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Note: The authors represented CLS in district court and during the initial appeal of this matter.

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Return of Preemption Doctrine in Determining Patent Eligibility

On May 10, 2013, the United States Court of Appeals for the Federal Circuit issued its long-awaited *en banc* decision in *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*¹ *CLS en banc* confronted the scope of the abstract idea exception to patent eligibility under 35 U.S.C. §101 and, more specifically, whether an ineligible abstract idea could become eligible for patentability if implemented on a computer. The case gave the Federal Circuit the opportunity to harmonize its recent inconsistent precedent that often appeared to conflict with U.S. Supreme Court precedent. But the Federal Circuit's *en banc* decision did no such thing. In fact, numerous commentators have noted that the decision, involving five separate opinions, appears to have accentuated the prior disagreements about the abstract idea exception within the Federal Circuit. These disagreements were highlighted yet again only one month later in *Ultramercial II*.² Nevertheless, a close analysis suggests a path to future clarity: a return to a preemption doctrine that is in fact consistent with Supreme Court precedent.

The five opinions of the ten judge *CLS en banc* panel and the "Additional Reflections of Chief Judge Rader" yielded formal agreement only on a one paragraph per curiam judgment in which: (i) a majority of the *en banc* panel found the method claims abstract; and (ii) the *en banc* panel was "equally divided" over the patent eligibility of the corresponding system claims (the split decision effectively reinstated the ruling of the district court, where the authors represented CLS Bank). Judge Moore's opinion called the court "irreconcilably fractured" and Judge Newman's opinion deemed it "devoid of consensus" and in a "judicial deadlock." Judges Lourie and Rader wrote dueling footnotes arguing over the precedential value of the court's decision, with Judge Rader cautioning that "[n]o portion of any opinion issued...garners a majority" and that even though "a majority of judges on the court agree that the method claims do not recite patent eligible subject matter, no majority of judges agrees as to

the legal rationale for that conclusion" and thus "nothing said [] beyond [the court's] judgment has the weight of precedent."

However, notwithstanding Judge Rader's footnote, one can extract some measure of guidance from the numerous opinions. While no single opinion garnered a majority of votes, Judge Lourie's opinion, which drew five votes, and Judge Rader's opinion, which drew four votes, both relied on Supreme Court precedent to support a preemption test for evaluating whether claims embodying an abstract idea are patent eligible. While the approaches in the two opinions differed in mechanics, the opinions appear to signal the Federal Circuit's return to the preemption doctrine it had once dismissed as "hardly straightforward," and which the Supreme Court, if it agrees to hear the case, is likely to endorse.

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A. The Federal Circuit's History with Preemption

Five years ago, in *Bilski I*³ the Federal Circuit *en banc* struggled with the application of an abstract idea exception to 35 U.S.C. §101. In a majority opinion representing nine of the twelve judges, Chief Judge Michel analyzed Supreme Court precedent and identified the relevant question: "[W]hether Applicants' claim recites a fundamental principle and, if so, whether it would pre-empt substantially all uses of that fundamental principle if allowed?" Analyzing the Supreme Court's decision in *Diehr*,⁴ the majority understood the question to be "essentially an inquiry into the scope of that exclusion; *i.e.*, whether the effect of allowing the claim would be to allow the patentee to pre-empt substantially all uses of that fundamental principle."

However, the majority was unclear on how to apply a preemption "inquiry," lamenting that "[u]nfortunately, this inquiry is hardly straightforward. How does one determine whether a given claim would pre-empt all uses of a fundamental principle?" Compounding its frustrations, the majority found that prior Federal Circuit tests, such as the Freeman-Walter-Abele and "useful, concrete and tangible result" tests, were "inadequate" and "insufficient."

The majority then used the machine-or-transformation test as a proxy for preemption, concluding that any claim that passed the machine-or-transformation test "is surely patent-eligible under § 101" and that the machine-or-transformation test is the "definitive test" to determine whether a claim embodying an abstract idea "pre-empt[s] the principle itself." In other words, if a claim "fails the machine-or-transformation test it ipso facto preempts a 'fundamental principle' and is thereby barred from the patent system under Section 101."

