

Surprise, Surprise: The Patent Exuberance Continues

Last year I provided commentary on the en banc decision handed down by the Court of Appeals for the Federal Circuit (CAFC) in *In re Bilski*,¹ which appeared to settle the quandary over the patentability of business methods and took the gift provided by the *State Street*² decision away from the patent community. I did note, however, that the U.S. Supreme Court could “possibly” provide an answer to a certified question regarding this issue. In fact, the Supreme Court accepted the certified question in this case and, on June 18, 2010, the last day of this past session, handed down a rather stunning decision.³ In essence, in a rather surprising twist, the Supreme Court determined that business methods in general could, theoretically, meet the statutory criteria for patentability within 35 U.S.C. § 101. The Court did not provide the “how” and “why” the criteria could be met, unfortunately, and the lower courts once again will have to determine such issues in the future.



After suffering a 9-3 en banc appellate court loss,⁴ the appellant sought Supreme Court review of the applicability of 35 U.S.C. § 101 as it pertains specifically to the broad category of business methods. This statute reads: “Whoever 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,” providing a threshold consideration for patentability. The vast majority of patent applications is related to new compounds, new compositions, new devices, and new methods of making, using, or manufacturing; in other words, although this statute has existed as a threshold issue, generally, the U.S. Patent and Trademark Office (PTO) has not faced such a question many times in the past. As I noted in my preceding comment, however, after 1998, a large upswing in applications for patents for business methods occurred subsequent to the CAFC’s *State Street*⁵ decision, ostensibly opening up the floodgates in this area. Without prior Supreme Court guidance on this specific issue, patent applicants filed more and more claims on methods requiring thought patterns and decision-

making, rather than transformation of information from one medium to another or use of a machine of some type to function in the decision-making process itself. From this basis came the setup for *Bilski v. Kappos*,⁶ and the ball was in the Supreme Court’s court (so to speak).

Maintaining the momentum of past decisions that expanded patent eligibility for various subject matter areas that were not specified by name within the language of 35 U.S.C. § 101 (such as certain living organisms and computer algorithms), Justice Kennedy provided a rather stark and abbreviated opinion for the majority (for most of the sections of the opinion, that is)⁷ that refused to exclude all business methods from the patent eligible categories within the statute. In general, the Supreme Court acknowledged that a steadfast rule in defining patentable inventions as a threshold question did not square with possible technological advances that may occur in the future and should merit patentable consideration from an initial eligibility standpoint. The word “process” within the statute was to be interpreted at its broadest scope as well. In other words, the gist of the statute is one of inclusion for technical developments rather than exclusion of inventions that are not specifically provided for within the language of the statute.

The Federal Circuit had decided previously that the PTO should follow a rather strict test for determining compliance with § 101: the “machine-transformation test.”⁸ Generally speaking, the CAFC had determined that an abstract idea would unfairly permit competition foreclosure on a fundamental principle rather than the definitive application of such a fundamental principle in conjunction with a specified machine or apparatus or the use of such a fundamental principle for the transformation of subject matter from one state or thing to another through the method itself. Such a “test” was intended to exclude abstract ideas and to require particular implementation of any such abstract idea in a concrete format. As convenient as the “test” seemed, the Supreme Court appears to have struck down such a “test” as too limiting for the reasons noted above; the patent laws are intended to include technological advances that may not have been considered as viable when the statute was enacted in 1952.⁹ Thus, for the time being, without a bright-line rule excluding all business methods from patentability through the necessary use of a machine or the necessary transformation of information from one format to another during the method process steps, the patent community retains the capability of seeking patent protection for any num-



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ber of inventions, with very few exceptions (naturally occurring compounds and compositions, perpetual motion machines, for example, which are unpatentable inventions). The Court stated that, even though the requirements set in § 101 may be met through different types of developments than those specified within the statute's language, the PTO would not be left with granting patent protection to all such business methods automatically; every patent claim must meet other statutory criteria, including novelty (§ 102), nonobviousness (§ 103), and a proper written description (§ 112) to meet patentability as well.¹⁰ Hence, the PTO could handle these business method issues through these other patentability considerations.

