IP Alert: Federal Circuit Appears Split on Patentability of Computer-Implemented Business Methods

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FEDERAL CIRCUIT APPEARS SPLIT ON PATENTABILITY OF COMPUTER-IMPLEMENTED BUSINESS METHODS

by Bradley C. Wright

On February 8, 2013, the U.S. Court of Appeals for the Federal Circuit reheard en banc the question whether computer-implemented business methods are eligible for a U.S. patent. The case, CLS Bank International v. Alice Corporation, posed to the full court competing views of the answer to that question. Based on this author's observations, the court appears fractured and a split decision is likely. Because of the unusual posture of the case, it is possible that the district court's decision may be vacated and remanded for further findings.

District Court: Method of Settling Transactions Not Patent-Eligible

Alice Corporation is an Australian company that obtained four U.S. patents relating generally to the use of an intermediary to mitigate settlement risk in financial transactions. Among other things, the patents describe a computer-implemented system and method for keeping track of credits and debits incurred by exchange institutions during the day, and then settling the accounts at the end of the trading day. The patents include method claims, apparatus claims, and computer-readable medium claims.

CLS Bank sued Alice Corporation for a declaratory judgment that the patents were invalid and not infringed, and Alice Corporation countersued for infringement. The district court ruled that all the asserted claims in the patents were invalid because they related to an abstract idea.

A split panel of the Federal Circuit reversed, concluding that an invention should not be ruled unpatentable for that reason unless it was "manifestly evident" that the invention was directed to an abstract idea. The full court vacated the panel decision and granted rehearing en banc to reconsider two questions: (1) What test should the court adopt to determine whether a computer-implemented invention is an "abstract idea," and when, if ever, does the presence of a computer in the claim lend patent eligibility to the claim? and (2) In assessing patent eligibility of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium, and should such claims be considered equivalent for purposes of patent-eligibility?

Rehearing En Banc: Conflicting Views About Patent-Eligibility

Due to recent retirements of some of the judges on the Federal Circuit, the en banc court consisted of only 10 judges of the normally 12-member court. The argument highlighted competing views on the court about the patentability of computer-related inventions.

CLS Bank argued that all of the claims, even those that recited a computer and the computer-readable medium claims, were patent-ineligible because the underlying concept was merely an abstract idea, and the computer elements were added as an afterthought. Counsel for CLS Bank pointed out that the U.S. Patent and Trademark Office had rejected the claims for this reason, and only after the claims were amended to recite computer-implemented features were the patents allowed. Judge Newman challenged counsel for CLS Bank to define the word "abstract," to which counsel for CLS Bank responded that if the method could have been performed by a human mind or using pencil on paper, it would be unpatentably "abstract," even if the claims recited a computer.

Judge Moore expressed frustration that all of the claims were being improperly lumped together, and repeatedly pressed counsel for CLS Bank to explain why claims reciting specific computer components such as a data processing system, a communications controller, a storage unit, and other parts – especially in view of detailed flow charts in the patent showing how the computers could be programmed – could be an "abstract idea." Judges Lourie and Linn also questioned why there was not a distinction between method claims and apparatus claims. CLS Bank responded that the patent said that "any computer" could be used, and the flowcharts in the patent were not relevant to the asserted claims in this case. Counsel for CLS Bank also pointed to the U.S. Supreme Court's decision in Gottschalk v. Benson, a 1972 case in which that Court ruled that an invention claimed as a computer was not patent-eligible.

Judge Linn pressed CLS Bank whether it mattered whether the apparatus claims were couched in terms of hard-wired circuits instead of general-purpose computers, but CLS Bank denied that such claim drafting techniques would render the invention patentable. Counsel for CLS Bank repeatedly pointed to one of the representative method claims, arguing that the claims were merely "dressed up" to look like a computer. Judge O'Malley questioned whether recent U.S. Supreme Court decisions were intended to overturn the Federal Circuit's 1994 decision in In re Alappat, where an earlier en banc ruling held that a specially-programmed computer constituted patent-eligible subject matter.

Several of the judges questioned CLS Bank's repeated simplification of the claims on appeal. Judge Linn seemingly criticized the "distillation" of the claims into broad principles for purposes of determining whether they were patent-eligible. CLS responded by pointing to part of the patent specifications, where the invention was supposedly summarized as two steps. Counsel for CLS Bank closed by arguing that the patent owner had essentially monopolized the concept of using an intermediary for settlement because there were only two ways of doing the settlement operation, and the financial community had settled on the patented method as the preferred and standardized one.

Counsel for the U.S. government next argued, pointing out that a bright-line test for patent-eligibility was not workable. The government also argued that courts should look past claim-drafting techniques to understand the "real invention." It further argued that merely implementing an abstract idea on a computer would not be enough to render claims patentable, citing the Federal Circuit's earlier Dealertrack v. Huber, where the court ruled that computer-aided method claims directed to "the underlying concept of processing information through a clearinghouse" were not patent-eligible. According to the government, if an idea is "inseparable" from the computer implementation, the claim would be eligible for a patent. Judge Moore pressed counsel for the government whether its proposed standard would invalidate thousands of software-related patents, a charge that the Government's counsel rejected.

Alice Corporation argued that the claim types should not all be lumped together for purposes of determining patent-eligibility, especially claims directed to machines, which he said could never constitute an abstract idea. Judges Wallach and Reyna questioned whether there were really other ways of doing the concept underlying the patented invention, or whether the patent owner had effectively preempted the field. Judge Dyk also suggested that a human could perform the steps in the claims without the use of a computer, undercutting the basis for patentability. He also echoed the concerns of Judges Wallach and Reyna regarding whether the patents preempted others from the field. Counsel for Alice Corporation responded that there were at least two and possibly more

ways of achieving the result intended by the patents without following the patented steps. Judges Dyk and Wallach also suggested that because the use of "shadow accounts" was known prior to the patents, the use of them in the claims would not help their patent-eligibility.

As the arguments came to a conclusion, Judge O'Malley pressed counsel for Alice Corporation to define a test for patent-eligibility of computer-related inventions. Counsel for Alice Corporation responded that if the computer plays a "significant role" in the method, as opposed to being present merely to calculate or print something, that should be sufficient to render a claim patent-eligible. Judge Lourie questioned how a computer could play a "significant role" in a claim that did not mention a computer.

On rebuttal, Judge O'Malley questioned counsel for CLS Bank why CLS Bank stipulated that even claims that did not recite a computer were nevertheless deemed to include a computer for purposes of patent-eligibility. Counsel for CLS Bank responded that it didn't matter, because under its proposed test, the mere presence of a general-purpose computer would not render the claims patentable.

Which Way is the Wind Blowing?

It appeared to this author that the court might be closely divided (either a 5-5 tie, or a 6-4 split in favor of at least some of the claims on appeal surviving). Judges Dyk, Wallace, Reyna, and Prost (who dissented on the original panel decision) appeared most hostile to the patent owner's position. Judges Moore, Lourie, Linn, Newman, and O'Malley appeared most favorable to the patent owner's position. Judge Rader, who did not ask any questions during the argument, did not appear favorable to either side. But, his previous views on broad patent-eligibility determinations in other recent Federal Circuit cases suggests that he would also support the patent owner's position in the dispute. It is possible that, following Judge Moore's insistence that each claim be analyzed on its own merits rather than lumping together all the claims for purposes of patent-eligibility, some of the method claims that do not recite a computer could be struck down while other claims survive. Due to the probability of a dissenting opinion, it is likely that a decision will not be released for several months.

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