

Legal Updates & News

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How to Prosper in a Post-*Bilski* World

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Introduction

Business methods are back in the spotlight a decade after the Federal Circuit first opened the floodgates to their controversial patenting. In October 2008, the full court issued its long-awaited decision in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (*en banc*), which claimed simply to reaffirm the U.S. Supreme Court's two-part "machine-or-transformation" test for patent-eligible processes. *Bilski* was followed in January 2009 by the Federal Circuit's revision of *In re Comiskey*, which also addressed the patent eligibility of business methods. While these two decisions make clear the Federal Circuit's affirmation of the "machine-or-transformation" test for process patents, they also leave unanswered questions that present both ongoing challenges and opportunities.

Background

Of the four statutory categories of patent-eligible subject matter set forth in Section 101 of the Patent Act, "process" (or "method") patents historically have generated the most controversy due to the often-challenging task of distinguishing unpatentable laws of nature, natural phenomena, abstract ideas, and mathematical algorithms from their sometimes patentable applications. Making these distinctions was further complicated by the modern information age and the rapid proliferation of computers utilizing applied mathematics and science.

The Federal Circuit's landmark decision in *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998), expanded the scope of patentable subject matter and opened the door to widespread business method patenting. By finding that a process or method satisfied Section 101 if it produced a "useful, concrete, and tangible result," *State Street* spurred industries that previously had never sought patent protection to begin doing so aggressively. Because business method patents were often vaguely drafted and relevant prior art was difficult to find, they quickly became highly controversial and the subject of significant litigation.

In re Bilski

Bilski claimed a method of hedging risk in the field of commodities trading that did not require the use of a computer or other apparatus. After the Patent Office rejected his claims as patent-ineligible subject

matter, *Bilski* appealed to the Federal Circuit. After hearing oral arguments and before the panel decision was issued, the Federal Circuit took the unusual step of *sua sponte* ordering *en banc* review to clarify the proper standard for patent eligibility under Section 101.

In its *en banc* decision, the Federal Circuit held that a process claim is “surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” The court also articulated various subsidiary considerations to further limit this “machine-or-transformation” test. For example, the mere recitation of “field-of-use” limitations (such as commodities trading) and “insignificant postsolution activity” does not satisfy the test. Instead, a machine or transformation “must impose meaningful limits on the claim’s scope,” and a transformation “must be central to the purpose of the claimed process” to render it patent-eligible.

Bilski clearly reveals the Federal Circuit’s intent to narrow patent-eligible subject matter for process patents. The court stated that Section 101 limits the scope or “pre-emptive footprint” of process claims in order to prevent patents from covering substantially all uses of a fundamental principle. Yet, the exact limits imposed by *Bilski* remain unclear because the precise contours and boundaries of the new “machine-or-transformation” test were not defined. As Judges Newman and Rader separately lamented in their respective dissents, the *Bilski* majority did not clarify exactly what it means to be “tied to” a “particular machine” or to “transform” a “particular article.” It likewise remains unclear when a machine or transformation recitation will successfully “impose meaningful limits” on claim scope, or fail as “insignificant postsolution activity.”

Answering these important questions simply was unnecessary in *Bilski* because, by *Bilski*’s own admission, his invention was not linked to a “machine.” The invention also failed the “transformation” prong because only legal or business relationships were altered by *Bilski*’s claimed process, which the court concluded were insufficient because they are “not physical objects or substances, and they are not representative of physical objects or substances.”

In re Comiskey

Bilski was followed in January 2009 by the Federal Circuit granting a rehearing *en banc* to revise its earlier decision in *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007). *Comiskey* had invented various methods and systems for mandatory arbitration. Some of his claims required the use of a telephone or computer and some did not. In September 2007, the *Comiskey* panel had held that (1) the method claims that did not involve a machine were unpatentable mental processes, and (2) the system or “module” claims, which recited various well-known technologies for performing the method – such as computers and telephones – were patent-eligible subject matter involving the use of machines.

The revised *Comiskey* decision retains its original holding that the method claims that did not recite a machine were unpatentable mental processes, but notably retreats from the earlier holding that the system or “module” claims were patent-eligible subject matter sufficiently tied to a “machine.” Instead, the panel noted that those claims might be patentable subject matter, but remanded that determination back to the Patent Office without further explanation or guidance.

