

## Recasting Business Method Patent Claims Post-Bilski

Law360, New York (May 3, 2011) -- With the U.S. Supreme Court's *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), decision and its predecessors in mind, the prudent patent draftsman now writes some business method claims as system and/or product claims, as conventional wisdom has been that Bilski applied only to process claims.

For example, in addition to claiming "a method" (or "a computerized method") of facilitating a particular type of financial transaction, a patent may also claim "a computer system" and "a computer program product" in which computer software performs the essential steps.

But as district courts begin to evaluate patents in light of the Bilski decision, it is not at all clear that this drafting strategy will immunize patent claims from scrutiny under 35 U.S.C. § 101. Specifically, district courts purportedly applying the Bilski rationale have found system and product claims invalid because they were directed to an unpatentable abstract idea.

### Arguments For and Against Patentability

Patent owners in these cases have made the expected argument — that their claimed computer system or product is a physical, concrete object made of parts, devices or combinations of devices, and as such, the claimed computer system or product is unquestionably a "machine" under Section 101.

They go on to argue that such a physical machine that performs a function and produces a certain effect or result should not fall into any of the Supreme Court's enunciated exceptions to subject matter eligibility: i.e., "laws of nature, physical phenomena and abstract ideas."

Parties defending against financial patents assert that such system and product claims are a thinly veiled attempt to circumvent the limitations on subject matter eligibility by recasting abstract business methods as tangible machines. They point out that the language of such claims is often nearly identical to the language of unpatentable method claims, and that such system claims often share the same specification and disclosure with the unpatentable method claims.

Defendants have urged courts to reject these alleged attempts to circumvent the requirements of Section 101, reasoning that a computer system configured to implement an abstract method should be

no more patentable than the underlying abstract method.

### **The District Courts Weigh In**

Courts evaluating these arguments have held that the same standard for patentable subject matter governs both process and machine claims. Finding support in pre-Bilski Federal Circuit case law, recent district court cases have, accordingly, applied the principles of Bilski and its predecessors to machine claims as well as to process claims. See *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 2011 U.S. Dist. LEXIS 23669 (D.D.C. March 9, 2011); *Chamberlain Group Inc. v. Lear Corp.*, 2010 U.S. Dist. LEXIS 124566 (N.D. Ill. Nov. 24, 2010).

Thus, these courts have made clear that if an asserted claim is directed to a machine, it is patentable as long as it does not fall within the three limitations on patent eligibility articulated by the Supreme Court: "laws of nature, physical phenomena and abstract ideas." *Bilski*, 130 S. Ct. at 3225 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980)).

Regarding the "abstract ideas" limitation, a recent Federal Circuit case noted that "the Supreme Court did not presume to provide a rigid formula or definition of abstractness." *Research Corp. Techs. v. Microsoft Corp.*, 627 F.3d 859, 868 (Fed. Cir. 2010) (citing *Bilski*, 130 S. Ct. at 3238).

The Federal Circuit declined to "presume to define 'abstract' beyond the recognition that this disqualifying characteristic should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter and the statutory context that directs primary attention on the patentability criteria of the rest of the Patent Act." *Id.*

### **CLS Bank International v. Alice Corp.**

In a recent case before the U.S. District Court for the District of Columbia, patent owner Alice Corp. asserted a series of method, system and product claims against CLS Bank International, a financial institution that provides foreign exchange transaction services. See *CLS Bank Int'l*, 2011 U.S. Dist. LEXIS 23669, at \*1-17.

The process claims were directed to methods of exchanging financial obligations between parties. The system claims related to data processing systems to enable the exchange of obligations between parties. And the computer product claims enabled a computer to send a transaction to the system to be implemented and to allow a user to view the steps of exchanging obligations being performed. Alice's asserted claims shared virtually identical specifications.

Claim 1 of Alice's U.S. Patent No. 7,149,720 is representative of the asserted system claims at issue:

"1) A data processing system to enable the exchange of an obligation between parties, the system comprising: a data storage unit having stored therein information about a shadow credit record and shadow debit record for a party, independent from a credit record and debit record maintained by an exchange institution; and a computer, coupled to said data storage unit, that is configured to a) receive

a transaction; b) electronically adjust said shadow credit record and/or said shadow debit record in order to effect an exchange obligation arising from said transaction, allowing only those transactions that do not result in a value of said shadow debit record being less than a value of said shadow credit record; and c) generate an instruction to said exchange institution at the end of a period of time to adjust said credit record and/or said debit record in accordance with the adjustment of said shadow credit record and/or said shadow debit record, wherein said instruction being an irrevocable, time invariant obligation placed on said exchange institution."

The district court considered the validity of Alice's asserted claims upon CLS Bank's motion for summary judgment of invalidity under Section 101.

