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***Bilski v. Kappos:* The Most Recent Event in an Ongoing Saga**

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Bilski v. Kappos: The Most Recent Event in an Ongoing Saga

BY SCOTT M. ALTER¹

On June 28, the U.S. Supreme Court finally² handed down its long-awaited decision of *Bilski v. Kappos*.³ Because it had the potential to affect the patent eligibility of financial, software, internet, medical diagnostic and other technologies, this decision was closely watched by many from a variety of industries. But has this decision drastically changed the type of subject matter that can be patented as some had feared or hoped, or is it “business as usual”? The short answer is “neither of the above.” A more complete answer would add “. . . but stay tuned for the next chapter - - coming soon from the Federal Circuit.”

BACKGROUND

In October of 2008, in an en banc decision the Court of Appeals for the Federal Circuit affirmed a decision from the Board of Patent Appeals and Interferences that Bilski’s patent application was not directed to patent-eligible subject matter.⁴ The subject matter of the application related to a process for hedging risk in commodities trading. Claim 1 of the application, which was especially focused on by the court, is as follows:

A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

(A) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;

(B) identifying market participants for said commodity having a counter-risk position to said consumers; and

(C) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said

series of market participant transactions balances the risk position of said series of consumer transactions.

For a number of reasons, the Federal Circuit indicated that the sole test to be used for determining patent eligibility of processes (including “business” processes) was the so-called “machine-or-transformation” (M-o-T) test. This test and the concepts behind it were mentioned to varying degrees in the most recent Supreme Court decisions to have opined on the issue of patent-eligible subject matter,⁵ i.e., *Gottschalk v. Benson*,⁶ *Parker v. Flook*⁷ and *Diamond, v. Diehr*.⁸ According to the test, a claimed process needs to be analyzed to determine whether “(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.”⁹ If it passes either one of those prongs of the test, according to the Federal Circuit, the process is deemed patent-eligible subject matter.

Since the parties conceded that the claimed subject matter in Bilski’s patent application was not limited to any specific machine or apparatus, the Federal Circuit declined to address whether the claimed process was “tied to a particular machine or apparatus,” stating that it would leave analysis of this prong of the M-o-T test to future cases, including “whether or when recitation of a computer suffices to tie a process claim to a particular machine.”¹⁰ However, the court nonetheless saw fit to assert, e.g., that such a machine or apparatus must impose “meaningful”¹¹ limits on the claim scope to impart patent eligibility. As for the “transformation” prong of the test, the Federal Circuit found that the claims failed that prong because the claimed invention did not transform anything physical (or something “representing” anything physical) to a different state or thing. Consequently, having failed to pass either prong of the test, the claims were not found to be directed to patent-eligible subject matter.¹²

THE SUPREME COURT DECISION

Not satisfied with the Federal Circuit’s decision, the patent owner filed a petition for writ of certiorari at the U.S. Supreme Court. The two questions presented to the High Court were 1) is the M-o-T test the only test for determining whether a “process” is patent-eligible,¹³ and 2) does the existence of §273 of the Patent Act¹⁴ that grants prior users rights for business methods imply that Congress intended that patents should be able to protect methods of doing business.¹⁵

On June 28, 2010, the Supreme Court handed down its opinion, with Justice Kennedy writing the Opinion of the Court. In noting that “[t]he present case involves an invention that is claimed to be a ‘process’ under §101,¹⁶” the Court first looked to the definition of “process” in §100(b) of the Patent Act,¹⁷ which arguably defines the term in a general and somewhat circular manner.¹⁸ The Court then set out to answer the two aforementioned questions posed in the petition.

First, in holding the M-o-T test is not the sole test for determining the patent-eligibility of processes,¹⁹ the Court asserted that words in the Patent Act should be interpreted as taking their ordinary meaning, and that there was nothing in §100(b) requiring that “process” be tied to a machine or transform an article.²⁰ Consequently, “[a]dopting the machine-or-transformation test as the sole test for what constitutes a ‘process’ (as opposed to just an important and useful clue) violates these statutory interpretation principles.”²¹ Despite these “principles,” however, the Court noted that “laws of nature, physical phenomena, and abstract ideas” were not patent-eligible subject matter based on Supreme Court precedent²², even though §100(b) did not explicitly indicate as much. The Court further pointed out that its precedent indicated the M-o-T test was “not intended to be an exhaustive or exclusive test,”²³ implying its precedent had been ignored by the Federal Circuit’s *In re Bilski* decision.

