

# Federal Circuit's Methodology for Assessing Patent Eligibility of Computerized Business Methods

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The Federal Circuit (i.e., the appellate court that hears nationwide patent appeals) issued a decision in *CLS Bank International v. Alice Corporation Pty, Ltd.* (Case no. 2011-1301, July 9, 2012) that provides both an abstract standard and concrete guidance for assessing patent eligibility of computerized business methods. This decision was made in an environment of legal uncertainty arising out of the US Supreme Court's decisions in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012) which impacted patent eligibility for computerized business methods; but, did not thoroughly address the same.

To begin, a brief background discussion on the statutory framework of the Patent Act. Patent eligibility is a legal term that pertains to an invention falling within 35 USC § 101. This statute broadly defines eligible subject matter as "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof ..." with the proviso that this broad definition is limited by a judicial gloss. The judicial gloss is that, *inter alia*, "abstract ideas" fall outside the scope of eligible subject matter and are "free to all [hu]men[s] and reserved exclu-

sively to no one." There are three other statutes that pertain to what can be patented; namely, 35 USC §§ 102 and 103 which disqualify subject matter that is *known* and/or an *obvious variant* thereof and § 35 USC §112 which prohibits protection for an invention that is not fully disclosed and enabled.

The facts of the *CLS Bank* case are as follows. The patent owner, Alice Corporation, prosecuted through the patent office three patents that were all drawn to a computerized business method for settling currency trades between a buyer and seller wherein a neutral clearing house checked fund availability as prerequisite to issuing a closing instruction. Alice Corporation's patent lawyer did model work and wrote claims for each of the types of patentable subject matter under §101. That is, there was one patent with method claims, another patent with product claims (i.e., computer instruction stored on computer readable media) and another patent for a machine (i.e., a computer system.) The district court on summary judgment held all three patent invalid as being directed to "abstract ideas" and ineligible for patent protection pursuant to the judicial gloss to § 101. The *CLS Bank* court reversed and, as indicated, provided both an abstract standard and a concrete guidance for assessing patent eligibility of computerized business methods.

As a prefatory matter, the *CLS Bank* court proclaimed the purity of the four statutory challenges (§§ 101, 102, 103 and 112) to the validity of patent that pertain to the overarching question of what can be patented. There is language in the US Supreme Court's decision in *Prometheus* that some were interpreting as meaning that a "sneak peak" is taken at §102 for novelty and § 103 for unobviousness such that there be a new and unobvious step or machine component in deploying

the abstract idea for assessing patent eligible subject matter. The *CLS Bank* court attempts to point an end to this notion by writing that "each of these sections serves a different purpose and plays a different role ... and patent eligibility challenges under these sections present distinctively different questions. As authority, it cites the earlier US Supreme court decision of *Diamond v. Diehr*, 450 US 188, where the court wrote that "the question ... of whether an invention is novel 'is wholly apart from whether the invention falls into a category of statutory subject matter.'"

As another prefatory matter, the court clarified a doctrine labeled as "preemption" which has taken on new found importance after the US Supreme courts decisions in *Bilski* and *Prometheus* and has become very popular with legal commentators for purporting to establish an easy to apply "litmus test." The litmus test being that if the patent claim so broadly claimed an abstract idea so as to tie up the use of the abstract idea in all fields and/or for every improvement, then the claim was not patent eligible. If the opposite case was true, the implication being that the patent claim was patent eligible. The *CLS* court clarified the doctrine that "the essential concern is not preemption, per se, but the extent to which preemption results in the foreclosure of innovation. Claims that are directed to no more than the fundamental truth and foreclose, rather than foster, future innovation are not directed to patent eligible subject matter."

As final prefatory matter, the court reiterated established precedent

that for a computerized business method to be patentable, more is required than "mere implementation on a computer of an otherwise ineligible abstract idea." In *Bilski*, the Federal Circuit formulated what is called the "machine or transformation" test. The machine or transformation test survived review by the US Supreme Court with a qualification that it is only "a useful and important clue ... but not as dispositive test." In essence, the test provides that there is patentable subject matter, *inter alia*, when an abstract idea is applied to the workings of a machine with some unarticulated level of "intimacy."

If the *CLS Bank* court ended its decision here, the decision would just go into the

“heap” of cases that provide no real world guidance. The big moment arrives! The *CLS Bank* court lays out guidance for assessing patent eligibility of computerized business methods comprised of an abstract standard and concrete guidance for implementing the standard. The guidance is as follows:

Rule 1 is a negative rule of what not to do. “Nothing ... allows a court to go hunting for abstractions by ignoring the concrete, palpable, tangible and otherwise not abstract invention that the patentee actually claims. It is fundamentally improper to paraphrase a claim in overly broad simplistic generalities in assessing whether the claim falls under the limited ‘abstract ideas’ ... Patent eligibility must be evaluated based on what the claims recite, not merely on the ideas upon which they are premised.” This was a key mistake made by the district court and stemmed from not recognizing that “all inventions at some level embody, use ... or apply laws of nature, natural phenomena, or abstract ideas.”

Rule 2 is a standard. “When –after taking all of the claim recitations into consideration– it is not manifestly evident that a claim is directed to a patent ineligible abstract idea, that claim must not be deemed for that reason to be inadequate under § 101.

Rule 3 is a standard. “Unless the single most reasonable understanding is that a claim is directed to nothing more than a fundamental truth or disembodied concept, with no limitations in the claim attaching that idea to a specific application, it is inappropriate to hold that the claim is directed to a patent ineligible ‘abstract idea’ ...”

Rule 4 is an observation regarding statutory categories of invention claims (e.g., method, machine or article of manufacture.) “While the method, system and media claims fall within different statutory categories, the form of the claim in this case does not change the patent eligibility analysis under § 101 ... we look to the underlying invention for patent eligibility purposes ... because the form of the claim is often an exercise in drafting.” This is somewhat of a requital to legal commentators and pundits who proffered opinions that one form of claim may lead to patentability while another would not.

Rule 5 is a positive rule on what to do. “Determining whether ... claims are

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directed to nothing more than a fundamental truth or disembodied concept requires this court to consider the scope and content of the claims.”

Quasi-rule 6 is a working example. “[I]t is difficult to conclude that the computer limitations here do not play a significant part in the performance of the invention or that the claims are not limited to a very specific application of the concept ... The limitations of the *claims as a whole*, not just computer implementation ... are what place a meaningful boundaries on the ... claims ... [paragraph] The ... claims ... cover ... steps of exchanging obligations ... by creating electronically created shadow credit and shadow debit records ... start of the day balances be obtained ... adjustments be made ... in chronological order; that end of the day instructions be given ... It is clear, moreover, that the limitations requiring specific ‘shadow’ records leave broad room for other methods (emphasis in the original.)

The foregoing provides a thorough answer to the question of when is a computerized business method patentable eligible.

Lasting, turning to the conduct of litigation, there was differing opinions as to the order in which a court should take-up statutory defenses. Some judges opined that patent eligibility was a threshold question that should be addressed first and other judges opined that it was murky and should only be addressed if the patent was held not invalid under all other grounds. The *CLS Bank* court reiterated with approval the long standing doctrine that “[d]istrict courts have great discretion to control the conduct of proceeding before them” and then specifically held that “a district court properly acts within its discretion in deciding when to address the diverse statutory challenges to validity.

*CLS Bank* provides guidance on the front end in patent prosecution of a computerized business method inventions. The decision also provides guidance on the back end in litigating the validity of such patent claims. While there is a dissent, and no doubt there will be critics, the decision meaningfully advances the law. **IPT**