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Business Methods After Bilski

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In *Monty Python and the Quest for the Holy Grail*, Sir Arthur is confronted by the indomitable Black Knight while attempting to cross a bridge. After a rousing fight, Sir Arthur cuts off the Black Knight's arms and then informs the skeptical Black Knight that he's "got no arms left." The Black Knight, after overcoming his disbelief by looking down, rallies and states: "It's just a flesh wound."

Similarly, many patent attorneys are wondering whether the Federal Circuit killed business method patents in *In re Bilski*, 545 F.3d 943 (Fed. Cir. Oct. 30, 2008) (en banc), or merely inflicted "just a flesh wound."

While the Supreme Court granted *Bilski*'s petition for certiorari on June 1, 2009, and will hopefully resolve the viability of business method patents in the upcoming October term, patent attorneys are trying to determine the impact of *Bilski* now.

Two recent decisions — one from the Northern District of California and the other from the Eastern District of Texas — highlight the divergent opinions issued by district courts in the aftermath of *Bilski*.

The *Bilski* Decision

In *Bilski*, Applicants Bernard Bilski and Rand Warsaw sought to patent claims drawn to a method for hedging risk in commodities trading. 545 F.3d at 949. The Examiner, Board of Patent Appeals and Interferences and Federal Circuit all rejected the claims as ineligible subject matter under 35 U.S.C. § 101.

Under § 101 (2000), a "process" qualifies as patent-eligible subject matter. The question in *Bilski* was the definition of the term "process." *Id.* at 951.

The court filtered its analysis through a determination of whether the claims were directed to a "fundamental principle." See *id.* at 952 ("The true issue before us then is whether Applicants are seeking to claim a fundamental principle (such as an abstract idea) or a mental process.").

The court drew a line between claims that seek to preempt the use of a fundamental principle on the one hand, and claims that seek only to foreclose others from using a particular application of that fundamental principle on the other hand. *Id.* at 953.

Even though a fundamental principle may itself not be patent-eligible, a process incorporating such a principle might be. *Id.* at 954-55. Thus, the question becomes: “How does one determine whether a given claim would pre-empt all uses of a fundamental principle?” *Id.* at 954.

The court held that the “definitive test” for whether a claimed process complies with § 101 is the Benson “machine-or-transformation” test. *Id.*

“A claimed process is patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” *Id.*

The two prongs are disjunctive; satisfying either suffices to put the claims at issue within the purview of § 101. *Id.* at 961.

CyberSource, Northern District of California, March 26, 2009

In *CyberSource Corp. v. Retail Decisions Inc.*, No. 04-03268, slip op. at 16 (N.D. Cal. Mar. 26, 2009), the court relied on *Bilski* to grant the defendant’s motion for summary judgment of invalidity of U.S. Patent Number 6,029,154 (“the ‘154 Patent”).

The ‘154 Patent is directed to a system and method for detecting fraud in a credit card transaction between a consumer and a merchant over the Internet. *Id.* at 1. An exemplary claim from the ‘154 Patent reads:

“3. A method for verifying the validity of a credit card transaction over the Internet comprising the steps of: (a) obtaining information about other transactions that have utilized an Internet address that is identified with the credit card transaction; (b) constructing a map of credit card numbers based upon the other transactions; and (c) utilizing the map of credit card numbers to determine if the credit card transaction is valid.” *Id.* at 2.

The defendants claimed that *Bilski* invalidated this and another claim because they “could literally be performed on a piece of paper or in one’s mind.” *Id.* at 9.

The plaintiff claimed that *Bilski* did not apply because the claims were “tied to a particular machine or apparatus” — the Internet. *Id.* at 10. Noting that: “[f]ormer Vice-President Al Gore did not actually take credit for inventing the Internet, and neither does plaintiff[,]” the court concluded that merely reciting “over the Internet” did not suffice to tie a process claim to a particular machine. *Id.* at 9-10.

The court noted that (1) the claimed process was not tied to a “particular machine;” (2) the “involvement of the Internet” did not qualify as a machine implementation “where it merely constitutes ‘insignificant extra-solution activity;’” and (3) “the use of the Internet does not impose meaningful limits on the scope of the claims.” *Id.* at 10-11 (quoting *Bilski*, 545 F. 3d at 961-62).

The court also rejected plaintiff’s argument that the claims “transform[ed] an article into a different state or thing” by manipulating data representing physical objects. *Id.* at 6. The court reasoned that:

There is no indication that the Federal Circuit, having reaffirmed the machine-or-transformation test, intended to weaken the key term “transformation” by equating it with mere “manipulation.”