Addressing the second question (concerning §273 of the Patent Act), the Court began by noting it was “unaware of any argument that the ‘ordinary [] meaning’ [] of ‘method’ excludes business methods. Nor is it clear how far a prohibition on

business method patents would reach, and whether it would exclude technologies for conducting a business more efficiently.”²⁴ Thus, the ordinary meaning of the relevant statutory terms did not provide reason for categorically excluding business methods from patent eligibility. Importantly, the second sentence in the quote seemed to indicate the Court was treading narrowly and carefully to avoid unintended consequences (e.g., affecting the validity of certain unforeseen categories of patents). Also, while acknowledging that “[a] conclusion that business methods are not patentable in any circumstances would render §273 meaningless”²⁵ and that “§273 appears to leave open the possibility of some business method patents,”²⁶ the Court also added that §273 “does not suggest broad patentability of such claimed inventions.”²⁷ Consequently, while the Court acknowledged that business methods are not, per se unpatentable, it also seemed to state that it was not intending to invite unfettered patent-eligibility for all business methods, either. Despite the Court liberally using the term “business method,” though, there is little indication of what, exactly, it meant by that term, and what the bounds of such subject matter might be.

Having made the aforementioned determinations, the Court went on to assert that the subject matter in the application is still not necessarily “‘a process’ under §101.”²⁸ Specifically, “[t]he Court [resolved the] case narrowly on the basis of [the] Court’s decisions in *Benson*, *Flook*, and *Diehr*, which show that petitioners’ claims are not patentable processes because they are attempts to patent abstract ideas.”²⁹ Though those hardly were among the Supreme Court’s more reconcilable opinions,³⁰ the Court in *Bilski* then proceeded to pluck specific concepts from each of those three decisions and apply them to the situation at hand. Specifically, from *Benson*, the Court plucked the notion of “preemption,” which is where a patent claim “in practical effect” is said to cover subject matter that is not patent-eligible, e.g., where a claim consisting of an algorithm plus very general computer hardware covers all practical uses of the algorithm.³¹ *Flook*, according to the Court, “stands for the proposition that the prohibition against patenting abstract ideas

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‘cannot be circumvented by attempting to limit the use of the formula to a particular technological environment’ or adding ‘insignificant postsolution activity.’”³² From *Diehr*, the Court mentioned that an “application” of patent-ineligible subject matter such as an abstract idea “may well be deserving of patent protection.”³³ As was the case with these earlier decisions, little guidance was given by the Court for what the boundaries of “preemption” would be, or what would constitute “insignificant” post-solution activity.

With these precepts in hand, the Court found that the broader claims in the application were directed to “the basic concept of hedging,” and that this claimed subject matter “is an unpatentable **abstract idea**, just like the algorithms at issue in *Benson* and *Flook*.”³⁴ The Court then stated that “[a]llowing petitioners to patent risk hedging would **preempt** use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.”³⁵ The remaining, narrower claims were found merely to be “limiting an abstract idea to one **field of use** or adding token **postso-**

lution components [that] did not make the concept patentable.”³⁶ Thus, while ensuring it used all the requisite buzzwords,³⁷ the Court appeared to do little to explain why or how the underlying concepts mentioned above were applied or should be applied in future situations.³⁸

The Court then summed up its decision by stating “[t]he patent application here can be rejected under our precedents on the unpatentability of abstract ideas. The Court, therefore, need not define further what constitutes a patentable ‘process,’ beyond pointing to the definition of that term provided in §100(b) and looking to the guideposts in *Benson*, *Flook*, and *Diehr*.”³⁹ Thus, we are left to look to three fairly irreconcilable Supreme Court decisions, presumably especially those portions discussed above, for guidance on what is patent-eligible subject matter for “process” inventions.⁴⁰

In addition to summarily pointing to §100(b), *Benson*, *Flook*, and *Diehr* as the “guideposts” for determining patent-eligible processes, the portion of the Court’s decision asserting the application’s subject

matter was an unpatentable abstract idea⁴¹ made no mention of how the so-called “investigative tool” aspect of the M-o-T test might be used. In fact, in that portion of its analysis, which included the discussion of the precepts plucked from *Benson*, *Flook*, and *Diehr*, the Court made no mention of the M-o-T test at all. Thus, while saying that one should look to the above-noted “guideposts” for determining what is an unpatentable abstract idea, the Court is also saying separately that the M-o-T test is an “important clue” to the patent-eligibility of processes. The implication seems to be that the M-o-T test is a “clue” to when a claim is directed to patent-ineligible subject matter based on the aforementioned precepts of *Benson*, *Flook* and *Diehr*. However, a critical question still remains wide open and was not addressed by the Court: “under what circumstances would subject matter fail the M-o-T test but still be patent-eligible because it is not an abstract idea under those precepts, and possibly vice versa”?

