

Software and Business Methods: Patent Eligible?

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Despite the clear importance of software and business method inventions in today's economies, the European and U.S. courts and patent offices have struggled to define appropriate tests for patent eligibility. In the United States, under 35 U.S.C. § 101, inventors can obtain a patent for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof. . . ." This broad statutory right has enabled the United States Patent Office ("USPTO") to issue countless patents to software and business methods, and many of these inventions are claimed with "process" or "method" claims. Indeed, the statute—and the Supreme Court's longstanding case law excluding "laws of nature", "physical phenomena", and "abstract ideas" from eligibility—does not articulate clear tests for when a claimed process or method should be excluded.

In [Bilski v. Kappos](#), the U.S. Supreme Court clarified that business methods cannot be categorically excluded from patenting. The Court rejected the lower appellate court's (the Federal Circuit's) requirement that a process be tied to a particular machine or apparatus, or transform a particular article into a different state or thing in order to be patentable. Justice Anthony Kennedy, writing for the majority, explained that the machine-or-transformation test is a useful, but nonexclusive, tool for determining patent-eligibility of processes. Although the Court held that Bilski's claims were unpatentable "abstract ideas," it refrained from articulating a test for patent eligibility and specifically refused to adopt any "categorical rules that might have wide-ranging and unforeseen impacts." Instead, the Court encouraged the Federal Circuit to continue developing case law that will define an appropriate test, leaving the lower courts, USPTO, and practitioners without clear guidance.

The Federal Circuit has since issued two post-*Bilski* decisions addressing patent eligible subject matter. In December 2010, the Federal Circuit considered, in [Research Corp. Tech. v. Microsoft](#), a "software" patent having claims to "[a] method of halftoning of gray scale images by utilizing a pixel-by-pixel comparison." The Federal Circuit held that because these claims were clearly "functional and palpable applications in the field of computer technology," they were not abstract ideas, and thus patentable. Notably, the Federal Circuit did not directly apply its previous machine-or-transformation test to uphold the claims. Instead, the Federal Circuit articulated some potentially helpful guidance for patent applicants, stating that "inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act." In upholding the claims, the Federal Circuit also concluded that the inclusion of algorithms and formulas did not override the statutory categories and context present in the claims. *Research Corp. Tech.* thus reaffirms the sound practice of describing the invention in the context of "real world" uses or implementations.

Also in December, the Federal Circuit reconsidered its earlier decision in [Prometheus Labs. v. Mayo](#) to uphold claims to a medical

diagnostic process. The Federal Circuit stated that "[w]e do not think the Supreme Court's *Bilski* decision dictates a wholly different analysis or a different result on remand," and upheld the claims to methods of "optimizing therapeutic efficacy for treatment. . . comprising (a) administering a drug providing 6-TG. . . ; and (b) determining the level of 6-TG" because the claims did not preempt all uses of natural correlations. The Federal Circuit explained that the asserted claims are, in effect, claims to methods of treatment, which are always transformative when one of a defined group of drugs is administered to the body to ameliorate the effects of an undesired condition. The Court further explained that the "administering" step therefore is not merely "data-gathering," but a significant transformative element of Prometheus's claimed methods of treatment. The Court reasoned that the presence of mental steps did not detract from the patentability of the "administering" and "determining" steps.

In a second case remanded to the Federal Circuit after the *Bilski* decision, [*Classen v. Biogen*](#), the Federal Circuit is considering its earlier decision that claims to "immunizing. . ." and "comparing [data in the] treatment group, with that in the control group" were invalid as non-transformative. Until the Court decides *Classen*, applicants can rely on the reasoning in *Prometheus* and point to transformative aspects of their claimed methods when faced with statutory subject matter rejections.

In the coming year, practitioners can also look for guidance in four upcoming Federal Circuit decisions on cases that were previously stayed pending the *Bilski* decision. In each of these cases, the appellants challenge decisions by U.S. District Courts that relied on the machine-or-transformation test to invalidate their claims. In *Fort Properties, Inc. v. American Master Lease*,¹ the Federal Circuit will consider the Central District of California's decision to invalidate claims to a method of creating real estate investment instruments. In *DealerTrack v. Huber*,² the Federal Circuit will consider a second Central District of California decision that claims to a computer-aided method using a display device and a terminal device did not "recite particular machines." Similarly, in *Every Penny Counts, Inc. v. Bank of America Corp. et al.*,³ the appellants challenge the Middle District of Florida's invalidation of a system claim including a network and computing means for failure to "recite particular machines." Finally, in the fourth case, *CyberSource Corp. v. Retail Decisions, Inc.*,⁴ the Federal Circuit will consider the patent eligibility of a "computer readable medium" claim as well as a method performed over the Internet.

