

UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE BOARD OF PATENT APPEALS  
AND INTERFERENCES

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*Ex parte* SCOTT J. KEPNER,  
WILSON M. TARBET, and  
SANDRA L. YAROSH

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Appeal 2008-3171  
Application 10/230,043  
Technology Center 3600

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Decided: September 12, 2008

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Before HUBERT C. LORIN, ANTON W. FETTING, and  
BIBHU R. MOHANTY, *Administrative Patent Judges*.

LORIN, *Administrative Patent Judge*.

DECISION ON APPEAL  
STATEMENT OF THE CASE

Scott J. Kepner, et al. (Appellants) seek our review under 35 U.S.C. § 134 of the final rejection of claims 1-20. We have jurisdiction under 35 U.S.C. § 6(b) (2002).

## SUMMARY OF DECISION

We AFFIRM.<sup>1</sup>

### THE INVENTION

“The invention relates generally to a method and system for auditing an interest payment received from a payroll outsourcing company. More particularly the invention relates to auditing the interest owed by an outsourcing company on payroll tax deductions received prior to submission to taxing authorities.” Specification 1: 3-7.

“A large company may have several hundred different payday schedules. The sheer complexity of withholding taxes from employees pay and then remitting the withheld amounts to taxing authorities makes this activity an attractive one to outsource to a company with specific expertise in handling this high level of complexity.” Specification 1:19-24. “Because of differences between paydays when taxes are withheld and due dates when withheld tax moneys must be remitted, withheld funds can be temporarily invested or deposited in an interest bearing account. When a company outsources this payroll activity the outsourcing company is expected to return some or all of the interest earned to the first company as determined by the outsourcing agreement between the two companies.” Specification 1:25-2:3. “Despite ... advancements in monetary certificates, credit cards, and sales tax collections, no satisfactory solution has been put forth for auditing the complex problem ... for interest payments by payroll outsourcing activities.” Specification 4:12-14. “... [O]ne

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<sup>1</sup> Our decision will make reference to the Appellants’ Supplemental Appeal Brief (“Br.,” filed Mar. 1, 2007) and the Examiner’s Answer (“Answer,” mailed Jul. 30, 2007).

embodiment of the invention ... provide[s for] a method of auditing a payment, comprising the steps of, entering a first sequence of payments made to a first party on a series of first dates, entering a plurality of second sequences of payments due to be made by the first party on a corresponding plurality of second dates to a corresponding plurality of second parties, entering an interest rate amount for all dates within the first and second sequences, computing an interest amount earned on the first sequence of payments held by the first party for a pre-specified time period, and comparing the computed interest amount, with a third payment received from the first party.” Specification 1-12.

Claim 1, reproduced below, is illustrative of the subject matter on appeal.

1. A method of auditing a payment, comprising the steps of:
  - entering a first sequence of payments representing taxes withheld from employees’ wages made by the employees’ company to a first party on a series of first dates;
  - entering a plurality of second sequences of payments due to be made by said first party on a corresponding plurality of second dates to a corresponding plurality of second parties;
  - entering an interest rate amount for all dates within said first and second sequences;
  - computing an interest amount earned on said first sequence of payments held by said first party for a pre-specified time period; and
  - comparing the computed interest amount, with a third payment received by said company from said first party.

## THE REJECTIONS

The Examiner relies upon the following as evidence of unpatentability:

Kahn	US 6,401,079 B1	Jun. 4, 2002
Lipschutz	US 2003/0120566 A1	Jun. 26, 2003
Hucal	US 5,933,817	Aug. 3, 1999

Anonymous, "Quicken Deluxe 5.0," May 1996, Quick Studies, Vol. 7, Issue 5, p. 3. [Quick Studies]

Anonymous, "NY LawFund: Know Your Escrow Rights," Aug. 2003, p. 3.

The following rejections are before us for review:

1. Claims 1-20 are rejected under 35 U.S.C. §101 as being directed to patent ineligible subject matter.
2. Claims 1-20 are rejected under 35 U.S.C. §103(a) as being unpatentable over Kahn, Quick Studies, and NY LawFund.
3. Claims 5, 12, and 19 are rejected under 35 U.S.C. §103(a) as being unpatentable over Kahn, Quick Studies, NY LawFund, and Lipschutz.
4. Claims 7, 14, and 20 are rejected under 35 U.S.C. §103(a) as being unpatentable over Kahn, Quick Studies, NY LawFund, and Hucal.

## ISSUES

The issues before us relate to whether the Appellants have shown that the Examiner erred in making the aforementioned rejections.