It is interesting to note that the Supreme Court decision was one of the few patent rulings in recent memory that included a concurrence with a significant number of justices in agreement.¹¹ Justice Stevens, in one of his last written opinions, provided a rather lengthy discussion agreeing with the overall decision as it pertained to the handling of the specific patent claims at issue, but proposing a similar result as the one the CAFC decided previously.¹² The previous patent decisions by the Supreme Court were unanimous (*KSR v. Teleflex*,¹³ *Warner-Jenkinson v. Hilton-Davis*,¹⁴ for instance) with little concurring discussion as to the underlying issues involved. This lengthy concurrence shows, at the very least, that further litigation in the business method area is undoubtedly to be expected.

So, the patent world can rejoice with the ruling in this case. But what happened to *Bilski* and his co-inventor? As noted above, all the justices were in agreement as to the handling of the inventors' patent claims but the justices had different reasons for agreeing on how to determine patentability in the § 101 context. Looking at *Bilski*'s claim steps for their "method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price" (here, as before, provided in abridged form), these steps included (1) a first series of transactions between commodity providers and consumers, (2) identification of market participants for a commodity having a counter-risk position to the consumers, and (3) initiation of a series of further transactions to balance the risk position of the series of consumer transactions. The justices all agreed that this method was merely an abstract idea of a risk-loss assessment without any concrete manner of providing a technical concept that is more than just a principle of making decisions. Thus, without anything beyond an abstract idea, and with the method relying solely upon mental processes, the threshold § 101 patentability criteria could not be met.¹⁵ Ironically, then, *Bilski*'s rather huge loss has become an enormous win for the business method patent arena.

Hence, for the moment, at least, the exuberance in patent applications for business methods and related litigation is likely to return. Even with a sizable backlog of applications at the PTO, and a large portion

of that backlog being business method applications that were most likely being held in abeyance until the *Bilski* issue was resolved (adding further potential problems with ultimate extensions of patent terms, but that topic must be left for another column), the Supreme Court has determined that accepting more technological advances in the patent realm is more appropriate for the broad underpinnings of the patent statutes than excluding potential inventions from such protections because of a lack of clarified technical specifications. There may be even more far-reaching implications of this decision in terms of harmonization of patent systems between different countries, if not regions, of the world, to the extent that any "world" patent rights may not see the light of day as a result of other countries' refusal to allow patents for business methods outright (the topic for yet another column). From the standpoint of a patent practitioner, then, the *Bilski v. Kappos* decision must be considered a returned gift, albeit one that is actually given back to the previous recipient rather than something taken back to the store. **TFL**

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Endnotes

¹545 F.3d 943 (Fed. Cir. 2008).

² *State Street Bank v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998).

³ *Bilski v. Kappos*, 561 U.S. ____ (2010).

⁴545 F.3d 943 (Fed. Cir. 2008).

⁵149 F.3d 1368 (Fed. Cir. 1998).

⁶561 U.S. ____ (2010).

⁷*Id.* Justice Kennedy's opinion was joined by all the other justices for all but two subsections, with Chief Justice Roberts and Justices Scalia, Thomas, and Alito agreeing for the remainder, except for Justice Scalia, who agreed with Justice Breyer's concurring opinion, except for one section; Justices Breyer, Ginsburg, and Sotomayor agreed with Justice Stevens' concurring opinion.

⁸545 F.3d 943 (Fed. Cir. 2008).

⁹561 U.S. ____ (2010).

¹⁰*Id.*

¹¹*Id.*

¹²*Id.*

¹³548 U.S. 902 (2006).

¹⁴520 U.S. 17 (1997).

¹⁵561 U.S. ____ (2010).