

Intellectual Property ADVISORY

June 4, 2009

Supreme Court Grants Certiorari in *Bilski v. Doll*

On June 1, 2009, the United States Supreme Court granted Bilski's Petition for Writ of Certiorari in *Bilski v. Doll*. In granting certiorari, the Supreme Court indicated that it will review the United States Court of Appeals for the Federal Circuit's ("Federal Circuit") October 30, 2008, *en banc* decision in *In re Bilski*, and will consider, for the first time in nearly 30 years, what types of inventions fall within the ambit of the patent system. Specifically, the Petition for Writ of Certiorari granted by the Supreme Court presented two questions:

Whether 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."

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 "method[s] of doing or conducting business." 35 U.S.C. § 273.

Background

Notwithstanding the fact that the language of Section 101 has been static since 1952, Section 101 subject matter patentability continues to be a dynamic area of the law, to say the least. Under 35 U.S.C. § 101, "[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." In 1980, the Supreme Court acknowledged that Congress intended Section 101 to extend to "anything under the sun that is made by man." *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980). A year later, in *Diamond v. Diehr*, 450 U.S. 175 (1981), the Supreme Court again construed Section 101 and noted that laws of nature, natural phenomena and abstract ideas are excluded from patent protection. *Id.* at 185. In the same case, though, the Court held that a claim that contains or implements a mathematical formula is patentable if the claim, considered as whole, performs "a function which the patent laws were designed to protect (e.g., transforming or reducing an article to a different state or thing)." *Id.* at 192. Similarly, in 1998, in *State Street Bank & Trust, Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1988), the Federal Circuit, in the context of deciding whether a patent claim directed to a data processing system for implementing an investment structure recited statutory subject matter, held "that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces 'a useful, concrete and tangible result.'" *Id.* at 1373. As such, the claims recited subject matter within the scope of Section 101. *Id.* at 1375.

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The *State Street Bank* decision is recognized as having opened the door for business method patents in part because the Federal Circuit explicitly stated that “[w]hether the claims [of a patent] are directed to subject matter within § 101 should not turn on whether the claimed subject matter does ‘business’ instead of something else.” *Id.* at 1377. “Instead, such claims should be treated like any other process claims.” *Id.* Since the *State Street Bank* decision, many business method patent claims have been examined and issued by the U.S. Patent and Trademark Office. Many of these claims, by their nature, pushed the limits of what was allowed under Section 101. Over the years, as the Federal Circuit decided whether particular business method or computer software related claims recited statutory subject matter, a lack of clarity developed in the Federal Circuit’s precedent regarding the proper test for determining whether a particular patent claim falls within the scope of Section 101. In 2008, *In re Bilski* provided an *en banc* Federal Circuit an opportunity to clarify its precedent.

In re Bilski

In *In re Bilski*, the Federal Circuit effectively reigned in the breadth of the *State Street Bank* decision. At issue in *In re Bilski* is the patentability of a claim for a method of hedging risk in the field of commodity trading. The process, as claimed, encompasses the exchange of options, which are legal rights to purchase some commodity at a given price in a given time period. As such, the true issue before the court was whether the applicants were seeking to claim a fundamental principle (such as an abstract idea) or a mental process. The underlying legal question thus presented is what test or criteria governs whether a claim to a process is patentable under 35 U.S.C. § 101. The Federal Circuit, based on its view of prior Supreme Court decisions, determined that the “machine-or-transformation” test is the governing test for determining the patent eligibility of a process under Section 101.

Under the “machine-or-transformation test,” a claimed process is patent-eligible under Section 101 if the process 1) is tied to a particular machine or apparatus, or 2) transforms a particular article into a different state or thing. The use of a specific machine or transformation of an article must impose meaningful limits on the claim’s scope to impart patent-eligibility. Likewise, involvement of the machine or transformation in the claimed process must not merely be insignificant extra-solution activity. In this context, the mere recitation that a general purpose computer as part of the process is not alone sufficient to satisfy Section 101. Also, recitation of a field of use limitation will not alone provide patentable subject matter. However, in some circumstances, transformation of data representative of a particular article or substance will suffice.

In his Petition for Writ of Certiorari, *Bilski* argued that the Federal Circuit’s adoption of the “machine-or-transformation” test as *the* test for determining the patentability of a process under Section 101 contravened both Supreme Court precedent, holding that a method or process is patentable so long as it produces a “useful, concrete and tangible result,” and the intent of Congress as expressed in 35 U.S.C. § 273(a)(3) (“[T]he term ‘method’ means a method of doing or conducting business”).

Implications of *In re Bilski*

When *In re Bilski* was decided, a fear of patent practitioners in the business method and computer software fields was that many already-issued business method and computer software patents would be susceptible to attack on Section 101 grounds. This fear appears to have been warranted.

The U.S. Patent and Trademark Office and many United States district courts have already started applying the machine-or-transformation test to determine the patentability of business method and software patents and patent applications, and the results are noteworthy. The Patent Office has used the machine-or-transformation test to reject multiple applications. At least four district court opinions have cited *In re Bilski* and applied the “machine-or-transformation” test to invalidate patents.¹ This trend has caused United States District Court Judge Marilyn Patel of the Northern District of California to predict a “perilous future for most business method patents.” *Cybersource*, 2009 U.S. Dist. LEXIS at *33.