## FINDINGS OF FACT

### *Claim construction*

1. Claim 1 is drawn to a method of auditing a payment, the steps of which could be performed through mental steps alone.
2. Claim 1 recites no apparatus, device, or product. There is no transformation or reduction of some thing to another state or condition.

### *The scope and content of the prior art*

3. Kahn relates to a web-based payroll and benefits administration.
4. Col. 18, ll. 24-38, of Kahn states:

FIG. 3 illustrates the process flow of the "payroll service"-type functionality included in one embodiment of the present invention. The process flow is not strictly linear; thus, a number of the steps that will be described can be performed in a different order, or at any time. For illustration purposes, only, the process flow will be described as shown in FIG. 3. The payroll summary data 1090 that was transferred from the payroll system functionality 1100 is available to the payroll service via payroll data 50. The system first accesses that data in order to generate payroll disbursement information 1110 for each employee, benefit provider, and miscellaneous payee to whom funds will be disbursed by the Employer. The information that will be generated includes the amount to be paid, the due date for the payment, and the method of disbursement (e.g., electronic deposit, check).

5. Col. 19, ll. 1-42, of Kahn states:

After generating payroll disbursements, the system calculates and generates tax liability disbursements 1130. Such disbursements include

payments owed to various tax authorities, including federal, state, and local governments, for both employee and Employer taxes. The information that will be generated for each tax authority includes the amount to be paid, due date for the payment, and the method of disbursement (e.g., electronic deposit, check). This step 1130 requires the calculation of due dates 1120 for each disbursement to be made, and requires the application of rules 1020 from rules data 120, including additional tax rules 120d.

Once disbursements have been calculated and generated, the system will move money from account to account 1140 in order to facilitate the payment of Employer's disbursements. First, the system transfers the sum total of Employer's disbursements (less any disbursement checks already printed by Employer) from Employer's account(s) to a central payment service account 1141 (or another account held by Employer for purpose of making disbursements), via an electronic transfer, such as an ACH, "FedWire," or "reverse FedWire" debit. The system next "moves" the money to particular payees in the previously-determined amounts, taking into account whether the payment is to be made via check, in which case the system will print the check 1150, or via an electronic funds transfer, in which case the system will format the data to properly transmit the electronic payment to the recipient 1160. Transfers take place from the system account to: employees 1142, via direct deposit; tax authorities 1143, via ACH+TXP and electronic funds transfer processing ("EFTPS," which is specific to federal tax payments); and benefit providers 1144 and miscellaneous payees 1145, via ACH transfers. The system will make a single payment to a particular benefit provider 1144 or miscellaneous

payee 1145 on behalf of multiple Employers via one electronic transfer or check, but will send separate reports for each Employer; the system sends electronic transfers to tax authorities, however, only on behalf of one Employer per electronic transfer. Note that, unlike traditional payroll services, this system handles not only direct deposit payments to employees and electronic payments to tax authorities, but also payments (electronic and otherwise) to third-party payees.

6. Quick Studies describes financial planning tools provided by Quicken Deluxe 5.0.

7. Page 2, ll. 4-14 of Quick Studies states:

Savings. Quicken will calculate the amount of interest you'll receive in a savings account. Either the opening deposit, interest rate, life span of the account, and amount and frequency of additional deposits in the fields in the Savings Information section to see the final balance. Quicken will adjust your final balance to reflect the bite taken by inflation if you click the Ending balance in Today's \$ box. ... Quicken also can calculate the opening balance or the frequency and amount of deposits you'll need in reach[ing] a certain savings goal. Click the Opening Savings Balance or Regular Contribution buttons in the Calculate section to change the type of calculation.

8. NY LawFund is drawn to various aspects of escrows.

9. Lipschultz relates to interest determination.

10. Hucal relates to tiered interest rate revolving credit.

*Any differences between the claimed subject matter and the prior art*

11. The claimed method provides a single combination of features separately described in the prior art.

*The level of skill in the art*

12. Neither the Examiner nor the Appellants has addressed the level of ordinary skill in the pertinent art of financial management. We will therefore consider the cited prior art as representative of the level of ordinary skill in the art. *See Okajima v. Bourdeau*, 261 F.3d 1350, 1355 (Fed. Cir. 2001) (“[T]he absence of specific findings on the level of skill in the art does not give rise to reversible error ‘where the prior art itself reflects an appropriate level and a need for testimony is not shown’”) (“[T]he absence of specific findings on the level of skill in the art does not give rise to reversible error ‘where the prior art itself reflects an appropriate level and a need for testimony is not shown’”) (Quoting *Litton Indus. Prods., Inc. v. Solid State Sys. Corp.*, 755 F.2d 158, 163 (Fed. Cir. 1985)).