The Federal Circuit will also hear oral arguments in April for an appeal of the highly controversial decision in *Association for Molecular Pathology v. USPTO*,⁵ from the Southern District of New York. In that decision, the district court used the machine-or-transformation test to invalidate Myriad Genetic, Inc.'s methods to detect a gene that predisposes people to breast and ovarian cancer (BRCA1 and BRCA2). The court also invalidated Myriad's claims to the isolated gene sequence itself explaining that the sequence is an unpatentable product of nature. As the district court decision is not binding on other federal courts, the present decision has not yet had an impact. The forthcoming Federal Circuit decision, however, will be binding on all but the Supreme Court.

In the meantime, the USPTO issued its own guidelines for Examiners to assist them in applying the Supreme Court's *Bilski* decision. The USPTO's "Interim Guidance for Determining Subject Matter Eligibility for Process Claims in view of *Bilski v. Kappos*," provide "factors" for Examiners to consider when determining whether a claim is directed to an abstract idea. The Guidelines present three factors that weigh in favor of patent-eligibility: (1) the claims satisfy the machine-or-transformation test; (2) the claims practically apply a law of nature; and (3) the claims are more than a mere statement of a concept. Examiners must specify which factors they relied on to reject the claims, and Applicants are then given the opportunity to explain why their claims are not abstract ideas. The Interim Guidelines suggest that such things as basic legal theories, mathematical concepts, mental activities, interpersonal interactions or relationships, teaching concepts, human behaviors, and instructing "how business should be conducted" are mere statements of a concept and therefore are unpatentable abstract ideas. The public comment period for these interim guidelines, which Examiners presently apply, closed in October 2010, and practitioners now await further guidance from the USPTO.

As the case law and uniform USPTO practice with respect to subject matter eligibility develops, an effective strategy is to resolve *Bilski*-type issues through Examiner Interviews.

The Fastest Way To A US Patent?

With patent pendency in some art areas at the USPTO stretching as much as 47 months from filing to issuance, patent applicants have been rightfully frustrated.⁶ On February 4, 2011, the USPTO proposed implementing a fast-track option for applicants willing to pay an extra \$4,000 (USD) fee, to file their applications electronically, to limit their application to thirty claims with only four being independent, and to agree not to file extensions of time during prosecution. The proposed fast-track option, known as the Prioritized Examination Track (Track I), is one of three tracks proposed by the USPTO in June 2010. Patents on the new "Track I" could expect allowance or final rejection within one year of filing. Unlike previous proposals, the USPTO will not restrict the technology areas that could benefit from the new fast track. During the first year, however, only 10,000 patent applications would be allowed to enter this fast-track. Further, the program is only available to new applications filed on or after the implementation date of the new Track I option.

In hopes that the rule could be implemented quickly, the Office separated Track I from the previously-proposed three-track system. In the proposed three-track system, Track II would maintain the status quo and Track III would enable applicants to request a delayed examination. The public has been invited to comment on the Track I proposal, which would then be published in May after consideration of the comments.

In addition to the obvious drawbacks of a higher fee, limited claim count, and unavailability of extensions of time, practitioners have expressed concern that patent quality could be diminished due to the fast nature of the examination, particularly because pending U.S. patent applications that may be prior art do not publish until eighteen months from their filing date. Many practitioners also worry that the USPTO will not be able to effectively accommodate a faster examination, and that advancing the prioritized applications on the new track will only cause further delay for all pending applications. Despite their concerns, most practitioners agree that revisions to the current system are long overdue and hope to take advantage of the Prioritized Examination Track, especially for carefully-drafted applications in which the Applicant is well-versed in the prior art.

Endnotes

¹ *Fort Properties, Inc. v. American Master Lease, LLC*, 609 F. Supp. 2d 1052 (C.D. Cal. 2009), *appeal stayed*, No. 2009-1242 (Fed. Cir. June 11, 2009).

² *DealerTrack, Inc. v. Huber*, 657 F. Supp. 2d 1152 (C.D. Cal. 2009), *appeals stayed*, No. 2009-1566 and No. 2009-1588 (Fed. Cir. Oct. 27, 2009)

³ *Every Penny Counts, Inc., v. Bank of America Corp.*, No. 2:07-cv-042, 2009 U.S. Dist. LEXIS 53626 (M.D. Fla. May 27, 2009), *appeal stayed*, No. 2009-1442 (Fed. Cir. Aug. 31, 2009).

⁴ *CyberSource Corp. v. Retail Decisions, Inc.*, 620 F. Supp. 2d 1068 (N.D. Cal. 2009), *appeal stayed*, No. 2009-1358 (Fed. Cir. July 30, 2009).

⁵ *Ass'n for Molecular Pathology v. USPTO*, 702 F. Supp. 2d 181 (S.D. NY 2010), *appeal docketed*, No. 2010-1406 (Fed. Cir. June 22, 2010).

⁶ 2009 statistics - <http://www.uspto.gov/patents/stats/patentpendency.jsp>

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