On Wednesday, May 27, the Middle District of Florida became the most recent court to follow this trend. At issue in *Every Penny Counts* was the validity of U.S. Patent No. 6,112,191 (“’191 patent”), which is directed to a system that allows consumers to save a portion of a sales transaction. *Every Penny Counts* (EPC) alleged that Bank of America (BOA) infringed the ‘191 Patent through its Keep the Change program. BOA initially moved for summary judgment on several grounds, including that EPC’s ‘invention’ is invalid for not claiming patentable subject matter under 35 U.S.C. §101 pursuant to the Federal Circuit’s recent holding in *In re Bilski*. The court agreed, holding that “simply because the process at issue requires machines or computers to work . . . does not mean that the process or system is a machine.” Because the involvement of machines constituted “insignificant extra-solution activity,” the process was invalid under Section 101. The court also held that the ‘191 patent failed the machine-or-transformation test because “it is beyond question that the patented process is not tied to a particular computer or other device.”

¹ *Every Penny Counts v. Bank of America*, No. 2:07-cv-042 (M.D. Fla. May 27, 2009) (granting summary judgment that a claim directed to a system that allows consumers to save a portion of a credit or debit transaction was invalid for not claiming patentable subject matter); *Cybersource Corp. v. Retail Decisions, Inc.*, 2009 U.S. Dist. LEXIS 26056 (N.D. Cal. March 26, 2009) (granting summary judgment invalidating patent directed to detecting fraud in a credit card transaction between a consumer and a merchant over the internet); *Fort Properties, Inc. v. American Master Lease*, 2009 U.S. Dist. LEXIS 7217 (C.D. Cal. Jan 22, 2009) (granting summary judgment that claims directed to a business method for creating an investment instrument out of real property were invalid for not claiming patentable subject matter since the creation of “deeds” did not meet the machine-or-transformation test of *In re Bilski*); *King Pharmaceuticals v. Eon Labs*, 593 F. Supp. 2d 501, 512-13 (E.D.N.Y. 2009) (holding that a claim directed to a method of using metaxalone as a medical treatment that included the act of informing the patient of the food effect of metaxalone failed the machine-or-transformation test of *In re Bilski* “because the act of informing the patient of the food effect of metaxalone does not transform metaxalone into a different state or thing”). *But see Versata Software, Inc. v. Trilogy Software, Inc.*, 2009 U.S. Dist. LEXIS 37811 (E.D. Tex. March 31, 2009) (denying accused infringer’s Rule 12(c) motion for judgment on the pleadings by refusing to hold that software claims fail the *In re Bilski* test merely if they are capable of being performed without being tied to a machine or apparatus).

Conclusion

Given the Supreme Court's recent action, "[t]he closing bell may be ringing for business method patents, and their patentees may find they have become bagholders." *Cybersource*, 2009 U.S. Dist. LEXIS at *34. By taking up the issue in *In re Bilski*, the Supreme Court can go a long way to addressing the uncertainty that now exists regarding the patentability of business method patents as a whole. Regardless of whether the Supreme Court ultimately decides to uphold Bilski's patent application, many expect the Supreme Court to take the present opportunity to revise or add to the Federal Circuit's machine-or-transformation test for resolving issues of subject-matter patentability.

So, how will the Supreme Court rule? One school of thought is that the Supreme Court may take the opportunity to shovel the last piece of dirt on the business method patent coffin and abolish business method patents entirely. Many commentators believe that the Supreme Court was prepared to do just that when it granted certiorari in *Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.*, 546 U.S. 999 (2005), *cert dismissed*, 548 U.S. 124 (2006) ("*Lab Corp*"). At issue in *Lab Corp* was "[w]hether a method patent . . . directing a party simply to 'correlate' test results can validly claim a monopoly over a basic scientific relationship . . . such that any doctor necessarily infringes the patent merely by thinking about the relationship after looking at a test result." *Lab Corp*, 548 U.S. at 132. However, after the parties and *amici* fully briefed the question, the Supreme Court dismissed the Writ of Certiorari as improvidently granted before reaching the issue. *Id.* at 125. Perhaps *In re Bilski* provides the Court with a better record upon which to address the patentability of business method patents.

Another school of thought is that the Supreme Court may move away from the machine-or-transformation test for Section 101 patentability. In her dissent in *In re Bilski*, Federal Circuit Judge Pauline Newman criticized the rigidity of the machine-or-transformation test because it puts excessive limits on potential inventions, especially in this information and digital age. If the Supreme Court agrees, then it is possible that the Court may revisit the *State Street Bank* holding, which held in favor of business method patents by holding that a method claim is patentable as long as it produces "a useful, concrete and tangible result." It is also possible that the Supreme Court could take the opportunity to create a new test for determining patentability under Section 101.

Given the implications of the Supreme Court's ultimate decision on this issue, what is clear is that many businesses and associations in a wide range of industries will be watching and participating as *amici* in the disposition of *In re Bilski* before the Supreme Court. Briefs in support of Petitioner (Bilski) are due July 23, 2009. Briefs in support of Respondent (Doll) are due August 24, 2009. Oral argument will be set for late 2009.

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