*Secondary considerations*

13. There is no evidence on record of secondary considerations of non-obviousness for our consideration.

## PRINCIPLES OF LAW

*Patent Eligible Subject Matter*

“Following the lead of the Supreme Court, this court and our predecessor court have refused to find processes patentable when they merely claimed a mental process standing alone and untied to another category of statutory subject matter even when a practical application was claimed.” *In re Comiskey*, 499 F.3d 1365, 1378 (Fed. Cir. 2007).

It is thus clear that the present statute does not allow patents to be issued on particular business

systems – such as a particular type of arbitration – that depend entirely on the use of mental processes. In other words, the patent statute does not allow patents on particular systems that depend for their operation on human intelligence alone, a field of endeavor that both the framers and Congress intended to be beyond the reach of patentable subject matter. Thus, it is established that the application of human intelligence to the solution of practical problems is not in and of itself patentable.

*Id.* at 1378-9. “[M]ental processes – or processes of human thinking – standing alone are not patentable even if they have practical application.” *Id.* at 1377.

#### *Obviousness*

“Section 103 forbids issuance of a patent when ‘the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.’” *KSR Int'l Co. v. Teleflex Inc.*, 127 S.Ct. 1727, 1734 (2007). The question of obviousness is resolved on the basis of underlying factual determinations including (1) the scope and content of the prior art, (2) any differences between the claimed subject matter and the prior art, and (3) the level of skill in the art. *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966). *See also KSR*, 127 S.Ct. at 1734 (“While the sequence of these questions might be reordered in any particular case, the [*Graham*] factors continue to define the inquiry that controls.”) The Court in *Graham* further noted that evidence of secondary considerations “might be utilized to

give light to the circumstances surrounding the origin of the subject matter sought to be patented.” 383 U.S. at 17-18.

## ANALYSIS

*The rejection of claims 1-20 under §101 as being as being directed to patent ineligible subject matter.*

The Appellants argued claims 1-20 as a group (Br. 5). We select claim 1 as the representative claim for this group, and the remaining claims 2-20 stand or fall with claim 1. 37 C.F.R. § 41.37(c)(1)(vii) (2007).

The Examiner took the position that the claimed subject matter is not patent eligible under §101. Answer 4-5. The Appellants argued that “[t]he invention is directed to auditing a payment. Auditing is a well-known endeavor having a well known and understood tangible result.” Br. 6.

We agree with the Examiner. The *Comiskey* decision, which issued (Sep. 20, 2007) after the brief was filed (Mar. 1, 2007), has clarified the law on patent eligible processes under §101. The steps of claim 1 could be conducted solely through mental steps. FF 1. No apparatus is recited. FF 2. Notwithstanding that the claimed subject matter may have a practical application, a mental process standing alone and untied to another category of statutory subject matter is not a patent eligible process under §101. “Following the lead of the Supreme Court, this court and our predecessor court have refused to find processes patentable when they merely claimed a mental process standing alone and untied to another category of statutory subject matter even when a practical application was claimed.” *Comiskey* at 1378.

The rejection is affirmed.

*The rejection of claims 1-20 under 35 U.S.C. §103(a) as being unpatentable over Kahn, Quick Studies, and NY LawFund.*

The Appellants argued claims 1-20 as a group (Br. 6). We select claim 1 as the representative claim for this group, and the remaining claims 2-20 stand or fall with claim 1. 37 C.F.R. § 41.37(c)(1)(vii) (2007).

We will not address the arguments set forth on pages 6-10 of the Brief. These arguments are directed to a rejection that the Examiner withdrew and is thus not before us.

Starting on page 10, and continuing through page 12, the Appellants dispute the Examiner's reliance on (a) col. 18, ll. 24-38 and col. 19, ll. 1-42 of Kahn as evidence that the subject matter of the first step of the claimed method is described in the prior art; (b) Quick Studies as evidence that the subject matter of the third and fourth steps of the claimed method is described in the prior art; and (c) page 3, ll. 18-22 of NY LawFund as evidence that the subject matter of the last step of the claimed method is described in the prior art.

### *Steps 1 and 2*

The first step of the method of claim 1 is: "entering a first sequence of payments representing taxes withheld from employees' wages made by the employees' company to a first party on a series of first dates." The second step is: "entering a plurality of second sequences of payments due to be made by said first party on a corresponding plurality of second dates to a corresponding plurality of second parties."

The Examiner argued that Kahn describes this step at col. 18, ll. 24-38 and col. 19, ll. 1-42. Answer 5-6.