Comiskey illustrates the continuing uncertainty over what it means to be “tied to a machine” under *Bilski*. The courts simply sidestepped an opportunity to clarify the machine-or-transformation test, instead leaving that task to the Patent Office. It thus remains to be seen when the Federal Circuit will provide further guidance regarding the *Bilski* standard.

Looking Forward: Prosecuting and Litigating Process Patents After *Bilski*

The Federal Circuit’s remand in *Comiskey* may reflect a reluctance on its part to further develop the machine-or-transformation requirement in the face of possible Supreme Court review. If *certiorari* is sought and denied in *Bilski*, the Federal Circuit may adopt a more proactive role in developing the machine-or-transformation test.^[1] Until then, the post-*Bilski* era promises to be an uncertain time for companies engaged in procuring and litigating process patents, particularly in the areas of business methods and related software.

Yet, while uncertainty exists, the Federal Circuit has provided hints to guide both patent prosecutors and

litigants in the post-*Bilski* world.

Bilski offers a potential blueprint for prosecutors to avoid Section 101 rejections because, as Judge Mayer notes in his dissent, “clever draftsmanship” may be used to bring nearly any process claim within the confines of the machine-or-transformation test. This could be accomplished, for example, simply by integrating a machine into an otherwise patent-ineligible process. The challenge for prosecutors will be, on the one hand, not unduly limiting claim scope, while, on the other hand, not merely adding “insignificant postsolution activity” that fails to meet the *Bilski* test. Alternatively, it may be advantageous to claim inventions as a “system” or “device,” rather than as a “process” or “method,” to avoid the application of *Bilski*.

Accused infringers can potentially capitalize on *Bilski* by filing early summary judgment motions dedicated to establishing invalidity under Section 101. An early summary judgment motion for invalidity under Section 101 may substantially reduce litigation costs for accused infringers. Unlike establishing invalidity under Sections 102, 103, or 112, or unenforceability for inequitable conduct, which may require extensive discovery and analysis, patent eligibility under Section 101 is a legal question based on the asserted claims and case law.^[2] In addition, attacking patent eligibility early in litigation may force patentees to inadvertently or reluctantly adopt positions that surrender claim scope and thus bolster noninfringement positions. In contrast, patent plaintiffs may be able to use positions taken by accused infringers in these Section 101 fights regarding the breadth of claims to improve their infringement positions.

Conclusion

Bilski, and the now-revised *Comiskey* decision, raise almost as many questions regarding the patentability of process claims as they answer. Yet, until more definitive guidance emerges from the Federal Circuit and, perhaps, the Supreme Court, savvy patent applicants and litigants (both plaintiffs and defendants) may be able to use this uncertainty to their strategic advantage in both the prosecution and litigation of process claims.

Footnotes

^[1] In one post-*Bilski* decision, the Federal Circuit held that a patent claiming a market paradigm for bringing products to market failed the “machine or transformation” test. *In Re Ferguson*, 2009 U.S. App. LEXIS 4526 (Fed. Cir. March 6, 2009). In doing so, the Court stated that “a marketing force is not a machine or apparatus” and that “a machine is a concrete thing, consisting of parts, or of certain devices and combination of devices.” *Id.* at *9.

^[2] *But see In re Comiskey*, 554 F.3d 967, 975 (Fed. Cir. 2009) (“While there may be cases in which the legal question as to patentable subject matter may turn on subsidiary factual issues, *Comiskey* has not identified any relevant fact issues that must be resolved in order to address the patentability of the subject matter of *Comiskey*’s application.”); *Arrhythmia Research Tech., Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1056 (Fed. Cir. 1992) (“Whether a claim is directed to statutory subject matter is a question of law. Although determination of this question may require findings of underlying facts specific to the particular subject matter and its mode of claiming, in this case there were no disputed facts material to the issue.”); *State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1370 (Fed. Cir. 1998) (noting that “[t]he following facts pertinent to the statutory subject matter issue are either undisputed or represent the version alleged by the nonmovant”).