B. The Fallout from *Bilski II*

The Supreme Court rejected the Federal Circuit's *Bilski I* approach less than two years later in *Bilski II*.⁵ A unanimous Supreme Court affirmed the ineligibility of the claims at issue, relying in-part on the application of the machine-or-transformation test, but criticized the Federal Circuit's approach because

the Supreme Court had not “endorsed the machine-or-transformation test as the *exclusive test*” under § 101.

The Federal Circuit seems to have regarded the Supreme Court’s decision as a rejection of the machine-or-transformation test in its entirety. In *Research Corp.*,⁶ Judges Rader and Newman interpreted the Supreme Court’s *Bilski II* decision as having “emphasized” the statutory framework and as having “faulted” the machine-or-transformation test as nonstatutory. Thus, having found the preemption inquiry “hardly straightforward” and its own prior test “inadequate” or “insufficient,” the Federal Circuit accepted the Supreme Court’s invitation to develop “other limiting criteria.”⁷

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In the three years that followed the Supreme Court’s *Bilski II* decision, the Federal Circuit developed a myriad of new and often inconsistent tests. In *Research Corp.*, the now-vacated *CLS* panel decision,⁸ and the now-vacated *Ultramercial I* panel decision,⁹ the court asked whether the claim was “manifestly” abstract. In *Research Corp.*, the panel court asked if the claim was directed to a “functional and palpable” application of computer technology. In *Research Corp.*, the now-vacated *Ultramercial I* panel decision, and *Bancorp*,¹⁰ the court asked if the claim improved existing technology in the marketplace. In *SiRF*,¹¹ *Fort Properties*,¹² *Dealertrack*,¹³ *CyberSource*,¹⁴ *Bancorp*, and the now-vacated *CLS* panel decision, the court also asked if a computer played a “significant part” in permitting the claimed method to be performed. In *Ultramercial I*, the court asked if the steps are likely to require “intricate and complex computer programming.”¹⁵ With different tests being developed by different panels, the analysis in any specific appeal was largely a result of the random assignment of panel members.

C. The Focus Returns to Preemption

While the Federal Circuit issued a one paragraph per curiam decision and multiple separate opinions in *CLS en banc*, a careful analysis shows that an overwhelming majority of the *en banc* panel (9 out of 10 sitting judges) was in fact able to agree that preemption is *the* inquiry into whether a claim falls within the abstract ideas exception to patentability. Judge Lourie penned the lead opinion for half of the *en banc* panel, which included Judges Dyk, Prost, Reyna and Wallach (“Lourie’s plurality”). Judge Rader penned the second opinion, which included Judges Linn, Moore and O’Malley (“Rader’s plurality”).

Although the two opinions claim to be in disagreement, both came to the same conclusion as the *Bilski I en banc* majority—“[p]reemption features prominently in the Supreme Court’s recent § 101 decisions, and traces back to the earliest judicial decisions addressing subject-matter eligibility.” Judge Lourie’s opinion characterized the preemption analysis as the “*primary aim*” of the abstract idea exception, while Judge Rader’s opinion described it as the “*relevant inquiry*,” noting that a claim is “not meaningfully limited” if it “preempts all practical uses of an abstract idea.”

Notwithstanding the intensity of feuding language in the two lead opinions, both opinions in fact also agreed on much of the mechanics of the preemption analysis. Both agreed that the first steps in any preemption analysis are identifying the abstract idea inherent in the claim and then testing any additional limitations to determine if they genuinely narrow the claim's scope. Judge Rader's opinion required the additional limitations to be "meaningful," while Judge Lourie's opinion required the additional limitations to be "substantive," "significantly" narrowing, and to embody a "genuine human contribution."

