Case Study: CLS Bank V. Alice Corp.

*Law360, New York (July 25, 2012, 3:15 PM ET*) -- The U.S. Supreme Court repeatedly has explained that abstract ideas are not patentable, in part, because to patent an abstract idea would “preempt use of the[e] approach in all fields.”[1] Recent cases have thus called into question whether a claim’s “preemptive force” is a standalone test for patentability under §101 of the U.S. Patent Code. In CLS Bank v. Alice, the Federal Circuit clarified that a claim’s “preemptive force” does not, standing alone, indicate that the claim is abstract. Instead, preemption merely reinforces a conclusion that the claim is nonpatentable.[2]

Since the Supreme Court struck down the bright-line machine-or-transformation test for patentability in Bilski, a number of cases have appeared to treat a patent’s preemptive force as a factor in determining whether a claim is directed to an abstract concept. This issue came to a head in CLS Bank. The district court found that the claims of Alice’s patents were unpatentable in large part because of the “preemptive force” of the claims.[3]

In reversing the district court, the Federal Circuit examined in depth the role of preemption in the patentability analysis.[4] First, it found that the patent claims were not abstract, and then it explained that the limitations “do not appear to preempt much in the way of innovation.”[5] Ultimately, it made clear that the “preemptive force” of a patent’s claims is a consideration, if at all, only after the court has first determined that the claims cover only abstract ideas.[6] The case left unanswered whether considerations of preemption play any meaningful role in connection with §101.

**Supreme Court Consideration of Preemption**

The Supreme Court generally has treated preemption as a consideration that merely reinforces the conclusion of abstractness, after the court has already found the claims abstract.

For example, in Gottshalk v. Benson, the court held, first, that a patent application for an algorithm was an unpatentable abstract idea. It then explained that a contrary holding “would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself.”[7] In contrast, in Diamond v. Diehr, the court found that because the claim covered more than just an abstract idea, it did not “seek to pre-empt the use of that equation, except in conjunction with all of the other steps in their claimed process.”[8]
Similarly, in Bilski, the court held “[t]he concept of hedging ... is an unpatentable abstract idea.”[9] Therefore, “[a]llowing petitioners to patent risk hedging would pre-empt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.”[10] In Prometheus, the court made clear that the role of preemption was to “reinforce [the] conclusion that the processes described in the patents are not patent eligible.”[11] Accordingly, the court generally first finds the claim is not patent-eligible, and only then does it consider the claim’s preemptive effect.

Post-Bilski Cases Appear to Treat Preemption as a Factor in Assessing Abstractness

In contrast to the Supreme Court’s general approach, a number of recent cases have appeared to treat the evaluation of a claim’s “preemptive force” as a factor in the determination of whether the claim is abstract in the first place.

For example, in CyberSource Corp. v. Retail Decisions, the district court considered the scope of preemption before concluding a claim was abstract, explaining the claims “broadly preempt the fundamental mental process of fraud detection using associations between credit card numbers.”[12] The fact that the methods would “preempt the use of fundamental mental processes across an extraordinarily large and important segment of the commercial system” appeared to be a factor in the court’s determination that the claims were abstract.[13]

The Federal Circuit has similarly focused on a claim’s preemptive effect in its analysis of patentability. In Dealertrack, the court appeared to rest its finding of nonpatentability, in part, on the conclusion that “neither Dealertrack nor any other entity is entitled to wholly preempt the clearinghouse concept.[14] In MySpace v. GraphOn, Judge Haldane Mayer’s dissent focused on the scope of preemption as a key part of his patentability analysis.[15]

Judge Mayer’s analysis began with concerns that “[t]he claims ... are significantly broader in scope and have the potential to wield far greater preemptive power than those at issue in Bilski,” and that “[t]he potential scope of the GraphOn patents is staggering.”[16] The dissent concludes that GraphOn’s patents “fall outside the ambit of section 101 because they are too useful and too widely applied to possibly form the basis of any patentable invention.”[17] Specifically, the claims covering online communications were abstract “because free and unrestricted Internet communication has become a staple of contemporary life.”[18]

The District Court in CLS Bank Relied on the Patent’s “Preemptive Force” in Determining Abstractness

In CLS Bank, the district court followed this trend, treating preemption as a primary test for patentability. “In the instant matter, the Court follows the reasoning of the Supreme Court in Bilski II, which concentrated not on the usefulness or practicality of claims, but on whether claims are directed to a fundamental concept as demonstrated, as least in part, by their preemptive force.”[19]
The court held that “[t]he abstract idea claimed by Alice's methods ... effectively preempt the use of an electronic intermediary to guarantee exchanges across an incredible swath of the economic sector.”[20] Like the dissent in GraphOn, the district court in CLS Bank considered the scope of preemption as a key factor in patentability, explaining “[t]he impact of the '720 Patent on common and everyday financial transactions speaks to its preemptive effect.”[21]

CLS Bank in the Federal Circuit

In its brief to the Federal Circuit, Alice argued that preemption is not an independent test for patentability. The Federal Circuit agreed.

