ALSTON+BIRD LLP

Intellectual Property ADVISORY

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Business Methods Are Not Excluded from Patent Protection

Summary

On June 28, 2010, the Supreme Court handed down its ruling in the *In Re Bilski* case, providing clarification regarding the patentability of business methods.[1] With a 5-4 majority, the Court held that 35 U.S.C. §101 allows patenting of at least some business methods. The Court also held that the Federal Circuit's machine-or-transformation test is not the sole test for determining whether a claimed process is patent eligible under §101. The Court did note that the machine-or-transformation test may be a useful and important tool for determining whether some claimed processes are patent eligible under §101. However, the Court relied on its previous list of exceptions to patentable subject matter to find that the business method before it claimed an unpatentable "abstract idea." Nevertheless, the machine-or-transformation test will likely continue to be used as a tool by courts and the United States Patent and Trademark Office (USPTO) in determining whether a claimed process is eligible under §101 for patent protection.[2] The Court's opinion also appeared to acknowledge that software is patent-eligible subject matter.

Background

Section 101 of Title 35, U.S.C., is the gatekeeper of the patent system. Under section 101, "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." In 1980, the Supreme Court acknowledged that Congress intended §101 to extend to "anything under the sun that is made by man."[3] A year later, however, the Supreme Court acknowledged the limits to §101, noting that laws of nature, natural phenomena, and abstract ideas are excluded from patent protection.[4] Operating under this framework, the United States Court of Appeals for the Federal Circuit ("Federal Circuit") in the *State Street Bank* decision opened the door for business method patents.[5]

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1 *See* http://www.supremecourt.gov/opinions/09pdf/08-964.pdf.

2 The USPTO in response to the Court's decision has immediately issued a notice to examiners indicating that examiners should continue to examine patent applications for compliance with §101 using the existing guidance concerning the machine-or-transformation test as a tool for determining whether a claimed invention is a process under §101. *See* http://www.patentlyo.com/patent/2010/06/bilski-v-kappos-and-the-anti-state-street-majority.html.

3 *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

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

5 In particular, the Federal Circuit held "that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces 'a useful, concrete and tangible result.'" *State Street Bank & Trust, Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998).

Since the *State Street Bank* decision, the USPTO has issued numerous business method patent claims, many of which have often garnered negative attention as pushing the limits of what is allowed within the scope of §101.

In 2008, in *In re Bilski,*[6] an en banc Federal Circuit attempted to clarify its precedent and rein in the breadth of the *State Street Bank* decision. The underlying issue presented to the Federal Circuit in *In re Bilski* was what test governs whether a claim to a process is patentable under §101. In the decision, the Federal Circuit set the "machine-or-transformation" test as the governing test for determining the patent eligibility of a process under §101. Under the machine-or-transformation test, a claimed process is considered to be patent eligible if the process (1) is tied to a particular machine or apparatus or (2) transforms a particular article into a different state or thing.

After the *Bilski* decision, many already-issued business method and software patents came under attack on §101 grounds, given that the already-issued patents were not specifically drafted to meet the new machine-or-transformation test. As a result, numerous claims in these various patents were invalidated by district courts when applying the newly established test.[7] In addition, in the hopes of clarifying the scope of patent-eligible subject matter, the USPTO released "Interim Examination Instructions for Evaluating Subject Matter Eligibility under 35 U.S.C. §101."[8]

Following the Federal Circuit's decision in *In re Bilski*, the United States Supreme Court granted Bilski's Petition for Writ of Certiorari in *Bilski v. Doll*. The Petition for Writ of Certiorari granted by the Supreme Court presented two questions:

> Whether the Federal Circuit erred by holding that a "process" must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing ("machine-or-transformation" test), to be eligible for patenting under 35 U.S.C. §101, despite this Court's precedent declining to limit the broad statutory grant of patent eligibility for "any" new and useful process beyond excluding patents for "laws of nature, physical phenomena, and abstract ideas."

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6 *In re Bilski*, 545 F.3d 943, 88 U.S.P.Q.2d 1385 (Fed. Cir. 2008).

