

**Presented:
18th Annual
Advanced Patent Law Institute**

October 31 – November 1, 2013

Austin, Texas

**Patentable Subject Matter:
Software and Business Methods**

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I. Introduction

As the United States' economy has transitioned over the past several decades from a manufacturing industrial base to a service and information technology base, the U.S. patent laws and judicial system have been trying to keep up with the pace of evolving technological innovation being protected by or sought to be protected by U.S. patents.

Early in this computer era, the U.S. Supreme Court decided several cases involving the patent eligibility of computer implemented inventions¹ After the creation of the Court of Appeals for the Federal Circuit in 1982, the Federal Circuit heard several cases involving the patent eligibility of software related inventions coming to a head with the decision in 1998 in *State Street Bank*² that seemed to open the floodgates of patents for software, business methods and other related inventions by holding that such patents only needed to provide a "useful, concrete and tangible result" to be patent eligible.³ In 2008 after much public discussion about the flood of so-called business method patents, in an appeal of the Patent and Trademark Office's rejection of inventor Bilski's patent claims, the Federal Circuit in *In re Bilski* overruled its own decision in *State Street Bank* holding that a claimed process or method is only 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," which is also known familiarly as the "M or T" test.⁴ After granting certiorari in *Bilski*, in 2010 the U.S. Supreme Court overruled the Federal Circuit's holding that the "M or T" test was the only test for patent eligibility, and reset the standard for ineligible inventions as those that fall within the three exceptions to 101, namely laws of nature, natural phenomena and abstract ideas, leaving it to future court decision to define more precise boundaries.⁵

In a series of decisions since the Supreme Court's decision in *Bilski*, the Federal Circuit has been attempting to define by example what is or is not an abstract idea in the context of computer related inventions. The Federal Circuit's decisions, however, appear to create more confusion as to what is, or is not, a patentable invention because the eleven judges of the Federal Circuit seem to have very different views on the issue. At the same time the Supreme Court has given additional guidance as to what is a patent eligible invention in the context of medical diagnostics and genetic materials.

This paper will discuss the recent Supreme Court decisions starting with *Bilski*, and against this backdrop, the various approaches subsequently taken in the recent Federal Circuit decisions to establish guidelines for determining patent eligible subject matter, and how the U.S.P.T.O. is reacting to this uncertainty in an evolving landscape.

¹ See *Gottschalk v. Benson*, 409 U.S. 63 (1972); *Parker v. Flook*, 437 U.S. 504 (1978); and *Diamond v. Diehr*, 450 U.S. 175 (1981).

² *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

³ *Id.* at 1373.

⁴ *In re Bilski*, 545 F.3d 943, 954–955 (Fed. Cir. 2008).

⁵ *Bilski v. Kappos*, 130 S.Ct. 3218, 3231 (2010)

II. Patentability Under 35 U.S.C. § 101 Generally

Under Article I, section 8, clause 8, of the U.S. Constitution, Congress is authorized to grant patents and copyrights to “promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”⁶ While the constitutional powers granted to Congress are written broadly, so are the statutory requirements enacted by Congress for what types of inventions might be eligible for a patent. “Whoever 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.”⁷ Congress wrote this statute to be given a “wide scope.”⁸ However, there are several exceptions to this wide scope of what may be patented. The Supreme Court has enumerated three exceptions to the wide scope of patent eligible subject matter: 1) laws of nature, 2) physical phenomena, and 3) abstract ideas.⁹ Therefore, patent claims are to be examined so that the claimed inventions are not so broad as to be directed to an unpatentable exception.

Under the authority of its own powers, Congress may choose to rewrite this statute to further limit the scope of patent eligible subject matter. Congress did so recently in supplemental legislation as part of the Leahy-Smith America Invents Act (AIA) in 2011 by stating in section 33 of the Act that “no patent may issue on a claim directed to or encompassing a human organism.”¹⁰ This section of the AIA did not require rewriting of 35 U.S.C. § 101. No other section of the Act limited the scope of patent eligible subject matter, even though inventions on tax schemes and business methods garnered special legislation enacting specific procedures in the USPTO affecting patents and patent applications for inventions in these fields.¹¹ Accordingly, with regard to software and computer-related inventions, Congress has chosen to allow the Courts and the USPTO to remain the playing fields for determining the limits and bounds of patent eligible subject matter under 35 U.S.C. § 101.

III. Supreme Court Decisions

A. *Bilski v. Kappos*

On June 28, 2010, the Supreme Court of the United States issued its much anticipated decision in *Bilski* on patent eligible subject matter under 35 U.S.C. § 101.¹² This was the first decision in 29 years on the issue of patent eligible subject matter since the *Diamond v. Diehr*¹³ decision in 1981.

⁶ U.S. Const., art. I, § 8, cl. 8.

⁷ 35 U.S.C. § 101 (2006).

⁸ *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010) (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980)).

⁹ *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

¹⁰ Public Law 112-29, sec. 33, 125 Stat. 284. Sept. 16, 2011.

¹¹ Section 18 of the AIA created special procedures for allowing post-grant review of business method patents. Public Law 112-29, sec. 18, 125 Stat. 284. “Transitional Program For Covered Business Method Patents.” Section 14 of the AIA created special procedures for examination of patents directed to tax related inventions. Public Law 112-29, sec. 14, 125 Stat. 284. “Tax Strategies Deemed Within The Prior Art.”

¹² *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

¹³ *Diamond v. Diehr*, 450 U.S. 175, 191 (1981).