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Federal Circuit fails to resolve debate on software patentability

By Ben M. Davidson

What test should district courts use to decide if a software invention is too “abstract” to be patentable? And should it matter if the patent defines the invention not as a “method,” but as a computer system or computer storage medium? These were the questions that the Federal Circuit Court of Appeals set out to decide when it ordered an en banc hearing in *CLS Bank International v. Alice Corp.*, No. 2011-1301.

The case involved software used by CLS Bank to provide an escrow arrangement for two parties to a simultaneous trade. The software kept track of the two parties’ accounts to make sure they could complete their obligations at the end of the day. CLS Bank brought a declaratory judgment, arguing that the claims did not recite patentable subject matter under 35 U.S.C. Section 101. The district court agreed, granting summary judgment in the bank’s favor. It held that the claims did not qualify for patent protection because they fell under the Supreme Court’s three exceptions to the Patent Act’s broad framework of patentable subject matter: “laws of nature, physical phenomena, and abstract ideas.” *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010). The district court was guided by the Supreme Court’s *Bilski* decision, where it held that claims directed to a method for hedging risk in commodities trading were unpatentable. The district court reasoned that Alice’s risk-reducing escrow method was also an unpatentable, abstract idea. Merely requiring that idea to be carried out by a computer instead of a person did not meaningfully limit the claims.

A Federal Circuit panel initially reversed the district court’s grant of summary judgment in favor of CLS Bank. The panel relied on inconsistent Federal Circuit precedent and a narrow reading of *Bilski* and other recent Supreme Court precedent on patent eligibility. The Federal Circuit had hoped that an en banc

decision would resolve the inconsistencies in its precedent. But its decision created even more uncertainty for judges and patent examiners. The court remarkably issued seven different opinions, none of which constitutes precedent because none of them commanded a majority.

In the end, the Federal Circuit judges seem reconciled to the likelihood that the Supreme Court will step in to provide much-needed guidance.

Seven of the 10 Federal Circuit judges agreed to strike down the particular software patent claims at issue in the case, but they could not agree on how to get there. Four judges, led by Judge Alan Lourie, advocated for a rigorous review of patent claims to ferret out cleverly-drafted claims that would lay claim to abstract concepts like the escrow method patented by Alice. To these judges, abstract concepts cannot be patented merely by saying they should be performed by a computer, even if the physical components of a standard computer are included in the patent claim. Judge Lourie’s test would require a patent to add an “inventive concept” to the mere use of an abstract idea, that is, a “genuine human contribution to the claimed subject matter.” Such a contribution, he added, has to be more than a tangential, routine or conventional limitation on the use of the abstract concept. In this case, all Alice Corporation had done was to take the abstract idea of providing an escrow arrangement and said “apply it” on a computer. That was not a significant “inventive concept” and could not be patented.

On the other extreme, two judges (Judges Richard Linn and Kathleen O’Malley), would have held that all of the claims — including the method claims — were eligible for patentability. The parties had agreed that even the method claims implicitly required using a computer to create electronic shad-

ow records to minimize the risk of a transaction. And the patent described that computer system using detailed algorithms to support the functions recited in the claims. Labeling this detailed computerized system an “abstract concept,” these judges warned, would turn a narrow judicially created exception into one that may swallow the Patent Act’s expansive rule in favor of allowing patents on any new and useful process, machine or manufacture.

In the middle were Chief Judge Randall Rader and Judge Kimberly Moore. They supported a different treatment for, on the one hand, method claims, and, on the other hand, claims written to specifically describe computer systems and storage media. Computers, they argued, are concrete *things*, not abstract ideas. They do not become abstract simply because they are performing mathematical calculations. Judge Moore sounded an alarm bell, warning that the Supreme Court’s recent precedent on patent eligibility has caused a “free fall” in the patent system. She argued that Judge Lourie’s approach of parsing out the claim in search of an “inventive concept” would result in the death of hundreds of thousands of patents. The real danger of that approach, Judge Moore argued, is that it encourages judges to strip down the claims in search of an abstract idea and to then disregard everything applying that idea as “routine” or “trivial.”

In the end, the Federal Circuit judges seem reconciled to the likelihood that the Supreme Court will step in to provide much-needed guidance. As Judge Lourie recognized, his restrictive test is supported by a recent Supreme Court decision on patent eligibility. In *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1301 (2012), the Supreme Court held that a diagnostic method allowing doctors to determine the efficacy of a drug was not patentable. The method required doctors to administer a drug and test the pa-

tient’s blood to see whether they had given a sufficient dosage. The method fine-tuned the dosage by relying on a naturally occurring relationship that had been discovered between the level of drug metabolites in the blood and its efficacy in patients. The Supreme Court held that the patent owner had just told doctors to apply this natural law by administering the drug and taking a measurement. This did not “add enough” to the natural law to justify patenting it.

It would not be surprising if the Supreme Court approves a similar analysis for software patents, requiring that a patent do more than identify an abstract function and simply say “apply it” using a computer. That restrictive approach might indeed result in the death of many patents, as Judge Moore warned, at least where these patents do nothing more than apply a mathematical or logical function through software or system claims. The patents most likely to be affected by a restrictive test are business method patents and financial system patents, which have resulted in large damage verdicts in recent years. For example, just this month the Federal Circuit affirmed a \$138 million damage award against SAP for infringing patents on commercially successful software for setting optimal pricing strategies. The outcome of future litigation involving such patents may well be different if the Supreme Court agrees with the restrictive test proposed by Judge Lourie in *CLS Bank*.

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