Patent Eligibility of Software Innovations After CLS Bank

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The *en banc* Court of Appeals for the Federal Circuit recently could not agree on the proper approach for determining whether software-based inventions constitute patent eligible subject matter under § 101 of the patent statute or whether they fall within the judicially-created "abstract ideas" exception to patent eligibility as it has evolved under existing Supreme Court precedent. *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, (2011-1301, decided May 10, 2013) ("*CLS Bank*"). In this closely watched case, the court affirmed a district court decision that certain software-based systems, methods, and computer-readable media for mitigating risk in financial transactions through third-party intermediation are not eligible for patent protection under § 101. However, the panel of ten judges could not reach majority consensus on the broader question of how to determine patent eligibility, or ineligibility, of software-based innovations under § 101 as evidenced by the six separate opinions issued by the court. Thus, as stated by Chief Judge Rader, "though much is published today discussing the proper approach to the patent eligibility inquiry, nothing said today beyond our judgment has the weight of precedent." Amidst this resulting lack of

clarity, Chief Judge Rader reflected that "[a]s I start my next quarter century of judicial experience, I am sure that one day I will reflect on this moment as well. I can only hope it is a brighter reflection than I encounter today."

Despite a sharply divided court, there is guidance in the judges' separate opinions. Inventors are well-served to prepare and prosecute their patent applications for software-based innovations with a view to addressing as many of the judges' concerns over patent eligibility as possible to maximize the probability of issuance of valid patents. As stated by Judge Newman, "[t]oday's irresolution concerning section 101 affects not only this court and the trial courts, but also the PTO examiners and agency tribunals, and all who invent and invest in new technology."

First, half of the judges (Rader, Linn, Moore, O'Malley, and Newman) continue to hold the view, originally expressed decades ago by an *en banc* Federal Circuit, that patent claims directed to computer systems configured with software are eligible for patent protection under § 101. "[Software] programming creates a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software." *In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (*en banc*). These judges focused on the "communications controller," "first party device," "data storage unit," and "computer … configured" with software instructions in the system claims to support their view that these claims are patent eligible. These judges also stated that claiming specific types of devices (e.g., a GPS receiver) that are integral to the claimed invention, instead of just the idea of performing an act with a general purpose computer, weighs in favor of patent eligibility.

Second, three of the judges (Linn, O'Malley, and Newman) viewed the method and computer-readable media claims in *CLS Bank* to be patent eligible as being sufficiently tied to a computer. Judges Rader and Moore seemed to agree in principle that software can be protected via method claims, but stated that the method claims in *CLS Bank* did not pass muster because they "do not [expressly] mention a computer" and "even assuming the method claims require use of a computer in some unspecified way, this implicit reference to computer 'implementation' is not, by itself, enough." In other words, to be patent eligible, method claims would have to specify the elements of a computer system that implement the method steps. The judges favoring the patent eligibility of software-based innovations cited the Supreme Court's precedent in *Bilski* as support for their view that "the fact that a claim is limited by a tie to a computer is an important indication of patent eligibility."*Bilski v. Kappos*, 130 S. Ct. 3218 (2010). In *Bilski*, the Supreme Court affirmed that claims directed to methods for hedging against risk (which did not recite any requirement for a computer) were abstract ideas not eligible for patenting under § 101. The Supreme Court held that whether a method claim is tied to a particular machine or apparatus is not the only test for patent eligibility, but it "is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101." *Id*. at 3227.

Lastly, the remaining judges (Lourie, Dyk, Prost, Reyna, Wallach) expressed their view that the system, method, and computer-readable media claims were not patent eligible because they were directed to "abstract ideas," namely, the use of a third-party intermediator to mitigate risk. These judges relied principally on an extension

of the Supreme Court's decision in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012), which held that methods for optimizing the dosage of a drug to administer to a patient were not patent eligible because they "set forth laws of nature—namely, relationships between concentrations of certain metabolites in the blood and the likelihood that a dosage of a … drug will prove ineffective or cause harm." *Id*. at 1296. According to the Justices, the method claims "amount[ed] to nothing significantly more than instruction to doctors to apply the applicable laws when treating their patients." *Id*. at 1298. Extending this concept, the judges in *CLS Bank* stated that the claims were "akin to stating the abstract idea of third-party intermediation and adding the words: 'apply it' on a computer."

According to their view, "[u]nless the claims require a computer to perform operations that are not merely accelerated calculations, a computer does not itself confer patentability." Again relying on the Supreme Court's verbiage in *Mayo*, these judges stated that claims directed to a computer implementation of an abstract idea are only patent eligible if they "supply an 'inventive concept' that represents a nontrivial, non-conventional human contribution or materially narrows the claims relative to the abstract idea they embrace." Further, "[l]imitations that … are merely tangential, routine, well-understood, or conventional, or in practice fail to narrow the claim relative to the fundamental principle therein, cannot confer patent eligibility." Thus, patent applicants are wise to claim the ways in which their software-based innovations do more than simply accelerate calculations that can be performed by a human.

It is currently unknown whether the Supreme Court will review the Federal Circuit's decision in *CLS Bank*. Patent applicants for software-based inventions are best advised to draft strong claims of varying scope that seek to address all of the concerns articulated by the divided court.

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