

Have We Seen This Movie Before?

The Supreme Court Again Takes Up Patent-Eligibility in *Alice Corp. v. CLS Bank Int'l*

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With its grant of certiorari in *Alice Corp. v. CLS Bank Int'l* on November 6, 2013 the Supreme Court has stepped into the fray of what constitutes patent-eligible subject matter for the fourth time in four years. The Court must again address this issue because the en banc Federal Circuit's most recent attempt to resolve a patent-eligibility question revealed a deeply-fractured court that produced six different written opinions from the ten judges who decided the case, creating frustration and uncertainty among both patent owners and companies accused of infringement.

How have we gotten to this point? The 35 words that make up 35 U.S.C. § 101 seem harmless and straightforward enough:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent, subject to the conditions and requirements of this title.

Seemingly equally straightforward, the Supreme Court years ago made it clear that “laws of nature, natural phenomena, and abstract ideas” are not patent eligible. *Diamond v. Diehr*, 450 U.S. 175, 185 (1981).

In recent years, however, faced with ever-more complex technologies, courts at all levels have struggled to distinguish between a patent-eligible “process, machine, manufacture, or composition of matter” and an invalid “law of nature, natural phenomenon or abstract idea.” Patents involving software and business methods have proven especially nettlesome. These struggles have generated at times inconsistent decisions that demonstrate the absence of a clear standard for determining what is eligible and what is not. As a result, patent owners and accused infringers can only guess at how a court might resolve a section 101 challenge, which hinders the ability of both sides to ascertain the value of the patent.

The current flurry of section 101 cases began with the Supreme Court's decision in *Bilski v. Kappos*, ___ U.S. ___, 130 S.Ct. 3218 (2010), in which the Court concluded that a patent claiming a method to hedge against losses in commodities transactions did not claim eligible subject matter because it constituted an “unpatentable abstract idea.” *Id.*, at 3229-3231. Although it affirmed the Federal Circuit's holding, the Court concluded that the Federal Circuit's “machine-or-transformation test,” while a “useful and important clue . . . is not the sole test for deciding whether an invention is a patent-eligible ‘process.’” *Id.*, at 3227. Rather than articulating a different test, however, the Court looked to the “guideposts” in its earlier section 101 decisions, which left large gaps for lower courts to fill in. *Id.*, at 3231.

Two years later, the Supreme Court again addressed section 101, finding a patent that claimed a diagnostic method for optimizing therapeutic efficacy in the use of thiopurine drugs ineligible under section 101 as a routine application of natural laws. *Mayo Collaborative Services v. Prometheus Labs., Inc.*, ___ U.S. ___, 132 S.Ct. 1289, 1294 (2012). In reaching its decision, the Court noted that “to transform an unpatentable law of nature into a patent-eligible *application* of such a law, one must do more than simply state the law of nature while adding the words ‘apply it.’” *Id.* (emphasis in original).¹

¹ In a third case, *Association for Molecular Pathology v. Myriad Genetics, Inc.*, ___ U.S. ___, 133 S.Ct. 2107 (2013), the Supreme Court ruled that a naturally occurring DNA segment was an unpatentable law of nature.

As is usually the case, the Supreme Court decisions on patent eligibility articulated general guidelines regarding whether a claimed invention fell within the parameters of section 101, but left it to the Federal Circuit to develop standards that would provide a roadmap for resolving such issues. When the Federal Circuit agreed to an en banc review of the *CLS Bank* case, it was hoped that the en banc decision would establish clear patent-eligibility standards. Alas, it was not meant to be. Instead, “an equally divided court” issued a per curiam opinion affirming “the district court’s holding that the asserted system claims are not directed to eligible subject matter, . . .” and the ten judges who participated issued six opinions. *CLS Bank Int’l. v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 1273 (Fed. Cir. May 10, 2013). Those six opinions reflected the judges’ divergent approaches on how to assess the abstractness of a claim, a divergence which is illustrated by the opinions written by Judges Lourie (joined by four other judges) and Rader (joined by three judges).