The court first determined whether the asserted claims fit into one of Section 101's statutory categories of patentable subject matter: process, machine, manufacture or composition of matter. Analyzing the system claims, the district court observed that they called out physical components such as "a data storage unit" and "a computer, coupled to said data storage unit."

Because a computer is, broadly construed, "a concrete item made of parts," the court concluded that the system claims appeared to fit within the Section 101 statutory framework as a machine. *Id.* at \*78-85.

The court noted that "there is the possibility that if the [asserted] system claims are only directed to a general purpose computer lacking specific programming, the general purpose computer claimed would not be considered a machine under § 101." *Id.* at \*83 n.21.

However, for the purposes of CLS Bank's motion, the court assumed that the claimed computer systems were specifically programmed and therefore statutorily qualified as a machine under Section 101.

Next, the court turned to the Supreme Court's exceptions to patentability: laws of nature, natural phenomena or abstract ideas. Citing to pre-Bilski case law, the district court found that the exceptions for fundamental principles apply to all four categories of Section 101 patent eligible inventions, including machines. *Id.* at \*85.

The court stated: "Just as the claims in *Bilski II* were not saved from the abstract exception because they may have nominally claimed a 'process' under § 101, nor can Alice's system or product claims be saved only by the fact they may nominally recite a 'computer' or 'manufacture.'" *Id.* at \*89.

Earlier in the decision, the court had found that Alice's method claims were invalid because the claims as a whole were directed to the "abstract idea of employing an intermediary to facilitate simultaneous exchange of obligations in order to minimize risk." *Id.* at \*64.

Although the method claims were supposedly limited by the use of a computer, the court found that requiring a computer implementation did not meaningfully limit the scope of the claims. The court noted that financial transactions are increasingly monopolized by electronic and computer implementations; accordingly, limiting a method of employing an intermediary to all methods of

employing an electronic intermediary does not confer patentability upon it. Id. at \*70-76.

In order to determine whether Alice's system claims were similarly invalid, the court again focused on the preemptive power of the claims. The court found that the asserted system claims "represent merely the incarnation of [the same] abstract idea on a computer, without any further exposition or meaningful limitation."

Because the system claims required only a computer coupled with a data storage unit, Alice's system claims effectively would preempt any computer implementation of using an intermediary to facilitate the exchange of obligations in order to minimize risk.

While Alice's method and system claims fell under different statutory categories of patent eligibility, the court found that "their preemptive effect would be largely one and the same." Allowing the system claims as patentable, the court concluded, would allow Alice to preempt substantially all uses of this fundamental principle. Id. at \*90-94.

The court further observed that Alice's claimed system would be infringed by "common and everyday financial transactions" across an "unlimited field," thus underscoring the preemptive effect of the claims. Id. at \*92-94.

While not essential to its holding, the court mentioned an additional factor that supported its conclusion that Alice's system claims sought to preempt substantially all uses of an abstract concept. The court noted that Alice's dependent claims did not further describe or limit the claimed data processing system as a machine.

Instead, they recited only "details to flesh out the steps, parties and circumstances under which obligations are to be exchanged." These details only served to demonstrate the wide applicability of Alice's claimed system.

For example, the dependent claims described "a plethora of possible transactions or accounts that would be covered by the system": e.g., "transaction linked to a share price"; "weather event"; "market event"; "transfer of shares in financial or physical assets"; "transfer of a commodity"; "money for goods, services, promises, credits or warrants"; and "exchange obligation involv[ing] currency."

The court concluded that "the steps of exchanging an obligation (and not the computer system claimed) are the true 'heart' of Alice's invention." See id. at \*94-96.

### **Takeaways for Patent Owners and Defendants**

While awaiting Federal Circuit guidance regarding the issue of when a claim to a machine is unpatentable as an abstract idea, both financial patent owners and entities defending against financial patents can glean lessons from recent district court cases such as CLS Bank.

Patentees should draft system and product claims that do not simply mimic the language of the patent's

method claims. Instead, patent owners would be well advised to claim, and disclose in the specification, the specific configuration of the specially programmed computer or data processing system that performs the essential steps.

The patentee can also signal that the “true heart” of its invention is a concrete machine by describing embodiments, depicting figures, and drafting dependent claims that provide significant detail regarding the components of the computer or system recited in the independent claims.

Parties defending against financial patents should challenge their patentability even when they are drafted as system or product claims. As a practical matter, financial transactions and business methods are largely performed by computers, and so their preemptive power may not be limited even when a computer is specifically recited and claimed.

Where the heart of the invention is the particular process of facilitating a financial transaction or arrangement, defendants can argue that the claim language regarding computerized and electronic implementations is mere window dressing for an essentially abstract idea.

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