

CLS Bank v. Alice: Troll Hunt or Witch Hunt?

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A Muddled Decision

- *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.*

Method vs. System: useful for conducting financial transactions using a third party to settle obligations between a first and second party so as to mitigate “settlement risk.”

(METHOD)

33. A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:
- (a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;
 - (b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;
 - (c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and
 - (d) at the end-of-day, the supervisory institution instructing ones of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

SYSTEM

- 1. A data processing system to enable the exchange of an obligation between parties, the system comprising:
 - a data storage unit having stored therein information about a shadow credit record and shadow debit record for a party, independent from a credit record and debit record maintained by an exchange institution; and *a computer, coupled to said data storage unit, that* is configured to
 - (a) receive a transaction;
 - (b) electronically adjust said shadow credit record and/or said shadow debit record in order to effect an exchange obligation arising from said transaction, allowing only those transactions that do not result in a value of said shadow debit record being less than a value of said shadow credit record; and
 - (c) generate an instruction to said exchange institution at the end of a period of time to adjust said credit record and/or said debit record in accordance with the adjustment of said shadow credit record and/or said shadow debit record, wherein said instruction being an irrevocable, time invariant obligation placed on said exchange institution

Concurring-in-part and dissenting-in-part opinion filed by NEWMAN, Circuit Judge.

- The court, now rehearing this case en banc, hoped to ameliorate this uncertainty by providing objective standards for section 101 patent-eligibility. Instead we have propounded at least three incompatible standards, devoid of consensus, serving simply to add to the unreliability and cost of the system of patents as an incentive for innovation.

**Concurring opinion filed by LOURIE, Circuit Judge, in which
DYK, PROST, REYNA, and WALLACH, Circuit Judges, join.**

- [A]t its most basic, a computer is just a calculator capable of performing mental steps faster than a human could. Unless the claims require a computer to perform operations that are not merely accelerated calculations, a computer does not itself confer patent eligibility.

Concurring-in-part and dissenting-in-part opinion filed by RADER, Chief Judge, LINN, MOORE, and O'MALLEY, Circuit Judges, as to all but part VI of that opinion. RADER, Chief Judge, and MOORE, Circuit Judge, as to part VI of that opinion

- But, Rader “[d]isagree[s] with Judge Lourie that a computer must do something other than what a computer does before it may be considered a patent-eligible invention.... Requiring a computer to do something that a human could not would mean that computer implementation could never produce patent eligibility.”

Additional Reflections of Chief Judge Rader

- Rader “doubt[s] that innovation is promoted when subjective and empty words like ‘contribution’ or ‘inventiveness’ are offered up by the courts to determine investment, resource allocation, and business decisions.”

Dissenting-in-part opinion filed by MOORE, Circuit Judge, in which RADER, Chief Judge, and LINN and O'MALLEY, Circuit Judges, join

- Let's be clear: if all of these claims, including the system claims, are not patent-eligible, this case is the death of hundreds of thousands of patents, including all business method, financial system, and software patents as well as many computer implemented and telecommunications patents.

Dissenting opinion filed by LINN and O'MALLEY, Circuit Judges

- Linn and O'Malley contest that the method claims should be vilified under 35 USC 101 because “[w]e do not see how Chief Judge Rader and Judge Moore, when analyzing the method claims, can ignore the fact that the specific functionality described in the figures applies just as much to them as to the system claims.”

Concurring-in-part and dissenting-in-part opinion filed by NEWMAN, Circuit Judge

- Newman cut to the heart of the matter: “I propose that the court make clear that patent eligibility does not depend on the form of the claim, whether computer implemented innovations are claimed as a method or a system or a storage medium, whether implemented in hardware or software. Patent eligibility does not turn on the ingenuity of the draftsman.”

Concurring-in-part and dissenting-in-part opinion filed by NEWMAN, Circuit Judge

- With today's judicial deadlock, the only assurance is that any successful innovation is likely to be challenged in opportunistic litigation, whose result will depend on the random selection of the panel.

NEW LEGISLATION PROPOSED

- HR 845: Saving High-tech Innovators from Egregious Legal Disputes (SHIELD) Act
- Patent Abuse Reduction Act of 2013 (S.1013)
- Both Feature Forms of Attorney Fee Shifting

Patent Prosecution Strategies in Light of CLS v. Alice

- Consider multiple applications so one type of claims do not infect another set?
 - System vs. Method
 - Broad vs. Narrow
- Move to Europe?
 - Vet claims with European counsel to see if they would meet the “inventive step” test over there?
 - *HTC v. Apple*, [\[2013\] EWCA Civ 451](#) (Court of Appeals of England and Wales 2013)
 - The court focused on what the invention contributed to the art as a “matter of practical reality” rather than focusing on the invention's relation to computer software. The court went on to hold that a patentable contribution does not become unpatentable simply because a computer program is used to implement that contribution.

Strategies available because trolls want victims not fighters.

- **Recoup your losses via an indemnification provision from the third party supplier who either sold or installed the system for you.**
 - Insurance for tailored patent holders/patents.
- **A preliminary analysis may save many dollars compared to caving into a troll's licensing scheme if**
 - an "easy kill" exists to avoid their patent claims,
 - prior art surfaces to offer an invalidity argument,
 - a better understanding of the patent claims helps you tailor which aspects of your system are questionable as a way of limiting the royalty base, and/or
 - an easy workaround may exist – this solution is particularly helpful where actual notice is required to begin the clock for damages. Finally, trolls like to advertise their list of licensees, as they pursue their next target. So, a willingness to be included in such a list may give you some bargaining power in bringing down the fees that the troll wishes to charge.
- **Patent trolls may no longer join multiple alleged infringers simply for infringing the same patent.**
 - 35 USC 299(b): [A]ccused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.
- **Aggressive Counter-Claims and Litigation Strategies**
 - Federal antiracketeering laws.
- **Consortiums (but be careful - trolls have pushed back on this strategy).**
 - *Cascades Computer Innovation LLC v. RPX Corp.*, No. 12-CV-01143 YGR, 2013 U.S. Dist. LEXIS 10526 (N.D. Cal. Jan. 24, 2013).

Thank you!

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