Alice argued that patentability does not depend on whether a “patent claim ‘preempts’ the use of the inventor's idea as reflected in his claims,” since “a principal purpose of a patent is to exclude, i.e., preempt, others from practicing that which the inventor claimed.”[22]

Alice argued:

Neither the Supreme Court nor this Court has ever suggested that “preemption” of a method or idea that is not a fundamental principle renders a patent claim invalid under section 101, nor that review for “preemption” is a separate step of the section 101 analysis if a claim has been determined not to be abstract. That is because “preemption” does not even apply in cases such as this where the claims do not purport to cover a fundamental principle.[23]

The Federal Circuit acknowledged that a patent grants a right to preempt, but cannot preempt abstract ideas.[24] Accordingly, a court must first determine whether a claim covers only an abstract concept before considering the claim’s preemptive force.

“While every inventor is granted the right to exclude, or ‘pre-empt,’ others from practicing his or her claimed invention, no one is entitled to claim an exclusive right to a fundamental truth or disembodied concept that would foreclose every future innovation in that art.”[25] “Thus, 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 a fundamental truth and foreclose, rather than foster, future innovation are not directed to patent eligible subject matter under § 101.”[26]

It was only after determining that the claims covered more than merely abstract ideas that the court then remarked that “the limitations requiring specific ‘shadow’ records leave broad room for other methods of using intermediaries to help consummate exchanges, whether with the aid of a computer or otherwise, and, thus, do not appear to preempt much in the way of innovation.”[27] Thus, like the Supreme Court in Benson, it treated preemption as a secondary question to be visited only after a determination of abstractness.

Following CLS Bank, the Federal Circuit has reaffirmed the Supreme Court’s treatment of preemption.[28] The case makes clear that a claim’s “preemptive force” does not, standing alone, indicate that the claim is abstract. Instead, preemption merely “reinforces” a conclusion that the claim is nonpatentable.[29]
It remains to be seen what the effect of this “reinforcement” is. Courts have found claims abstract without addressing the issue of preemption. Neither the Federal Circuit nor the Supreme Court, however, has addressed whether a claim can be invalid under §101 notwithstanding an express finding that it has no preemptive effect. While the logical conclusion of CLS Bank would seem to be that such a claim may still be nonpatentable due to abstractness, that conclusion begs the question of why courts have discussed preemption at all, and at such length. Future cases may clarify whether, following CLS Bank, there remains any room for courts to consider preemption in connection with §101, or whether this “reinforcing” factor has no meaningful effect on the patentability analysis.

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[2] Id.


[5] Id. at 27.

[6] Id. at 14-17.


[10] Id.

[11] Mayo Collaborative Services v. Prometheus Laboratories Inc., 132 S. Ct. 1289, 1301-02 (2012) (“The presence here of the basic underlying concern that these patents tie up too much future use of laws of nature simply reinforces our conclusion that the processes described in the patents are not patent eligible, while eliminating any temptation to depart from case law precedent.”).

[13] See also Dealertrack Inc. v. Huber, 674 F.3d 1315, 1333 (Fed. Cir. 2012) (discussing preemption as part of the patentability analysis, contending that “[n]either Dealertrack nor any other entity is entitled to wholly preempt the clearinghouse concept.”), id. at 1335 (explaining “[i]t therefore generally follows that any invention within the broad statutory categories of § 101 that is made by man, not directed to a law of nature or physical phenomenon, and not so manifestly abstract as to preempt a fundamental concept or idea is patent eligible.” (emphasis added)).


[15] MySpace Inc. v. GraphOn Corp., 672 F.3d 1250, 1264-66 (Fed. Cir. 2012) (Mayer, J., dissenting). In GraphOn, the majority held the claims were invalid under sections 102 and 103 but declined to consider section 101 which it considered a “swamp” to be avoided by courts. Judge Mayer’s dissented on the basis that patentability is an antecedent question to be determined before invalidity under Sections 102 and 103. Id. at 1264.

[16] Id. at 1264-65.

[17] Id.

[18] Id. at 1265-66.


[20] Id. at 245-46. See also id. at 246 (“If patentable, these claims could preempt the use of an electronic intermediary, using a shadow credit and/or debit records, as a manner in which to exchange an infinite array of tangible and intangible representations of value.”)

[21] Id. at 252.


[23] Id. at 35-36.


[25] Id. at 16.

[26] Id. at 17.

[27] Id. at 27.


[29] Id.