The Appellants disagreed, arguing that those passages in Kahn describe the second claimed step, not the first. Br. 10. According to the Appellant, “Kahn is describing payments due to be made on particular dates, not amounts withheld from employee wages on what may be other dates.” Br. 10.

The Examiner responded as follows:

The examiner notes Kahn teaches entering a first sequence of payments representing taxes withheld from employees’ wages made by the employees’ company to a first party on a series of first dates (see at least, col. 18, lines 24-38 and col. 19, lines 1-42). The examiner notes Kahn teaches that the payroll service is not linear and multiple steps may occur at different times (see at least, col. 18, lines 24-29) and generates disbursement information for each employee, benefit provider, and miscellaneous payee whom funds[sic] will be disbursed by the employer (see at least, col. 18, lines 32-36). Further the examiner notes that system-generates tax liability disbursements (see at least, col. 19, lines 1-2). The examiner further notes that information that will be generated for each tax authority includes the amount to be paid, due date for the payment, and the method of disbursement ... This step requires the calculation of due dates for each disbursement to be made ... ) (see at least, col. 19, lines 5-11). Further the examiner notes that the system transfers the employer's disbursements to a central payment service (e.g first sequence of payments) and then the central payment service distributes money to tax authorities (see at least, col. 19, lines 11-42) (e.g. second sequence of payments). The examiner interprets the teachings of Kahn, to disclose transfer of initial employer's total sum of

disbursements to the central server to be the first sequence of payments entered by the employee and the central payment service distributing money to tax authorities to be the second sequence of payments entered by the employee which is set by the employer as claimed by the applicant.

Answer 12-13.

We have reviewed the passages in Kahn that are at issue. FF 4 and 5. We find that the Examiner's characterization of its scope and content as it would be understood by one of ordinary skill in the art is closer to the mark.

As an initial matter, the Appellant's argument presumes the first and second steps of claim 1 are to be construed as requiring two different payments deducted from employees' wages on different dates. Claim 1 is not so limited. Only the first step describes payments withheld from employees' wages on a series of dates. Nothing in the claim limits the scope of the payments of the second step as those to be withheld from employees' wages.

The cited Kahn passages describe a payroll service. FF 4 and 5. The service generates payroll disbursement information for an employee including "the amount to be paid, the due date for the payment, and the method or disbursement" (col. 18, ll. 36-37). "Once disbursements have been calculated and generated, the system will move money from account to account ... First, the system transfers the sum total of Employer's disbursements ... from Employer's account(s) to a central payment service account ... The system "next "moves" the money to particular payees in the previously-determined amounts ... Transfers take place from the system account to ... tax authorities ... (col. 19, ll. 12-29).

We agree with the Examiner that these disclosures evidence that Kahn describes a system that inherently requires a calculation of due dates for each disbursement to be made. The act of disbursing amounts deducted from a payroll, which is a periodic event, necessitates a calculation of when, relative the payroll, disbursements should be made. One of ordinary skill in the art reading Kahn's disbursement procedure would readily understand that this involves entering a sequence of payments from employees' wages on a series of dates. We also agree that, in first moving money from the Employer's account to a central payment service account and then transferring this amount to a tax authority, Kahn has in effect described entering a first tax payment on a first date to a first party and a second tax payment on a subsequent second date to a second party.

Accordingly, we are satisfied that the Examiner has correctly analyzed the cited passages of Kahn in reaching the conclusion that it describes not only the first step of claim 1 but the second step as well (albeit the Appellants agreed that Kahn describes the second step (*see supra*)). We do not find the Appellants' argument persuasive as to error in that characterization.

*Steps 3 and 4*

The third and fourth steps 3 and 4 of the claimed method are: "entering an interest rate amount for all dates within said first and second sequences" and "computing an interest amount earned on said first sequence of payments held by said first party for a pre-specified time period."

The Examiner relied upon Quick Studies and found that it “discloses entering an interest rate amount earned on said sequence for a pre-specified time period (page 2, lines 4-14) ... .” Answer 6.

The Appellants argued that Quick Studies does not describe the second step “and therefore is incapable of computing the interest amount earned by the first party (e.g., the payroll outsourcing company) because Quick Studies does not take into account this second series of payments. Quick Studies does not describe or suggest the fourth clause of claim 1.” Br. 11.

The Examiner responded by repeating the original finding as to what Quick Studies discloses and added that

Quick Studies teaches entering interest rate (page 2, line 5-6) and life span (page 2, line 6) and tracking your money (page 1, Using Financial Planer, line 2) and show financial status at a particular period (page 1, Using Financial Planer, line 7 - 8 ) , seeing the balance based on frequency of deposits (page 2, line 6-10) and calculating balance and frequency to show a certain balance (page 2, line 11-14). The examiner interprets the teachings of Quick Studies, to disclose entering an interest amount and span and the ability to view and differentiate balance information as claimed by the applicant. The examiner provides a prima facie case of obviousness, motivation was cited, there is reasonable expectation of success, and the references teach or suggest all of the limitations of the claim.

