By David B. Sandelands

(Originally published in the Los Angeles Daily Journal on June 14, 2013, p. 5; simultaneously published in the San Francisco Daily Journal on June 14, 2013)

In *CLS Bank v. Alice Corp*, No. 2011-1301, the Federal Circuit brought a degree of clarity to the question of when, if ever, methods of doing business are patent eligible subject matter. In order to appreciate the import of *CLS Bank*, it is useful to review the history of business method patents.

In 1998, the Court of Appeals for the Federal Circuit issued its then landmark *State Street Bank v. Signature Financial Group* decision, which held that methods of doing business were patent eligible subject matter. Prior to *State Street*, methods of doing business were deemed abstract ideas — long unpatentable under Federal law. 149 F.3d 1368 (1998). *State Street* established the principle that a method, implemented on a computer, was eligible for patent protection so long as the method was directed to a practical application (i.e. method of doing business) and produced "a useful, concrete and tangible result." With the issuance of *State Street*, the era of business method patents was born. Thousands were applied for — many issued, and are now hotly disputed subjects of litigation.

In the eyes of many however, *State Street* improperly "opened" the door to the patenting of formerly unpatentable abstract ideas, so long as those ideas could be implemented on a computer and shown to produce a useful result. Implicitly recognizing this fact, the Federal Circuit "shut" the door in its *In re Bilski* decision of 2008. 545 F.3d 943 (2008). In *In re Bilski*, the Federal Circuit dispensed with the "useful, concrete and tangible result test" of *State Street* in favor of the "machine-or-transformation" test, which the Federal Circuit held to be the *sole* test for determining patent subject matter eligibility. The *State Street* era was over.

For a method to be patent eligible subject matter under the machine-or-transformation test, the method must be: (1) tied to a particular machine specifically devised to carry out the method; or (2), transform a particular article into a different state or thing. The machine-or-transformation test essentially excludes business methods from being patent eligible subject matter because they typically satisfy neither requirement of the test. Business methods generally don't satisfy the "particular machine" requirement because they are typically implemented as software that runs on a general purpose computer. Similarly, they don't satisfy the alternative "transformation" requirement because they don't transform a particular article into a different state or thing.

In *Bilski v. Kappos*, 130 S.Ct. 3218 (2010), the Supreme Court reviewed the Federal Circuit's *In re Bilski* decision and held that the machine-or-transformation test, while a useful tool to determine whether a particular method is patent eligible subject matter, is not to be the sole test for determining patent eligibility. Per the Supreme Court, methods that do not satisfy the machine-or-transformation test may nevertheless still be patentable. The Supreme Court *failed* to elaborate on its thinking, however. In holding that the machine-or-transformation test

was not the sole test for determining whether subject matter is patent eligible, the court once again opened the door to at least the possibility of patenting business methods.

After the Supreme Court's decision in *Bilski v. Kappos*, the patent office and the district courts have struggled with the question of when, if ever, computer implemented methods may be patent eligible subject matter — rather than merely unpatentable abstract ideas.

In *CLS Bank*, it was hoped that the Federal Circuit would bring clarity to the present situation. This wish was only partially granted. *CLS Bank* regarded the validity of an issued patent directed to a computer implemented method of doing business. The district court found the claims of the patent-in-suit to be invalid because they were directed to abstract ideas which could not be converted to patent eligible subject matter merely because they were implemented on a computer. Initially, a three-member panel of the Federal Circuit reversed the district court. Subsequently, the court, sitting en banc, affirmed the district court's ruling.

Unfortunately, while ultimately upholding the district court's finding that all claims of the patent-in-suit were invalid because they were not drawn to patent eligible subject matter, the Federal Circuit's 10-member en banc panel released *seven* different decisions in support of their conclusion — none of which garnered majority support.

Nevertheless, two general principles appear to run through the justices thinking in *CLS Bank*. The first is that methods which can be performed mentally, or which are the equivalent of human mental work, are patent ineligible. The second is that using a computer to speed up a method that can be performed in the human mind or with pencil and paper, does not make the method patent eligible. These general principles are likely sufficient to call into question the validity of the bulk of the business method patents issued during the *State Street* era, many of which are presently the subject of hotly contested litigation.

David B. Sandelands an attorney with Cislo & Thomas LL. He can be reached at dsandelands@cislo.com.