7 *Every Penny Counts v. Bank of America*, No. 2:07-cv-042 (M.D. Fla. May 27, 2009) (granting summary judgment that a claim directed to a system that allows consumers to save a portion of a credit or debit transaction was invalid for not claiming patentable subject matter); *Cybersource Corp. v. Retail Decisions, Inc.,* 2009 U.S. Dist. LEXIS 26056 (N.D. Cal. March 26, 2009) (granting summary judgment invalidating patent directed to detecting fraud in a credit card transaction between a consumer and a merchant over the Internet); *Fort Properties, Inc. v. American Master Lease*, 2009 U.S. Dist. LEXIS 7217 (C.D. Cal. Jan 22, 2009) (granting summary judgment that claims directed to a business method for creating an investment instrument out of real property were invalid for not claiming patentable subject matter since the creation of "deeds" did not meet the machine-or-transformation test of *In re Bilski); King Pharmaceuticals v. Eon Labs*, 593 F. Supp. 2d 501, 512-13 (E.D.N.Y. 2009) (holding that a claim directed to a method of using metaxalone as a medical treatment that included the act of informing the patient of the food effect of metaxalone failed the machine-or-transformation test of *In re Bilski* "because the act of informing the patient of the food effect of metaxalone does not transform metaxalone into a different state or thing"). *But see Versata Software, Inc. v. Trilogy Software, Inc.,* 2009 U.S. Dist. LEXIS 37811 (E.D. Tex. March 31, 2009) (denying accused infringer's Rule 12(c) motion for judgment on the pleadings by refusing to hold that software claims fail the *In re Bilski* test merely if they are capable of being performed without being tied to a machine or apparatus).

8 www.uspto.gov/web/offices/com/speeches/20090827_interim_el.htm.

Whether the Federal Circuit's "machine-or-transformation" test for patent eligibility, which effectively forecloses meaningful patent protection to many business methods, contradicts the clear congressional intent that patents protect "method[s] of doing or conducting business." 35 U.S.C. § 273.

The Supreme Court's Decision in *In Re Bilski*

All members of the Supreme Court agreed that the machine-or-transformation test is not the sole test for determining whether a process is patent eligible under §101.[9] Moreover, a 5-4 majority of the Court noted that §101 precludes the broad contention that the term "process" categorically excludes business methods, providing many business method patent owners a sigh of relief. With regard to Bilski's claims,[10] the full Court concluded that the claims fall outside the scope of §101 because they claim an abstract idea.

Machine-or-Transformation Test

In the majority opinion,[11] the Court (all Justices agreeing) noted that the Federal Circuit's adoption of the machine-or-transformation test as the sole test for what constitutes a "process" (as opposed to just an important and useful tool) violates statutory interpretation principles. First, the Court commented that, unless otherwise defined, words should be interpreted as taking their ordinary, contemporary, common meaning. In this instance, the Court stated that it is unaware of any ordinary, contemporary, common meaning of the definitional terms "process, art or method" that would require these terms to be tied to a machine or to transform an article.

The Court further noted that §101 is a dynamic provision designed to encompass new and unforeseen inventions. Correspondingly, the Court stated that it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test when determining whether previously unforeseen inventions qualify as patentable processes. Thus, the Court held that the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101, but not the sole test for deciding whether an invention is a patent-eligible "process."

Patent Eligibility of Business Methods

In the majority opinion, the Court noted that the term "process" used in §101 is defined by §100(b) as a "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material." In evaluating the language of these sections, the Court commented that at least as

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9 "This Court's precedents establish that the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101. The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible 'process.'"

10 Claim 1 is directed to managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price and consists of the following steps: (a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumers; (b) identifying market participants for said commodity having a counter-risk position to said consumers; and (c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.

11 Justice Kennedy delivered the majority opinion and was joined by Justices Roberts, Thomas, and Alito in full, and Scalia in all except Parts II-B-2 and II-C-2.

a textual matter, §101 may include at least some methods of doing business. In particular, the Court noted that it is unaware of any argument that the ordinary, contemporary, common meaning of "method" excludes business methods. The Court was also concerned that a categorical prohibition of business method patents could have far-reaching consequences and exclude patent protection for technologies that help conduct business more efficiently.

Moreover, the Court noted that the categorical exclusion of business methods from §101 is further undermined by the fact that federal law explicitly contemplates the existence of at least some business method patents. For example, 35 U.S.C. § 273(a)(3) provides a defense of prior use for infringement of a patent directed to a method: the term "method" is defined in the statute as "a method of doing or conducting business." The Court reasoned that by allowing this defense, the statute itself acknowledges there may be business method patents and a conclusion otherwise would render §273 meaningless.[12] Thus, the Court noted that §273 helps clarify the understanding that a business method is simply one kind of "method" that is, at least in some circumstances, eligible for patenting under §101.