Judge Lourie’s plurality opinion set forth a five-step process for deciding section 101 challenges: 1) determine whether the invention is a process, machine, manufacture or composition of matter; 2) identify and define the abstract idea – or “fundamental concept” – wrapped up in the claim; 3) determine whether the claim contains substantive limitations in addition to the abstract idea that “narrow, confine, or otherwise tie down” the claim so that it does not cover the full abstract idea itself; 4) confirm that the substantive claim limitations are “a product of human ingenuity”; and 5) ensure that the human contribution is not merely tangential, routine, well-understood or conventional. *Id.*, at 1282-84. Judge Rader argued that the procedure advanced by Judge Lourie would have the effect of making all patents suspect because “[a]ny claim can be stripped down, simplified, generalized, or paraphrased to remove all its concrete limitations,” *Id.*, at 1298, and said that rather than apply the test posited by Judge Lourie, a court must focus on whether a claim includes “meaningful limitations restricting it to an application [of an idea] rather than merely an abstract idea.” *Id.*, at 1299.²

Two Federal Circuit panel decisions published shortly after the *CLS Bank* mess further added to the confusion. First, in an opinion authored by Judge Rader (and joined by Judge Lourie[?!]), the court concluded that the 11 steps set forth in claim 1 of a patent claiming a computer-related method for the distribution of products over the Internet provided sufficient “meaningful limitations” (using the phrase at the center of Judge Rader’s opinion in *CLS Bank*) to make the invention more than an invalid abstract idea. *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1345-1349 (Fed. Cir. June 21, 2013).

Any thought of consensus evaporated a few weeks later when Judge Rader dissented from Judge Lourie’s decision – which applied the methodology articulated in his plurality opinion in *CLS Bank* – affirming the district court’s summary judgment of invalidity under section 101 of a patent that claimed a “computer program . . . for handling insurance-related tasks.” *Accenture Global Services, GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336, 1342 (Fed. Cir. Sept. 5, 2013). Judge Lourie distinguished the decision in *Ultramercial* on the grounds that the patent in that case contained additional limitations from the abstract idea claimed and because *Ultramercial* had been decided on a motion to dismiss without any claim construction or showing, by clear and convincing evidence, that the patent was directed only to an abstract idea. *Id.*, at 1345. Judge Rader was not convinced. His dissent took the majority to task for relying on the plurality opinion in *CLS Bank*, emphasizing that that opinion does not “carr[y] the weight of precedent,” and stated that the claims in *Accenture* were patent-eligible because they described “a specific combination of computer components” that made them more than merely an abstract idea. *Id.*, at 1347.

² Judges Lourie and Rader agreed on several important points: 1) section 101 is not a threshold test that must be considered first among all possible bases of invalidity; 2) an issued patent is presumed to cover patentable subject matter; and 3) simply tying otherwise abstract claims to a general purpose computer does not render the claims patent eligible.

The lack of a solid majority at the Federal Circuit – compounded by the divergent positions staked out by Judges Lourie and Rader – is troubling to litigants and lower courts, not least because it seems to indicate that the outcome of a section 101 appeal will depend as much on the make-up of the panel that hears the appeal as on the particulars of the patent-in-suit. And, of course, the divide at the Federal Circuit has practical consequences as district courts still have to decide section 101 issues, which they are doing as best they can. In the handful of district court rulings decided since *CLS Bank*, courts seem to favor Judge Lourie’s approach over Judge Rader’s, and district judges have not shied away from invalidating patents under section 101.³

Still, district courts have expressed frustration with the fractured *CLS Bank* result and overall lack of guidance from the Federal Circuit. Because the Supreme Court decision in that case will probably not come out until late-Spring of 2014, the uncertainty will regarding patent-eligibility last for at least a number of months. It remains to be seen whether during that period accused infringers will continue to make patent-eligibility challenges (probably) or will instead focus on anticipation and obviousness under sections 102 and 103. And, while one hopes that the Supreme Court’s ruling will bring much-needed clarity to section 101, the past few years give us reason to be skeptical.

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³ Even in the relatively small number of cases in which a district court denied a motion under section 101, the decision was based as much on the procedural posture of the case (before claim construction or after jury trial) as on the substance of the motion.