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Divided Federal Circuit Decision Holds Claims Invalid In *CLS Bank v. Alice Corporation*

Courtenay C. Brinckerhoff (Foley&Lardner LLP) · Monday, May 13th, 2013

In a divided *en banc* decision, the U.S. Court of Appeals for the Federal Circuit affirmed the district court's holding that the claims at issue in *CLS Bank v. Alice Corporation* are invalid under the "abstract idea" exception to 35 USC § 101. While a majority of the judges agreed that the method and computer-readable medium claims are invalid, they disagreed as to why. Further, the court was evenly split as to whether the systems claims are invalid. (With no majority agreement on that issue, the district court decision is affirmed). Even if this case makes its way to the U.S. Supreme Court, patent-eligibility will remain a murky area of U.S. patent law for the foreseeable future.

The Federal Circuit Decision

The *en banc* appeal was heard by Chief Judge Rader and Circuit Judges Newman, Lourie, Linn, Dyk, Prost, Moore, O'Malley, Reyna, and Wallach. The *en banc* decision is set forth in a one page *per curium* opinion:

Upon consideration *en banc*, a majority of the court affirms the district court's holding that the asserted method and computer-readable media claims are not directed to eligible subject matter under 35 U.S.C. § 101.

An equally divided court affirms the district court's holding that the asserted system claims are not directed to eligible subject matter under that statute.

AFFIRMED.

The Claims At Issue

As summarized by Judge Lourie, the patents relate to "computerized methods, computer-readable media, and systems that are useful for conducting financial transactions using a third party to settle obligations between a first and second party so as to mitigate 'settlement risk,'" e.g., the risk that only one party will satisfy its obligations.

Briefly, the claimed process requires the supervisory institution to create shadow records for each party that mirror the parties' real-world accounts held at their respective "exchange institutions." At the start of each day, the supervisory institution updates its shadow records to

reflect the value of the parties' respective accounts. Transactions are then referred to the supervisory institution for settlement throughout the day, and the supervisory institution responds to each in sequence by adjusting the shadow records and permitting only those transactions for which the parties' updated shadow records indicate sufficient resources to satisfy their mutual obligations. At the end of each day, the supervisory institution irrevocably instructs the exchange institutions to carry out the permitted transactions.

Judge Lourie also noted that “the parties have agreed that the recited shadow records and transactions require computer implementation.”

The CRM claims recite “[a] computer program product comprising a *computer readable storage medium* having computer readable program code embodied in the medium for use by a party to exchange an obligation between a first party and a second party, the computer program product comprising program code”

The systems claims recite “[a] data processing system to enable the exchange of an obligation between parties, the system comprising: *a data storage unit* ... and *a computer, coupled to said data storage unit*, that is configured to”

As noted above, the district court found that all of these claims are invalid, and the *en banc* Federal Circuit decision affirms that result.

The Federal Circuit Opinions

Judge Lourie wrote a concurring opinion that was joined by Judges Dyk, Prost, Reyna, and Wallach. These judges agreed with the district court that all of the claims at issue are invalid.

Chief Judge Rader wrote an opinion concurring-in-part and dissenting-in-part that was joined by Judges Linn, Moore and O'Malley with regard to its dissent, but only joined by Judge Moore with regard to its concurrence. Chief Judge Rader and Judges Linn, Moore and O'Malley would have upheld the systems claims against the § 101 challenge, although Chief Judge Rader and Judge Moore agreed that the method and CRM claims are invalid.

Judge Moore wrote an opinion dissenting-in-part that was joined by Chief Judge Rader and Judges Linn and O'Malley, focusing on her views that the systems claims satisfy § 101.

Judge Newman wrote a dissenting opinion urging the court to focus on the breadth of patent-eligibility under § 101, and perhaps abandon the judicially-created exceptions, including the abstract idea exception at issue here.

Judges Linn and O'Malley jointly wrote a dissenting opinion explaining their view that, on the specific record of this case (including the procedural posture and stipulations), all of the claims should have been upheld against the § 101 challenge.

Chief Judge Rader wrote an opinion with “Additional Expressions,” regarding the mantra he adopted early in his days as a judge at the Federal Circuit: *When all else fails, consult the statute!*

(For a more detailed review of the opinions by Judge Lourie and Chief Judge Rader, please see [this article](#).)

Has The Court Taken § 101 Too Far?

I share Judge Moore's concerns that recent decisions under § 101 threaten to send the U.S. patent system into a "free fall," and Judge Newman's concerns that the ballooning uncertainty and unpredictability surrounding § 101 could undermine the effective functioning of the U.S. patent system. While it seems likely that the U.S. Supreme Court will take up this case for review, I am not confident that its decision will reign in § 101 or offer any more useful guidance than existing jurisprudence.

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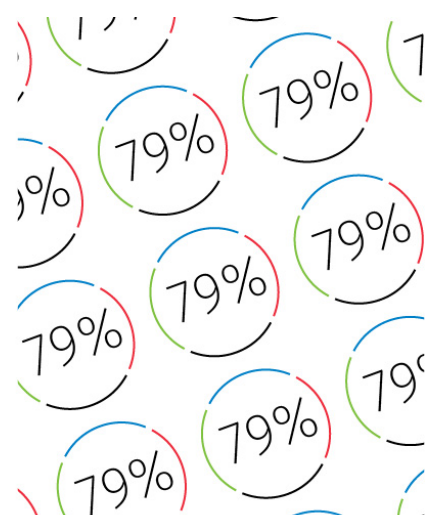
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