Answer 13-14.

We agree with the Examiner.

As an initial matter, the Appellants do not appear to have challenged the Examiner's finding that Quick Studies describes the third step of the claimed method. Accordingly, we will take that finding as being undisputed.

As to the subject matter of the fourth step, which requires computing an interest amount earned on the payments made in practicing the first step of the method held by the first party for a pre-specified time period, Quick Studies clearly states "calculat[ing] the amount of interest ... life span of the account" (page 2, ll. 3-6) (see FF 7), as the Examiner has explained. We find this suggestive of computing an interest amount on payments over a pre-specified time period. That the claimed method applies this computation to the payments made in practicing the first step of the claimed method does not render the claimed combination nonobvious absent a showing of unpredictable results. This is so because such an application amounts to the combination of applying Quick Studies' step of computing an interest amount over a pre-specified time period on the first payments made in accordance with practicing Kahn's method and necessarily yields an amount of interest associated with the amount of those payments, a result that would be predictable to one of ordinary skill in the art. See *KSR* at 1740 ("Finally, in *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273, 96 S.Ct. 1532, 47 L.Ed.2d 784 (1976), the Court derived from the precedents the conclusion that when a patent "simply arranges old elements with each performing the same function it had been known to perform" and yields no more than one would expect from such an arrangement, the combination is obvious. *Id.*, at 282, 96 S.Ct. 1532.")

Finally, with respect to the Appellants' specific contention that Quick Studies does not describe the fourth step "... because Quick Studies does

not take into account this second series of payments” (Br. 11), this is not commensurate in scope with what is claimed. The fourth step refers to the first series of payments, not the second. “Many of appellant’s arguments fail from the outset because, . . . they are not based on limitations appearing in the claims . . . .” *In re Self*, 671 F.2d 1344, 1348 (CCPA 1982).

*Step 5*

The last step of the claimed method is: “comparing the computed interest amount, with a third payment received by said company from said first party.”

The Appellants argued that “the Examiner admits in his Office Action Summary of 12/01/2006 that Kahn does not disclose the last clause of claim 1, but states that page 3, lines 18-22, NY LawFund discloses this.” Br. 11-12. Actually, the Examiner relied on Quick Studies as disclosing the limitation “comparing the computed interest amount” of the last step and NY LawFund for the limitation “with a third payment received by said company from said first party” of the last step. The Appellants’ argument therefore does not challenge the Examiner’s rationale but rather a finding the Examiner did not make. Accordingly, the Appellants have not shown error in the Examiner’s position.

There being no more arguments, and having found the arguments unpersuasive as to error in the rejection of claim 1, we will sustain the rejection of claim 1. Claims 2-7, which depend on claim 1, and 8-20 have not been separately argued and thus their rejection is sustained for the same reasons.

*The §103(a) rejections of claims 5, 12, and 19 as being unpatentable over Kahn, Quick Studies, NY LawFund, and Lipschutz and claims 7, 14, and 20 as being unpatentable over Kahn, Quick Studies, NY LawFund, and Hucal.*

The Appellants indicated that “Appellants do not separately argue these dependent claim [i.e., 5, 12, 19, 7, 14, and 20].” Br. 13. We take this statement to mean that Appellants rely on their arguments challenging the rejection of claim 1 in challenging the rejection of these claims. Since, for the foregoing reasons, we found the arguments challenging the rejection of claim 1 unpersuasive, we find them likewise unpersuasive as to error in the rejection of these claims. The rejections are sustained.

#### CONCLUSIONS OF LAW

We conclude that the Appellants have not shown that the Examiner erred in rejecting claims 1-20 under 35 U.S.C. §101 as being directed to patent ineligible subject matter; claims 1-20 under 35 U.S.C. §103(a) as being unpatentable over Kahn, Quick Studies, and NY LawFund; claims 12, and 19 under 35 U.S.C. §103(a) as being unpatentable over Kahn, Quick Studies, NY LawFund, and Lipschutz and, claims 7, 14, and 20 under 35 U.S.C. §103(a) as being unpatentable over Kahn, Quick Studies, NY LawFund, and Hucal.

#### DECISION

The decision of the Examiner to reject claims 1-20 is affirmed.

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No time period for taking any subsequent action in connection with this appeal may be extended under 37 C.F.R. § 1.136(a)(1)(iv) (2007).

AFFIRMED

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