not result in the value of the shadow debit record being less than the shadow credit record at any time”). At the end of each day, the supervisory institution instructs the exchange institutions to carry out the permitted transactions. The system claims, such as those of the '720 patent, include a data storage unit coupled to a computer.

The patent owner asserted a patent family with a range of claim types and a detailed technical specification. To illustrate the relative level of detail of the patents, U.S. Pat No. 7,725,375 includes 117 sheets of detailed technical drawings and 64 columns of text describing the system and methods, including details of a hardware platform and detailed software algorithms for implementing individual methods. This same patent was allowed over a body of prior art that includes a total of 90 cited patents and over four pages of citations to publications.

From the standpoint of computer-implemented business inventions, one interesting aspect is the widely different approaches the judges took in whether the computer-related limitations were significant factors in determining patent eligibility, either by themselves or combination with other claim limitations. This

goes to whether the claims are disembodied fundamental concepts or are otherwise impermissibly preemptive of fundamental concepts. As Judge Lourie points out, “What matters is whether a claim threatens to subsume the full scope of a fundamental concept, and when those concerns arise, we must look for meaningful limitations that prevent the claim as a whole from covering the concept’s every practical application.”

Lourie’s opinion takes the approach that the “concept of reducing settlement risk by facilitating a trade through third-party intermediation is an abstract idea because it is a ‘disembodied concept’” and that the balance of the claims did not include “limitations [that] adds anything of substance to the claims.” Moreover, in the reasoning of Judge Lourie, the computer limitations of the claims were not considered to be significant. “Unless the claims require a computer to perform operations that are not merely accelerated calculations, a computer itself does not itself confer patent eligibility.” Under Lourie’s reasoning, the system claims are analyzed using the same analysis as the method claims such that it is not a meaningful limitation to merely link the use of a method to a computer implementation.

In contrast, in the opinion of Chief Judge Rader, the use of a computer in system claims is more likely to confer patent eligibility. “The key to this inquiry is whether the claims tie the otherwise abstract idea to a specific way of doing something with a computer, or a specific computer for doing something; if so they likely will be eligible, unlike claims directed to nothing more than the idea of doing that thing on a computer. While no particular type of limitation is necessary, meaningful limitations may include the computer being part of the solution, being integral to the performance of the method, or containing an improvement in computer technology.”

In Rader’s approach the patent eligibility system claims were interpreted in view of the use of a computer and other hardware “specifically programmed to solve a complex problem.” In addition to the hardware limitations of the claims, Rader’s opinion points to 32 figures of the ‘375 patent providing “detailed algorithms for the software with which this hardware is to be programmed” and to those portions of the patent illustrating how the use of the computer processors are integral to the performance of the overall system. “Because of the number and specificity of the structural limitations, these claims have narrow, if any, relevant pre-emptive effect.”

One lesson for patent prosecutors and litigators is that the patent owner in CLS Bank was doing many things “right” by traditional approaches in prosecuting and asserting several patents but may have erred in not creating a broad enough and deep enough portfolio of claims to have effective fallback positions. The technical description in the patents is large, and a greater range of claim types and level of detail could have been pursued and asserted.

For some types of business-method inventions, it may make sense after CLS Bank to consider more

fallback positions in claim drafting to explicitly tie a subset of the claims to more specific algorithms or hardware limitations. For example, in CLS Bank, the patentee, in hindsight, could have directed at least a subset of the claims to include explicit claim limitations directed at the algorithms illustrated in the flowcharts; could have included a wider subset of independent claims drafted as means plus function or means plus step claims directed at the specific embodiments disclosed in the application; could have included other expressions of the hardware limitations; and could have emphasized, at a greater level of detail, some of specific features that distinguished the risk management technique.

In the fact pattern of CLS Bank, the patent eligibility under 35 USC § 101 was considered without the benefit of a claim construction. What this means as a practical consideration is that the issue of impermissible preemption was analyzed without regards to how the claims were narrowed during prosecution.

In CLS Bank, the fact pattern is one in which the claims were allowed by the patent office over a vast body of prior art; there were statements in the patents themselves that would be interpreted as admitted prior art; and many statements were made during patent prosecution that were effectively concessions that the scope of the claims was specifically narrowed to overcome prior art. That is, if a claim construction had been performed prior to determining patent eligibility, the scope of the claims would likely be tied to specific features and algorithms that the patentee used to distinguish the claimed invention over the vast body of prior art. Thus, in this sort of fact pattern, one option as a fallback position might be to also include a subset of independent claims drafted to reflect any clear concessions of claim scope made during prosecution.

CLS Bank does raise questions about how an individual panel of the Federal Circuit would rule on the patent eligibility of software inventions, particularly patents directed to broad business method claims. There is no perfect strategy for dealing with the fractured framework of the Federal Circuit in CLS Bank. It may be some years before any clear and consistent framework is articulated. However, in the short run, it may make sense to be more aggressive in developing patent portfolios for computer implemented inventions that include a greater range of claim types and a greater range of specificity.

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