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Regardless of their different respective formulations, both opinions evaluated the additional limitations for many of the same factors: (i) Generalized Language. Judge Lourie tested whether the limitations were "specific" or "vague" and "cast in highly general language."¹⁶ Judge Rader tested whether the limitations were "stated at a high level of generality;"¹⁷ (ii) Field-of-Use Restrictions. Judge Lourie tested whether the limitations were "bare field-of-use limitations" that linked the method "to a particular technological environment."¹⁸ Judge Rader tested whether the limitations were "central to the solution itself" or merely an identification of "a relevant audience, a category of use, or technological environment;"¹⁹ (iii) Insignificant or Post-Solution Activity. Judge Lourie tested whether the limitations were "tangential" "trivial appendi[ces]," "token or trivial," or whether they made a "significant difference in the ultimate application of the abstract idea."²⁰ Judge Rader, consulting the specification and flowcharts in the patent, tested whether the limitations were "central to the solution itself;"²¹ (iv) Routine, Well-Understood or Conventional Activity. Judge Lourie tested whether the computer limitations described components "routinely [] adapted by software consisting of abstract ideas."²² Judge Rader tested whether the limitations were "well-known procedures" or "predominant in the prior art;"²³ (v) Inherent Steps in the Application of the Abstract Idea. Judge Lourie tested whether the additional limitations were "necessary to every practical use" of the abstract idea.²⁴ Judge Rader tested whether the limitations were "inherent in the" abstract idea;²⁵ and (vi) Bare References to Implementation on a General-Purpose Computer. Judges Lourie's and Rader's opinions tested whether the computer limitations were akin to stating, "apply it," on a computer.²⁶ More recently, on June 21 2013, Judges Rader and Lourie entrenched themselves in their *CLS en banc* positions in separate opinions in *Ultramercial II*, with Judge Rader's opinion borrowing whole paragraphs from his *CLS* plurality opinion.

D. The Consensus

By focusing on the common threads in both Judge Lourie's and Judge Rader's opinions, one can find a surprisingly consistent preemption analysis endorsed by a majority of the Federal Circuit. To do so, one must first separate the abstract idea from the additional limitations in the claim, and then test those additional limitations using the six factors identified above. If all of the additional limitations fail to satisfy the above factors, then the claim is abstract and patent ineligible. Evaluation of the effect of particular hardware or software will necessarily evolve on a case-by-case basis, but preemption concepts should, consistent with both Judge Lourie's and Judge Rader's opinions, guide the development of the law on patent eligibility of abstract ideas.

¹ *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, No. 2011-1301, 2013 WL 1920941 (Fed. Cir. May 10, 2013).

² *Ultramercial LLC v. Hulu, LLC*, No. 2010-1544, 2013 WL 3111303 (Fed. Cir. June 21, 2013).

³ *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) *aff'd but criticized sub nom. Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

⁴ *Diamond v. Diehr*, 450 U.S. 175 (1981).

⁵ *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

⁶ *Research Corp. Technologies, Inc. v. Microsoft Corp.*, 627 F.3d 859 (Fed. Cir. 2010).

⁷ *Bilski I*, 545 F.3d at 954, 959-960. *Bilski II*, 130 S. Ct. at 3222.

⁸ *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341 *reh'g en banc granted, opinion vacated*, 484 F. App'x 559 (Fed. Cir. 2012).

⁹ *Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323 (Fed. Cir. 2011) *cert. granted, judgment vacated sub nom. WildTangent, Inc. v. Ultramercial, LLC*, 132 S. Ct. 2431 (U.S. 2012).

¹⁰ *Bancorp Servs., L.L.C. v. Sun Life Assur. Co. of Canada (U.S.)*, 687 F.3d 1266 (Fed. Cir. 2012).

¹¹ *SiRF Tech., Inc. v. Int'l Trade Comm'n*, 601 F.3d 1319 (Fed. Cir. 2010).

¹² *Fort Props., Inc. v. Am. Master Lease LLC*, 671 F.3d 1317 (Fed. Cir. 2012).

¹³ *Dealertrack, Inc. v. Huber*, 674 F.3d 1315 (Fed. Cir. 2012).

¹⁴ *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366 (Fed. Cir. 2011).

¹⁵ *Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323, 1328 (Fed. Cir. 2011) *cert. granted, judgment vacated sub nom. WildTangent, Inc. v. Ultramercial, LLC*, 132 S. Ct. 2431 (U.S. 2012).

¹⁶ *CLS en banc*, 2013 WL 1920941, at *8 and *28.*Id.* at *11 (Fed. Cir. May 10, 2013) (internal quotations omitted).

¹⁷ *Id.* at *37.

¹⁸ *Id.* at *11 and *19.

¹⁹ *Id.* at *29.

²⁰ *Id.* at *11 and *15.

²¹ *Id.* at *29 and *35.

²² *Id.* at *19.

²³ *Id.* at *38-39.

²⁴ *Id.* at *11.

²⁵ *Id.* at *38-39.

²⁶ *Id.* at *19 and *28.