WHAT DOES ALL THIS MEAN?

While the Supreme Court did not ultimately decide that any particular type of technology is now completely off limits to potential patent protection, the decision has set in motion changes that likely will become increasingly apparent as the lower courts, especially the Court of Appeals for the Federal Circuit, begin hearing decisions relating to, e.g., the financial, software, internet and medical diagnostic technologies.

Probably the most apparent change made by the Supreme Court is that, now, a claimed process (e.g., a “business method”) could fail the M-o-T test and might still be patent-eligible under §100(b) and the precepts of *Benson*, *Flook*, and *Diehr*. Patent plaintiffs and those seeking to obtain patents in the relevant technology areas will likely be focusing considerable energy on asserting that subject matter that would fail the M-o-T test nonetheless is patent-eligible and not an abstract idea in view of the Court’s cited precedents.⁴² A key question will be how to interpret terms such as “abstract idea,” “preemption” and “insignificant post-solution activity” to demonstrate this.

In its effort to tread lightly in this area and not cause unforeseen adverse results, the Supreme Court clearly left future interpretation and guidance up to the lower courts, particularly the Federal Circuit.⁴³ Thus, it will be left to the Federal Circuit to determine the boundaries of patent-eligible subject matter for “processes” when it lies beyond the bounds of the M-o-T test. As part of this, the Federal Circuit will need to determine how much weight to give to the M-o-T test⁴⁴ when subject matter fails it. Since the Supreme Court emphasized that the M-o-T test is “an important and useful tool,” the Federal Circuit may well give considerable weight to the test, meaning that it may allow few “processes” to be patent-eligible that fail the test. Conversely, there may be situations where, even if a particular process passes the M-o-T test, an argument can be made that it is nonetheless directed to an abstract idea under the Supreme Court’s aforementioned precepts. As a counterbalance to that, the Federal Circuit, and Judge Rader in particular, has historically tended to be on the side of broad patent eligibility.


In addition to what the Supreme Court specifically focused on in *Bilski*, important and related issues have yet to be addressed by the Federal Circuit. For example, the Federal Circuit has yet to squarely address and interpret aspects of the “machine” prong of the M-o-T test. This is due largely to the fact that the Federal Circuit has not, since its 2008 *In re Bilski* decision, addressed the §101 statutory subject matter issue for a process involving hardware, such as a “software” invention.⁴⁵ Also, it is not clear whether the Federal Circuit would analyze “machine” or “computer-readable medium”⁴⁶ claims (i.e., claims that are not “process” claims) using the M-o-T test or how such claims might be affected by the precepts of the Supreme Court’s *Bilski* decision. A number of pertinent decisions appealed to the Federal Circuit that were stayed pending the Supreme Court’s *Bilski* decision appear to now be moving forward, so the Federal Circuit should have the opportunity to consider these issues.⁴⁷

It is also worth mentioning that, like *Diehr*, *Bilski* was essentially a 5-4 decision. Though couched as a “concurring opinion” since both sides believed the claims were

directed to patent-ineligible subject matter, the *Bilski* “concurrency” argued that “business methods” should, per se, be unpatentable.⁴⁸ For those that advocate broad patent eligibility, the good news is that Justice Stevens, the author of the concurring opinion,⁴⁹ is no longer on the Supreme Court. However, one should nonetheless be wary of the feelings that some remaining Justices may have regarding patent-eligible subject matter.

Already, there has been some recent reaction to the *Bilski* decision at the U.S. Patent and Trademark Office and in Congress. Specifically, the day the decision was decided, the USPTO came out with a interim guideline memorandum to patent examiners stating that examiners should continue “using existing guidance concerning the machine or transformation test as a tool for determining whether the claimed invention is a process under §101.”⁵⁰ However, it also indicated that whether the claim can separately be shown to be (or not be) an “abstract idea” can also affect patent-eligibility. In Congress, while legislation has been pending for some time to restrict patent-eligibility for “tax strategy” subject matter,⁵¹ in view of the *Bilski* decision the American Institute of Certified Public Accountants has renewed its call on Congress to act quickly to pass legislation to ban such patents.⁵²

CONCLUSION

The Court’s opinion in *Bilski v. Kappos* can largely be summed up as follows; “Business methods” (whatever they are) are not per-se unpatentable, and may be patentable if they are not directed to an abstract idea. Look to the “guideposts” of 35 U.S.C. §100(b) and *Benson*, *Flook* and *Diehr* to determine whether something is an abstract idea. The M-o-T test is not the only test for determining the patent eligibility of a “process,” but remains “an important and useful clue” for whether a “process” is patent-eligible, and thus for whether the subject matter at issue is not merely an abstract idea. How these concepts are to be implemented, defined and interrelated with each other is left largely to the lower courts, particularly the Federal Circuit. Stay tuned! 

