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## A Madness to the Method?

### *The Impact of Bilski on Method Patents*

By Brian Mudge

For more than a year, the software/information technology, financial, and even biotech industries, along with the patent bar, waited for the Supreme Court to weigh in on the issue of business methods and patent-eligible subject matter under § 101 of the Patent Act. In its recent decision in *Bilski v. Kappos*, 561 U.S. \_\_ (2010), the Supreme Court provided an answer for the business method claimed by Bilski, but not a lot of detailed guidance for future cases. Although reaching the same ultimate conclusion as the Federal Circuit about the unpatentability of Bilski's claims to a method for hedging risk, the Supreme Court's opinion effectively overruled the narrow test established by the Federal Circuit in its decision below. The Federal Circuit had established that a claimed process was eligible for patenting *only* if it was tied to a particular machine or transformed an article into a different state or thing, but the Supreme Court held that the "Machine or Transformation" test is *not* the exclusive test for determining whether a claimed process is eligible for patenting under the patent statute, 35 U.S.C. § 101.

Faulting the Federal Circuit's interpretation of the patent statute, the Supreme Court explained that § 101 broadly describes subject matter eligible for patenting. Looking to the Court's prior case law, the opinion identified only three exceptions to the statute's broad patent-eligibility principles: laws of nature, abstract ideas, or natural phenomena. *Bilski*, slip op. at 5. While the Court recognized that the Machine or Transformation test is a useful tool for analyzing processes under § 101, it rejected as inconsistent with the broad statutory language the Federal Circuit's conclusion that the test is the sole or exclusive way in which to determine patent-eligibility for processes. *Id.* at 16.

Nevertheless, the Supreme Court affirmed the Federal Circuit's judgment that the claims of Bilski's patent application were not patentable subject matter under § 101, yet did so on different grounds. Rather than applying the Machine or Transformation test to the Bilski claims, the Supreme Court focused on the question of abstractness, and found that the claims were merely directed to abstract ideas. According to the Court, the Bilski application attempted to patent the concept of hedging risk, but allowing such a patent would pre-empt use of the risk hedging approach in all fields. Other claims in the Bilski application were similarly ruled unpatentable as nothing more than attempts to limit the risk hedging concept to the energy market field or to add token post-solution activity; but the limitations were deemed insufficient, in light of the Court's precedents, to make the claims patent-eligible.

In analyzing the Bilski claims to hedging risk, the Court summarized its most recent jurisprudence under § 101. Beginning with *Gottschalk v. Benson*, 409 U.S. 63 (1972), the Court explained that the invention in *Benson* of an algorithm for converting binary-coded decimals to binary code was an unpatentable abstract idea, because it would "wholly pre-empt the mathematical formula and in practical effect be a patent on the algorithm itself." *Bilski*, slip op. at 13. Continuing with *Parker v. Flook*, 437 U.S. 584 (1978), the Court explained that the claim in *Flook* to a process for monitoring catalytic conversion using a mathematical algorithm was unpatentable because the patent merely attempted to limit the use of an algorithm to a particular technical environment while including only insignificant post-solution activity. *Bilski*, slip op. at 14. Finally, addressing *Diamond v. Diehr*, 450 U.S. 175 (1981), the Court explained that a process for molding uncured rubber into cured rubber products using a mathematical formula to complete some of the steps with a computer was patentable subject matter under § 101 because it was an *application* of a mathematical formula to produce molded products and not just an attempt to patent the formula itself. *Bilski*, slip op. at 14-15. This discussion of the Court's prior cases, along with the pre-emption analysis of the Bilski claims, likely provides the Court's main guidance for parties and courts to follow in considering whether other processes are patent-eligible under § 101.

As for business methods generally, the Supreme Court did not, as some had hoped, rule them categorically unpatentable. Rejecting the broad notion that "business methods" are excluded from patentable subject matter, the majority

opinion concluded that some business methods may be patent-eligible, citing the prior use defense set forth in § 273 of the patent statute. As a caution, however, the majority opinion also stated that while § 273 contemplates the possibility of some business method patents, “it does not suggest broad patentability of such claimed inventions.”

In a lengthy concurring opinion, Justice John Paul Stevens agreed with the Court’s determination that *Bilski*’s claims are not patentable, but starkly disagreed as to the potential patentability of “business method” patents generally. According to Justice Stevens, whose concurring opinion was joined by three other justices, Congress and the courts understood that when § 101 was enacted as part of the 1952 Patent Act, methods of doing business were not patentable subject matter and, accordingly, such methods should be deemed outside of the scope of patent protection.

#### LESSONS FROM *BILSKI*

The Federal Circuit’s *Bilski* decision, which established the Machine or Transformation test as “the” test for patent-eligible subject matter, had generated substantial concern and confusion over the patentability of Information Age processes, including those involving software, signal processing and business methods, as well as the patentability of medical processes in the biotech industry.

While the Court’s opinion does not definitively answer all of the questions raised by the prior Federal Circuit ruling, it may give some comfort to those concerned that Information Age inventions would fall outside of the scope of patentable processes defined by an exclusive Machine or Transformation test. Many of the con-

cerns, as expressed in amicus briefs, were directed to how the Machine or Transformation test would be applied to emerging technologies, and that potentially narrow interpretations of the test might exclude patents on inventions that otherwise appear to lie within the core purposes of the patent statute. The Court’s citation of the broad language of the statute, and its conclusion that there is no exclusive test, suggest that there may be ample room to establish that emerging Information Age inventions are within the scope of patentable subject matter.