Finally, the Court did note that §101 is not without limits. Specifically, the Court recognized that its precedent provides three specific exceptions to §101's broad patent-eligibility principles: "laws of nature, physical phenomena, and abstract ideas." The Court reiterated that these exceptions have defined the reach of §101 as a matter of statutory *stare decisis* going back 150 years. Additionally, the Court commented that even if a particular business method fits into the statutory definition of "process," to receive patent protection, the method must still be novel (§102), nonobvious (§103), and fully and particularly described (§112).

Software Patents

The Court's opinion appears to acknowledge that software is patent-eligible subject matter. For example, the Court noted that it was once forcefully argued that until recent times, "well-established principles of patent law probably would have prevented the issuance of a valid patent on almost any conceivable computer program." The Court stated that this fact does not mean that unforeseen innovations such as computer programs are always unpatentable. The Court continued by describing §101 as a dynamic provision designed to encompass new and unforeseen inventions and noting that contrary interpretations would frustrate the purposes of the patent law.

Bilski's Claims

Although the Court recognized (1) that the machine-or-transformation is not the sole test for determining the eligibility of a "process" for patent protection under §101 and (2) that business methods are not necessarily excluded from patent protection, the Court found Bilski's claims to fall outside the scope of §101. In fact, all members of the Court held that Bilski's claims are not eligible for patent protection, as they claim abstract ideas.[13] Thus, the Court stated that in light of its precedents, Bilski's claims are not directed to a patent-eligible "process." However, the Court offered little or no guidance on how to determine when an inventor claims only abstract ideas.

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[12] 35 U.S.C. § 273 provides a defense to infringement based on an earlier inventor.

[13] The Court commented that this case was resolved narrowly on the basis of the Court's decisions in *Benson, Flook*, and *Diehr,* which established the proposition of prohibiting the patenting of abstract ideas.

The Stevens Minority View on Business Methods

Justice Stevens[14] wrote a concurring opinion that is in agreement with the majority's decision that Bilski's claims are not patent eligible because they claim an abstract idea. However, Justice Stevens did not agree with the majority's views with respect to the patentability of business methods. Specifically, Justice Stevens' concurrence noted that "[t]he wiser course would have been to hold that petitioners' method is not a 'process' because it describes only a general method of engaging in business transactions – and business methods are not patentable." The concurrence continued that "a claim that merely describes a method of doing business does not qualify as 'process' under §101." The Stevens minority framed its posture in the belief that the history of U.S. patent law strongly supports the conclusion that a method of doing business is not a "process" under §101.

The Breyer Concurrence

The *Bilski* decision concludes with a concurring opinion by Justice Breyer that was joined in part by Justice Scalia. Justice Breyer wrote separately to highlight the substantial agreement among many of the Justices of the Court on several of the issues raised by the case. In particular, Justice Breyer noted that many members of the Court believe that (1) although the text of §101 is broad, it is not without limit; (2) the machine-or-transformation has repeatedly helped the Court to determine what is a patentable process; (3) the machine-or-transformation has never been the sole test for determining patent eligibility; and (4) although the machine-or-transformation test is not the only test, this by no means indicates that anything which produces a "useful, concrete, and tangible result," is patentable.

Looking Ahead

In light of the Court's approach to deciding the case, those interested in the future of process patent claims and business method inventions will look to future decisions of the Federal Circuit attempting to again describe how the law and the Court's precedent provide a line between patent-eligible and non-eligible subject matter under §101. Of particular interest will be decisions finding a new role for the machine-or-transformation test and those laying out a test for determining when a patent claim is directed only to an abstract idea.

This advisory was written by **Dane Baltich, Jeff Cooper, Chris Haggerty**, and **Jeff Young**.

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[14] Justice Stevens was joined by Justices Ginsburg, Breyer, and Sotomayor.

ALSTON+BIRD LLP

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For further information, please contact any of the attorneys in Alston & Bird's Intellectual Property Group.