ENDNOTES

1. **Scott M. Alter** is a partner in Faegre & Benson's Denver and Boulder offices. He focuses on intellectual property matters concerning software, electronics, telecommunications, electronic commerce, and semiconductor technologies. He is a frequent speaker and author on subjects including rendering opinions of counsel and the patentability and strategic use of software and business method patents. The opinions expressed herein are those of the author and not necessarily those of Faegre & Benson. The author would like to express his appreciation to Walt Linder and Robert Bailey for their invaluable assistance. Scott can be reached at salter@faegre.com.
2. See chart by Professor Joe Miller of Lewis & Clark Law School showing that the U.S. Supreme Court took longer to decide this decision than any other relatively recent patent decision: <http://www.patentlyo.com/patentlawpic995.jpg>
3. *Bilski v. Kappos*, 561 U.S. ---, (June 28, 2010), slip op.
4. See, *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008)
5. However, the test ultimately found its genesis in Supreme Court case law going back to the 1800's. See, e.g., *Cochrane v. Deener*, 94 U.S. 780 (1877)
6. 409 U.S. 63 (1972)
7. 437 U.S. 584 (1978)
8. 450 U.S. 175 (1981)
9. 545 F.3d at 954 (emphasis added).
10. 545 F.3d at 962.
11. While the scope of what constitutes a "meaningful limit" is far from clear, the court may have been contemplating the "difficult case" it had indicated *Benson* presents under its own test, where a process that operated on a machine/computer was still held to be ineligible subject matter, since the process had no utility other than operating on the computer. See, 545 F.3d at 955. Thus, "meaningful" may end up meaning that, despite the claim being tied to a particular machine, there must nonetheless be no preemption of the fundamental principle as a practical matter. In any event, we will need to wait for future decisions to better resolve this and other related issues.
12. A more detailed discussion of the Federal Circuit's *In re Bilski* decision and related Supreme Court cases can be found in my previous article, "In re Bilski: The Case of a Strange Statute, or How the Federal Circuit Learned to Stop Worrying and Love the Supreme Court," *The Computer and Internet Lawyer*, Vol. 6, No. 2, February, 2009.
13. The full wording of the question is "[w]hether the Federal Circuit erred by holding that a 'process' must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing (machine-or-transformation test), to be eligible for patenting under 35 U.S.C. § 101, despite this Court's precedent declining to limit the broad statutory grant of patent eligibility for 'any' new and useful process beyond excluding patents for 'laws of nature, physical phenomena, and abstract ideas.'"
14. 35 U.S.C. §273
15. The full wording of the question is "Whether the Federal Circuit's 'machine-or-transformation' test for patent eligibility, which effectively forecloses meaningful patent protection to many business methods, contradicts the clear Congressional intent that patents protect 'methods of doing or conducting business.' 35 U.S.C. § 273."
16. *Bilski*, slip op. (Kennedy) at 5. 35 U.S.C. § 101 is the section of the patent act concerning the type of subject matter that is patent-eligible, and states that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."
17. 35 U.S.C. §100(b)
18. Specifically, 35 U.S.C. Sec. § 100(b) defines process as "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material." At a minimum, defining "process" as "process" is not terribly helpful.
19. The Court pointed out that in its previous decisions of *Gottschalk v. Benson & Parker v. Flook* had indicated that M-o-T test was "not intended to be an exhaustive or exclusive test."
20. See, *Bilski*, slip op. (Kennedy) at 6-7
21. *Bilski*, slip op. (Kennedy) at 6-7
22. See, *Bilski*, slip op. (Kennedy) at 6
23. *Bilski*, slip op. (Kennedy) at 7-8
24. *Bilski*, slip op. (Kennedy) at 10
25. *Bilski*, slip op. (Kennedy) at 11
26. *Bilski*, slip op. (Kennedy) at 11
27. *Bilski*, slip op. (Kennedy) at 11
28. *Bilski*, slip op. (Kennedy) at 13
29. *Bilski*, slip op. (Kennedy) at 13
