July 9, 2010

www.ober.com

SPECIAL EDITION

Bilski: One Step Forward... Two Steps Back

By: Roy Craig

The Supreme Court has finally issued its opinion in the long-awaited *Bilski* "business method patent" case, which might have decided the fate of business method patents, and might have had even more far-reaching effects on software and medical/biotech patents. However, not much is clear from the opinion except that the patent application at issue is indeed invalid. Beyond that the opinion chastises the USPTO and Federal Circuit for applying their prevailing patentability standard too rigidly, and extends an invitation to the Federal Circuit to find better standards and to Congress to legislate a solution.

Background

Entrepreneurs Bernard L. Bilski and Rand Warsaw filed their patent application on 10 April 1997. It covered a method of hedging quantity risk in certain commodities markets, which allowed utility companies to offer customers a fixed payment plan despite fluctuating weather-related energy usage. The assigned patent Examiner originally rejected the application because the invention was not implemented by a specific apparatus, but was merely an abstract idea. The Board of Patent Appeals affirmed the Examiner's rejection. Bilski and Warsaw appealed to the Federal Circuit in 2008, which court used the case to reign in their earlier *State Street Bank decision*. In *State Street*, the Federal Circuit had held that a method for pooling mutual fund assets (a “hub-and-spoke” architecture, the mutual fund “spokes” drawing funds from a pooled asset “hub”) was indeed patentable. The hub-and-spoke architecture was deemed patentable because it constituted a practical application of a mathematical algorithm, formula, or calculation that produces "a useful, concrete and tangible result." Relying on Supreme Court dicta that “anything under the sun made by man” is patentable, the Federal Circuit obliterated

IP Watch is not to be construed as legal or financial advice, and the review of this information does not create an attorney-client relationship.

Copyright© 2010, Ober, Kaler, Grimes & Shriver

the longstanding business method exception to patentability. *Id at 1375.* This opened the floodgates to over eight thousand business method applications in 2000, and the numbers grew 20% annually thereafter. Sitting en banc, the Federal Circuit rejected its prior test for patentability under 35 U.S.C. §101(whether the invention produces a "useful, concrete, and tangible result"). To stem the tide, the Federal Circuit reverted to the pre-*State Street* "machine or transformation" test. Under this standard a method is patentable if: (1) tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. The Federal Circuit deemed this "machine-or-transformation test" to be the sole test for patent eligibility of a "process" under 35 U.S.C. §101, and the Bilski patent was held ineligible under that test. *In re Bilski*, No. 2007-1130, at 10. Undaunted, Bilski and Warsaw carried their appeal to the Supreme Court.

The Supreme Court Decision

Last week the Supreme Court affirmed that the Bilski/Warsaw patent is invalid, but rejected the notion that the machine-or-transformation test is the sole test of patentability under section §101. It is a "useful and important clue or investigative tool," just not the sole test. The decision was based in large part on the statutory prior use defense to infringement of business method patents (35 USC §273(b)(1)), which would not exist if Congress had not intended business methods to be patentable at all. Nevertheless, the Supreme Court agreed that the Bilski application claimed an unpatentable abstract idea.

In his majority opinion Justice Kennedy notes *"The machine-or-transformation test may well provide a sufficient basis for evaluating processes similar to those in the Industrial Age — for example, inventions grounded in a physical or other tangible form. But there are reasons to doubt whether the test should be the sole criterion for determining the patentability of inventions in the Information Age."* In particular, "The machine-or-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals." Indeed, that uncertainty is already manifest in the push-pull between the USPTO and patent attorneys, the latter using increasingly creative yet wholly contrived patent drafting techniques to secure patents for business methods. The *Bilski* decision provides no clearer guidelines, but only muddies the existing ones. In an

IP Watch is not to be construed as legal or financial advice, and the review of this information does not create an attorney-client relationship.

Copyright© 2010, Ober, Kaler, Grimes & Shriver

area of the law where guidelines and consistency are essential to progress, this was an anticlimactic decision that will inevitably compound the problem until the Federal Circuit or Congress step up.

Moving Forward

Software method patent applications have been scrutinized by the USPTO since 2008 and widely rejected under *Bilski* for failing the machine-or-transformation test. Since that time patent attorneys have been careful to craft these patent applications to reflect some specialized computer and/or data or other transformation. For now this approach remains unchanged, and USPTO rejections will likely continue. The same is true for medical procedures and biotechnology methods, where technology-dependent steps in method claims remain the sine qua non. In sum, no process or method is categorically unpatentable in the wake of the *Bilski* decision, the debate over the value of business method patents will continue, and clients, attorneys and Patent Office Examiners must endure business as usual.

IP Watch is not to be construed as legal or financial advice, and the review of this information does not create an attorney-client relationship.

Copyright© 2010, Ober, Kaler, Grimes & Shriver