

Are Business Methods Really Patentable in the United States?

Well, we thought so, but now we are not so sure. It seems that the much more is required than the business method itself in order to obtain a patent. The cases suggest that, at a minimum, novel *computing* features are required. The Federal Circuit's most recent pronouncement on the issue seems to change little in that regard.

A lot has already been written about the recently published decision of the *en banc* Federal Circuit Court of Appeals in *CLS Bank International, et al. v. Alice Corp Pty. Ltd.*, 2013 U.S. App. LEXIS 9493 (Fed. Cir. 2013). By and large, the opinion is a disappointment because it fails to provide any practical guidelines for advising clients regarding whether and under what circumstances business methods and software will be patentable. The Court issued a brief *per curiam* opinion holding, without explanation, that the patent holder's method and "computer readable medium" claims were not patentable. The Court split on whether system claims were patentable and issued five different opinions reflecting the judges' varying views on the proper guidelines for deciding statutory subject matter issues.

CLS Bank involved four patents that describe a computerized trading platform for conducting financial transactions in which a third party (e.g., an escrow agent called an "exchange institution") settles obligations between a first and second party to eliminate "settlement risk" (*i.e.*, the risk that only one of the two parties will pay its obligations). Here is a representative method claim:

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.

A majority of the *en banc* Court agreed this claim was not eligible for patent protection despite disagreeing on the reasoning. A majority also agreed that the claims directed to a “computer readable medium” with software instructions for performing the method were not patent eligible. However, the outcome of this case again begs the question: Are *business methods* actually eligible for patent protection?

In *Bilski v. Kappos*, 130 S.Ct. 3218 (2010), the Supreme Court held that business methods are not *categorically excluded* from patent protection under the Patent Statute. At the same time, however, it held that “abstract ideas” are not eligible for patent protection and invalidated a patent claim directed to a method of hedging against the risk of price changes as being impermissibly “abstract.” Navigating the contours of the “abstract idea” exception has proven to be difficult.

Recent cases dealing with the patent eligibility of business methods appear to consistently turn on the extent to which the associated claims include meaningful *computerization* limitations. Prior to *Bilski*, the Patent Office routinely required method patent claims to include a “machine or transformation” in order to be eligible for patent protection, which led patent attorneys to draft claims with computerization limitations. In some cases, the business method would be implemented as software and described as computer executable instructions stored on a computer readable medium. In other cases, the business method might be a “system” implemented across a network of databases and servers. That being said, the Supreme Court and the Federal Circuit have also made clear that simply adding computer limitations to business method claims is not enough, especially if the computerization aspects of the claims are standard and well-known.

Bilski and *CLS Bank* raise the following question: When, if ever, would a *pure* business method *not* be deemed an “abstract idea”? The *CLS Bank* claim above has detailed limitations concerning the creation of “shadow credit records” and “shadow debit records,” ensuring that the balance of the shadow credit record does not fall below the balance of the shadow debit record so that the “exchange institution” can enforce the obligations of the parties. At first blush, this seems to be fairly detailed and not merely “abstract.” Yet, one of the concurrences in *CLS Bank* characterizes the claim as covering a disembodied concept, namely “[t]he concept of reducing risk by facilitating a trade through third party intermediation,”

In similar cases, the Federal Circuit has invalidated as “abstract” certain business method claims that either lacked computer limitations or included only conventional computer limitations. See *Fort Props., Inc. v. Am. Master Lease LLC*, 671 F.3d 1317 (Fed. Cir. 2012) (holding claims directed to an investment tool for enabling property sales without incurring tax liability were not patent eligible); *Bancorp Servs., LLC v. Sun Life Assur. Co. of Canada*, 687 F.3d 1266 (Fed. Cir. 2012) (life insurance policy management system claims were not patent eligible notwithstanding computer limitations); *DealerTrack, Inc. v. Huber*, 674 F.3d 1315 (Fed. Cir. 2012) (computer aided method of managing a credit application was not patent eligible).

In 2011 the Federal Circuit held that certain business method claims *were* patent eligible in *Ultramercial, LLC v. Hulu*, 657 F.3d 1323 (Fed. Cir. 2011). In *Ultramercial*, the asserted patent claims were directed to

a method for monetizing and distributing copyrighted products over the internet. The Court noted that the claims related to the “idea that advertising can be used as a form of currency,” but held that the patent in suit “claim[ed] a particular method for monetizing copyrighted products,” and that many of the claimed steps “are likely to require intricate and complex computer programming.” *Ultramercial*, 657 F.3d at 1328. *Ultramercial* was ultimately vacated by the Supreme Court, which ordered that the Federal Circuit reconsider its opinion in view of *Mayo v. Prometheus*.

On June 23, 2013, the Federal Circuit issued its post-remand opinion in *Ultramercial* and held that the asserted claims were patent eligible in view of *Prometheus*. *Ultramercial, Inc. v. Hulu, LLC*, 2013 U.S. App. LEXIS 12715 (Fed. Cir. 2013). The Court held that the claims were not impermissibly abstract because they included several steps that must be performed with computers, on the internet, and in a “cyber-market environment.” *Id.* at *40-41. The Court also held that the claims covered “a specific application of a method implemented by several computer systems, operating in tandem, over a communications network. *Id.* at *41. Notably, the Court declined to “define the level of programming complexity required before a computer-implemented method can be patent-eligible.” *Id.* at *42. The Court also cautioned that it did not “hold that use of an Internet website to practice such a method is either necessary or sufficient” for the method to be patent eligible. *Id.*

Notwithstanding the holding in *Ultramercial*, it seems that *pure* business method inventions are still not likely to be patent eligible. The cases suggest that, for all practical purposes, business method claims require detailed and novel *computer features* that do more than speed up the types of communications, calculations, and information transfer that can be done without a computer. While none of the cases explicitly acknowledge such a requirement, their holdings collectively suggest it. On its face, the exclusion of “abstract ideas” from patent protection would not seem to necessarily deprive pure business methods of patent protection, but the courts seem willing and able to reductively characterize pure business methods (or those with trivial or standard computer implementation features) as merely “abstract.” As a result, it is hard to see how a pure business method could ever be eligible for U.S. patent protection.

In order to deal with the current law of patent eligibility, patent applicants who seek to protect business methods would be well advised to include in their applications claims that are directed to specific implementation details, in particular, computer or otherwise technological implementation details. It is also advisable to build a case in the patent application for the significance of the computer or technological implementation in overcoming problems in the prior art. That said, even if such a strategy survives the scrutiny of a Patent Office examiner, it may not survive judicial scrutiny if the issue goes to court.



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