30. This seems to especially be the case regarding the *Flook* and *Diehr* decisions. The reasons for this are discussed in greater detail in my previous Computer and Internet Lawyer article referenced in endnote 12 above.
31. See, *Bilski*, slip op. (Kennedy) at 13
32. *Bilski*, slip op. (Kennedy) at 14
33. *Bilski*, slip op. (Kennedy) at 14, citing *Diehr* at 177
34. *Bilski*, slip op. (Kennedy) at 15 (Emphasis added)
35. *Bilski*, slip op. (Kennedy) at 15 (Emphasis added). Since the Court asserted the broad claims are directed to the abstract idea of hedging, itself, it is not entirely clear what the Court believes the claims are "preempting."
36. *Bilski*, slip op. (Kennedy) at 15 (Emphasis added)
37. I.e., "abstract idea," "preemption," "field of use," "insignificant post-solution activity"
38. Except, perhaps, to simply say the claims are unpatentable because they are "just like the algorithms at issue in *Benson* and *Flook*"
39. *Bilski*, slip op. (Kennedy) at 16
40. Of course, for those advocating broad patent-eligibility, this is still a far better outcome than something that would have a significant adverse impact on, e.g., the patent-eligibility of software-related technology
41. This is referring to Part III of the Opinion of the Court, beginning at page 13 of the slip opinion
42. This is in view of the several district court decisions that, after the Federal Circuit's *In re Bilski* decision, found the patent at issue invalid on summary judgment for lack of statutory subject matter under 35 U.S.C. §101. These include *Fort Properties v. American Master Lease*, 2009 WL 249205 (C.D. Cal) and *Cybersource v. Retail Decisions*, 2009 WL 815448 (N.D. Cal). Also, there have been numerous Board of Patent Appeals and Interferences decisions where patent applications were deemed unpatentable on the same grounds, e.g., *In re Gutta*, Board of Patent Appeals and Interferences, August 10, 2009 (Precedential)
43. In fact, the Court appeared to push (punt?) the issue to the Federal Circuit, stating that Federal Circuit was free to develop other limiting criteria consistent with the Patent Act. However, the Court cautioned that "nothing in today's opinion should be read as endorsing interpretations of §101 that the Court of Appeals for the Federal Circuit has used in the past. See, e.g., *State Street*," referring to the Federal Circuit's previous "useful, concrete and tangible result" test. See, *Bilski* slip op. (Kennedy) at 16. So now, instead of the Freeman-Walter-Abele (F-W-A) test, we might have a Benson-Flook-Diehr (B-F-D) test!
44. As opposed to some other, hypothetical, alternate test showing the subject matter is not directed to an abstract idea, and presumably consistent with the cited precepts of *Benson*, *Flook* and *Diehr* mentioned above
45. A "software" invention would likely include some type of hardware/machine such as a processor
46. Also known as Beauregard claims
47. These include *Fort Properties v. American Master Lease*, 2009 WL 249205 (C.D. Cal), *Cybersource v. Retail Decisions*, 2009 WL 815448 (N.D. Cal) and *Fuzzysharp Technologies v. 3D Labs*, 2009 U.S. Dist. LEXIS 115493. Also, two decisions in the life sciences area that were appealed to the Supreme Court have been remanded to the Federal Circuit for consideration in light of *Bilski*: *Prometheus Laboratories, Inc. v. Mayo Collaborative Services and Mayo Clinic Rochester*, 581 F.3d 1336 (Fed. Cir. 2009) and *Classen Immunotherapies, Inc. v. Biogen Idec and Glaxosmithkline and Merck and Co., Inc.*, (Fed. Cir. 2008, nonprecedential, 2006-1634, -1649).
48. This is a lengthy "concurrency" that, e.g., elaborated on the "history" of patent ineligibility of business methods. In addition, Justice Breyer also wrote a separate concurring opinion. Also of interest is that Justice Scalia opted out of certain portions of the majority opinion
49. Justice Stevens was also the author of the dissenting opinion in *Diehr*
50. See, PTO memorandum at: http://www.uspto.gov/patents/law/exam/bilski_guidance_28jun2010.pdf
51. See, HR 2584 and HR 2365
52. See, <http://www.pnnewswire.com/news-releases/aicpa-renews-call-for-congressional-action-to-ban-tax-strategy-patents-97340364.html>