The processes claimed in the '154 patent unquestionably “manipulate” credit card numbers by using them to build a “map.” But it is equally clear that neither credit card numbers nor credit cards are “transformed.” Id. at 6.

After applying *Bilski* to reject both asserted claims as directed to nonpatentable subject matter, the court noted that “[t]he closing bell may be ringing for business method patents, and their patentees may find they have become bagholders.” Id. at 15.

Versata, Eastern District of Texas, March 31, 2009

In contrast with *CyberSource Corp.*, the court in *Versata Software Inc. v. Sun Microsystems Inc.* 2:06-cv-00358, slip op. at 2 (E.D. Tex. Mar. 31, 2009), denied the defendant’s Fed. R. Civ. P. 12(c) motion for judgment on the pleadings.

The defendant argued that *Bilski* invalidated the plaintiff’s asserted software method claims because “the claimed methods do not satisfy the ‘machine’ portion of the [*Bilski*] test because they can be performed entirely within the human mind, or using pencil and paper.” Id. at 2.

The defendant also argued that “the claimed methods do not satisfy the ‘transformation’ portion of the test because they do not transform any article into a different state or thing.” Id.

The court disagreed, holding that its “interpretation of *Bilski* is not so broad.” Id. The court explained that the Federal Circuit declined to adopt a broad exclusion over software or any other such category of subject matter beyond the exclusion of claims drawn to fundamental principles ... and noted the process claim at issue in this appeal is not, in any event, a software claim.

Thus, the facts here would be largely unhelpful in illuminating the distinctions between those software claims that are patent-eligible and those that are not. Id. at 2 (quoting *Bilski*, 545 F.3d at 959 n.23).

The court found that the defendant failed to meet its burden of proof that there were “no disputed issues of material fact and only questions of law remain.” Id. at 2.

Reconciling *CyberSource* and *Versata*

The court’s decision in *Versata Software* not to grant defendant’s motion for judgment on the pleadings reflects a fundamental difference between its interpretation of *Bilski* and the *CyberSource Corp.* court’s interpretation.

The court in *Versata Software* found that *Bilski* did not provide the necessary amount of certainty that justified judgment on the pleadings. See 2:06-cv-00358, slip op. at 2.

The court in *CyberSource Corp.*, on the other hand, was certain that *Bilski* required it to grant summary judgment to invalidate claims of the '154 Patent. No. 04-03268, slip op. at 16.

It is difficult to determine which district court’s interpretation is correct, as *Bilski*’s the “machine or transformation” test is open to multiple, defensible interpretations.

As the court in *CyberSource Corp.* noted, “[w]ithout expressly overruling *State Street [Bank & Trust Co. v. Signature Financial Group Inc.]*, 149 F.3d 1368 (Fed. Cir. 1998)], the *Bilski* majority struck down its underpinnings.” No. 04-03268, slip op. at 15.

But, as pointed out by the court in *Versata Software*, the Federal Circuit “declined to adopt a broad exclusion over software or any other such category of subject matter beyond the exclusion of claims drawn to fundamental principles.” 2:06-cv-00358, slip op. at 2 (quoting *Bilski*, 545 F.3d at 959 n.23).

It is therefore undecided, and open for debate, whether other district courts will find patentable subject matter in business methods patents.

Supreme Court Resolution?

The Supreme Court decided on June 1, 2009, to grant certiorari in *Bilski*. *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), petition for cert filed sub nom. *Bilski v. Doll*, ___ U.S.L.W. ___ (U.S. Jan. 30, 2009) (No. 08-964).

As noted by the court in *CyberSource Corp.*, three judges dissented from the holding in *Bilski*, arguing that the majority ultimately avoided addressing whether business methods are patentable subject-matter. No. 04-03268, slip op. at 15. The court in *CyberSource Corp.* also noted dicta from several Justices that questioned the validity of business method patents. *Id.*

Instead of trying to dissuade review of its decision, the majority in *Bilski* seemingly encouraged the Supreme Court to weigh in:

“[W]e agree that future developments in technology and the sciences may present difficult challenges to the machine-or-transformation test, just as widespread use of computers and the advent of the Internet has begun to challenge it in the past decade.

“Thus, we recognize that the Supreme Court may ultimately decide to alter or perhaps even set aside this test to accommodate emerging technologies. And we certainly do not rule out the possibility that this court may in the future refine or augment the test or how it is applied.” *Bilski*, 545 F.3d at 956.

Hopefully the Supreme Court provides more guidance on the “machine or transformation” test or creates a new test for patentable subject matter that clarifies what inventions are patent-eligible.

Until then, district courts and patent attorneys will continue to wonder if business method patents are dead, or merely suffering from “flesh wounds.”