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## Is It Death Or Merely “A Flesh Wound”: Business Methods After *Bilski*

### Introduction

In *Monty Python and the Holy Grail*, Sir Arthur is confronted by the indomitable Black Knight while attempting to cross a bridge. After a rousing fight, Sir Arthur cuts off the Black Knight’s arms and then informs the skeptical Black Knight that he’s “got no arms left.” The Black Knight, after overcoming his disbelief by looking down, rallies and states: “It’s just a flesh wound.”

Similarly, many patent attorneys are wondering whether the Court of Appeals for the Federal Circuit killed business method patents in *In re Bilski*, 545 F.3d 943 (Fed. Cir. Oct. 30, 2008) (en banc), or merely inflicted “just a flesh wound.” Two recent decisions — one from the U.S. District Court for the Northern District of California and the other from the U.S. District Court for the Eastern District of Texas — highlight the divergent opinions issued by district courts in the aftermath of *Bilski* (for more information on *Bilski*, please [click here](#).)

### **CyberSource, Northern District of California, March 26, 2009**

In *CyberSource Corp. v. Retail Decisions, Inc.*, No. 04-03268, slip op. at 16 (N.D. Cal. Mar. 26, 2009), the court relied on *Bilski* to grant the defendant’s motion for summary judgment of invalidity of U.S.

Patent No. 6,029,154 (“the ‘154 Patent”). The ‘154 Patent is directed to a system and method for detecting fraud in a credit card transaction between a consumer and a merchant over the internet. *Id.* at 1.

The defendants claimed that *Bilski* invalidated the claims because they “could literally be performed on a piece of paper or in one’s mind.” *Id.* at 9. The plaintiff argued that *Bilski* did not apply because the claims were “tied to a particular machine or apparatus” — the internet. *Id.* at 10. Noting that “former vice-president Al Gore did not actually take credit for inventing the internet, and neither does plaintiff,” the court concluded that merely reciting “over the internet” did not suffice to tie a process claim to a particular machine. *Id.* at 9-10. The court noted that (1) the claimed process was not tied to a “particular machine”; (2) the “involvement of the internet” did not qualify as a machine implementation “where it merely constitutes ‘insignificant extra-solution activity’”; and (3) “the use of the internet does not impose meaningful limits on the scope of the claims.” *Id.* at 10-11 (quoting *Bilski*, 545 F.3d at 961-62).

The court also rejected the plaintiff’s argument that the claims “transform[ed] an article into a different state or thing” by

manipulating data representing physical objects. *Id.* at 6. The court reasoned that

there is no indication that the Federal Circuit, having reaffirmed the machine-or-transformation test, intended to weaken the key term “transformation” by equating it with mere “manipulation.” The processes claimed in the ‘154 patent unquestionably “manipulate” credit card numbers by using them to build a “map.” But it is equally clear that neither credit card numbers nor credit cards are “transformed.”

*Id.* at 6. After applying *Bilski* to reject both asserted claims as directed to nonpatentable subject matter, the court noted that “the closing bell may be ringing for business method patents, and their patentees may find they have become bagholders.” *Id.* at 15.

#### **Versata, Eastern District of Texas, March 31, 2009**

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In contrast with *CyberSource Corp.*, the court in *Versata Software, Inc. v. Sun Microsystems, Inc.*, 2:06-cv-00358, slip op. at 2 (E.D. Tex. Mar. 31, 2009), denied the defendant’s Fed. R. Civ. P. 12(c) motion for judgment on the pleadings. The defendant argued that *Bilski* invalidated the plaintiff’s asserted software method claims because “the claimed methods do not satisfy the ‘machine’ portion of the [*Bilski*] test because they can be performed entirely within the human mind, or using pencil and paper.” *Id.* at 2. The defendant also argued that “the claimed methods do not satisfy the ‘transformation’ portion of the

test because they do not transform any article into a different state or thing.” *Id.*

The court disagreed, holding that its “interpretation of *Bilski* is not so broad.” *Id.* The court explained that the Federal Circuit had

declined to adopt a broad exclusion over software or any other such category of subject matter beyond the exclusion of claims drawn to fundamental principles ... and noted the process claim at issue in this appeal is not, in any event, a software claim. Thus, the facts here would be largely unhelpful in illuminating the distinctions between those software claims that are patent-eligible and those that are not.

*Id.* at 2 (quoting *Bilski*, 545 F.3d at 959 n.23) (internal brackets omitted). The court found that the defendant failed to meet its burden of proof that there were “no disputed issues of material fact and only questions of law remain.” *Id.* at 2.

#### **Reconciling CyberSource and Versata**

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The court’s decision in *Versata Software* not to grant the defendant’s motion for judgment on the pleadings reflects a fundamental difference between its interpretation of *Bilski* and the *CyberSource Corp.* court’s interpretation. The court in *Versata Software* found that *Bilski* did not provide the necessary amount of certainty that justified judgment on the pleadings. See 2:06-cv-00358, slip op. at 2. The court in *CyberSource Corp.*, on the other hand, was certain that *Bilski* required it to grant summary

judgment to invalidate claims of the ‘154 Patent. No. 04-03268, slip op. at 16.

It is difficult to determine which district court’s interpretation is correct, because *Bilski*’s the “machine or transformation” test is open to multiple, defensible interpretations. As the court in *CyberSource Corp.* noted, “without expressly overruling *State Street [Bank & Trust Co. v. Signature Financial Group, Inc.]*, 149 F.3d 1368 (Fed. Cir. 1998)], the *Bilski* majority struck down its underpinnings.” No. 04-03268, slip op. at 15. But, as pointed out by the court in *Versata Software*, the Federal Circuit “declined to adopt a broad exclusion over *software or any other such category of subject matter* beyond the exclusion of claims drawn to fundamental principles.” 2:06-cv-00358, slip op. at 2 (quoting *Bilski*, 545 F.3d at 959 n.23) (emphasis added and internal brackets omitted). It is therefore undecided, and open for debate, whether other district courts will find patentable subject matter in business methods patents.

#### **Will the U.S. Supreme Court Grant Certiorari?**

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As of the writing of this Alert, the Supreme Court had not yet decided whether to grant certiorari in *Bilski*. *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), *petition for cert filed sub nom. Bilski v. Doll*, \_\_\_ U.S.L.W. \_\_\_ (U.S. Jan. 30, 2009) (No. 08-964). As noted by the court in *CyberSource Corp.*, three judges dissented from the holding in *Bilski*, arguing that the majority ultimately avoided addressing whether business methods are patentable subject matter. No. 04-03268, slip op. at 15. The court in *CyberSource Corp.*

also noted *dicta* from several justices that questioned the validity of business method patents. *Id.* Instead of trying to dissuade review of its decision, the majority in *Bilski* seemingly encouraged the Supreme Court to weigh in:

We agree that future developments in technology and the sciences may present difficult challenges to the machine-

or-transformation test, just as widespread use of computers and the advent of the Internet has begun to challenge it in the past decade. Thus, we recognize that the Supreme Court may ultimately decide to alter or perhaps even set aside this test to accommodate emerging technologies. And we certainly do not rule out the possibility that this court may

in the future refine or augment the test or how it is applied.

*Bilski*, 545 F.3d at 956. Until the Supreme Court or the Federal Circuit provides more guidance on the “machine or transformation” test, district courts and patent attorneys will continue to wonder if business method patents are dead, or merely suffering from “flesh wounds.”

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