Blas P. Arroyo
blas.arroyo@alston.com
704.444.1012

William M. Atkinson
william.atkinson@alston.com
704.444.1026

William H. Baker
bill.baker@alston.com
212.210.9487

David H. Ben-Meir
david.ben-meir@alston.com
213.576.1076

Philippe Bennett
philippe.bennett@alston.com
212.210.9559

Gerald Boss
jerre.boss@alston.com
404.881.7683

Keith E. Broyles
keith.broyles@alston.com
404.881.7558

Rachel M. Capoccia
rachel.capoccia@alston.com
213.576.1037

Michael S. Connor
mike.connor@alston.com
704.444.1022

Jason W. Cook
jason.cook@alston.com
214.922.3407

Jason P. Cooper
jason.cooper@alston.com
404.881.4831

Sean P. DeBruine
sean.debruine@alston.com
650.838.2121

Brian C. Ellsworth
brian.ellsworth@alston.com
704.444.1265

Patrick J. Flinn
patrick.flinn@alston.com
404.881.7920

Christopher J. Gegg
chris.gegg@alston.com
704.444.1024

Guy R. Gosnell
guy.gosnell@alston.com
704.444.1029

Gregory T. Gronholm
greg.gronholm@alston.com
404.881.7968

Robert E. Hanlon
robert.hanlon@alston.com
212.210.9410

John D. Haynes
john.haynes@alston.com
404.881.7737

Steven D. Hemminger
steve.hemminger@alston.com
650.838.2029

Donald M. Hill, Jr.
donald.hill@alston.com
704.444.1006

Yitai Hu
yitai.hu@alston.com
650.838.2020

T. Hunter Jefferson
hunter.jefferson@alston.com
404.881.7333

Madison C. Jellins
madison.jellins@alston.com
650.838.2047

Louis A. Karasik
lou.karasik@alston.com
213.576.1148

S.H. Michael Kim
michael.kim@alston.com
650.838.2100

Lance A. Lawson
lance.lawson@alston.com
704.444.1114

Robert L. Lee
bob.lee@alston.com
404.881.7635

Michael D. McCoy
mike.mccoy@alston.com
704.444.1011

Richard M. McDermott
rick.mcdermott@alston.com
704.444.1045

Robin L. McGrath
robin.mcgrath@alston.com
404.881.7923

George Douglas Medlock, Jr.
george.medlock@alston.com
404.881.7765

Deepro R. Mukerjee
deepro.mukerjee@alston.com
212.210.9501

Marsha E. Mullin
marsha.mullin@alston.com
213.576.1020

Michael J. Newton
mike.newton@alston.com
214.922.3423

Thomas J. Parker
thomas.parker@alston.com
212.210.9529

Bruce J. Rose
bruce.rose@alston.com
704.444.1036

Walter Scott
walter.scott@alston.com
212.210.9518

Benjamin F. Sidbury
ben.sidbury@alston.com
704.444.1056

Frank G. Smith
frank.smith@alston.com
404.881.7240

Andrew T. Spence
andy.spence@alston.com
704.444.1411

W. Murray Spruill, Ph.D.
murray.spruill@alston.com
919.862.2202

Kevin C. Trock
kevin.trock@alston.com
650.838.2004

Alan L. Whitehurst
alan.whitehurst@alston.com
202.756.3491

Jeffrey E. Young
jeff.young@alston.com
404.881.7857

ATLANTA
One Atlantic Center
1201 West Peachtree Street
Atlanta, GA 30309-3424
404.881.7000

CHARLOTTE
Bank of America Plaza
Suite 4000
101 South Tryon Street
Charlotte, NC 28280-4000
704.444.1000

DALLAS
Chase Tower
Suite 3601
2200 Ross Avenue
Dallas, TX 75201
214.922.3400

LOS ANGELES
333 South Hope Street
16th Floor
Los Angeles, CA 90071-3004
213.576.1000

NEW YORK
90 Park Avenue
New York, NY 10016-1387
212.210.9400

RESEARCH TRIANGLE
Suite 600
3201 Beechleaf Court
Raleigh, NC 27604-1062
919.862.2200

SILICON VALLEY
275 Middlefield Road
Suite 200
Menlo Park, CA 94025-4004
650.838.2000

VENTURA COUNTY
Suite 215
2801 Townsgate Road
Westlake Village, CA 91361
805.497.9474

WASHINGTON, D.C.
The Atlantic Building
950 F Street, NW
Washington, DC 20004-1404
202.756.3300

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