However, given the limited guidance provided by the Supreme Court, and its rejection of an exclusive (and thus more definitive) test as authored by the Federal Circuit, there remains substantial uncertainty as to how the PTO and the courts will analyze process claims, and what further tests may be developed to assist such analysis. A key factor in analyzing whether method claims are patent-eligible is likely to be whether the claimed invention pre-empts all practical use of an idea or concept. Idea pre-emption was central to the outcome of unpatentability in the prior Supreme Court rulings in *Benson* and *Flook*, and also in the recent *Bilski* decision. Similarly, the result of patentability in *Diehr* followed from an analysis showing the claimed invention was directed to a practical application of a formula and did not pre-empt all uses of the formula.

The Machine or Transformation test may continue to be an important part of the analysis for patentability of method claims, at least in the near term. The Court’s discussion found the test to be a “useful and important clue” to finding a process patent-eligible, *Bilski*, slip op. at 8. That said, given the suggestion that the courts are free to develop other tests for determining whether a process is patent-eligible subject matter, *Bilski*, slip op. at 16, the Machine or Transformation test may become less important for considering future innovations.

Some may interpret *Bilski* as sup-

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porting a rule that any claim satisfying the Machine or Transformation test will be patent eligible under § 101. However, there is no guarantee of such a result. Indeed, *Benson* shows the possibility that a claim meeting the Machine or Transformation test might not satisfy § 101. The algorithm for converting binary-coded decimals to binary code in *Benson* operated (in claim 8) using a shift register, clearly part of a digital computing apparatus, so the claim might very well have met the Machine or Transformation test. Yet the invention was held unpatentable because it was so broad and abstract as to effectively pre-empt all uses of the algorithm, both known and unknown, on any digital computer (with no practical application except for use on a digital computer). *Benson*, 409 U.S. at 255, 257.

Given the Supreme Court’s ruling and the disagreement over patentability of business methods, it remains to be seen how the PTO and the courts will respond to inventions directed to methods of conducting business. Indeed, in rejecting *Bilski*’s claimed invention, the Supreme Court may have signaled that claims to business methods may be particularly susceptible to attack as directed to mere (and unpatentable) abstract ideas.

#### PTO REACTION

Note that while the PTO has not yet issued new examination guidelines for process claims in light of the Supreme Court’s *Bilski* ruling, it has issued a memo with interim guidance for examiners to follow when examining process claims under § 101. According to the PTO memo, as reported by several bloggers, examiners are instructed to examine applications for compliance with § 101, using the Machine or Transformation test as a tool:

- If the claimed method meets the Machine or Transformation test, it is likely patent-eligible under § 101 “unless there is a clear indication that the method is directed to an abstract idea.”
- If the claimed method does

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not meet the Machine or Transformation test, the examiner should issue a rejection under § 101 “unless there is a clear indication that the method is not directed to an abstract idea.”

According to the PTO memo, if a claim is rejected under § 101, the applicant will have an opportunity to explain why the claimed method is not merely an abstract idea. The memo notes that the PTO is reviewing the *Bilski* decision and will develop further guidance on subject matter eligibility under § 101. See, e.g., [http://ipwatchdog.com/blog/USPTO\\_bilski\\_memo\\_6-28-2010](http://ipwatchdog.com/blog/USPTO_bilski_memo_6-28-2010). PDF (copy of PTO memo).

#### **TIPS FOR ADDRESSING**

#### **§ 101 ISSUES**

While there will be further shake-out once the Federal Circuit and district courts begin applying *Bilski*, there are steps that patent applicants can start to take now to improve the chances that their applications will pass muster under § 101. Applicants should seek to focus claims on practical applications that avoid pre-

empting all practical use of an idea. This does not necessarily mean narrow claims, though applicants should follow the general maxim of varying claim scope to maximize the potential for obtaining valid claims that will stand up to a court challenge. Applicants and patentees should be prepared to respond to rejections or challenges under § 101 by pointing out, where possible, that the rejected claims do not pre-empt all ways to implement a particular idea, and even consider introducing evidence (including expert testimony) supporting such an argument.

Furthermore, and particularly in light of the PTO interim instructions to examiners, those applicants seeking to gain allowance of method claims can maximize their chances by including claims that would meet the Machine or Transformation test. As discussed above, the PTO will, at least in the near term, likely find claims meeting the test to be patent-eligible unless the claim is clearly directed to an abstract idea.

Those defending against method claims (and in particular business methods) should follow the route

taken in analyzing the *Bilski* claims and challenge claims that appear to be claiming nothing more than abstract ideas (or laws of nature or natural phenomena). Defendants should develop arguments that such claims are directed to an abstract idea, rather than a practical application, focusing on the extent to which the claim would pre-empt practical use of the idea that is embodied by the claim, and introduce supporting evidence (again, perhaps through use of an expert). Given the Supreme Court's statements that the Machine or Transformation test remains a useful tool for analyzing method claims, defendants should look for opportunities to challenge claims for failing to meet that test. Such challenges may have the practical effect of forcing patentees to justify the patentability of such claims.

Much uncertainty remains on how the PTO and the courts will handle patentability of methods. Until further patentability tests are defined, idea pre-emption may be the primary battleground.

