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The Supreme Court Grants Certiorari in *Bilski*

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On June 1, 2009, the Supreme Court of the United States granted the patent applicants' petition for writ of certiorari in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (*en banc*). The Supreme Court's decision in this case could have a dramatic impact on the standard for determining patent eligibility, and may have major ramifications at both the U.S. Patent & Trademark Office and in the courts.

The questions presented by Bilski's petition are:

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1. "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'?"
2. "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?"

Based on the current schedule, this case will be briefed to the Supreme Court over the summer, and will probably get argued in December 2009. The Supreme Court is likely to issue a written decision in the spring of 2010.

Bilski Background

The Federal Circuit issued its *en banc* *Bilski* decision on October 30, 2008. In the landmark opinion, the Federal Circuit attempted to clarify the patent eligibility of processes under 35 U.S.C. Section 101 by adopting a definitive test, and explicitly rejecting a number of other tests. *Bilski*, 545 F.3d at 958-61. The Federal Circuit made clear that a process that is “tied to a particular machine” or that “transforms a particular article into a different state or thing” is patent eligible under Section 101. *Id.* at 954.

The Federal Circuit also further limited patent-eligible subject matter by noting that “the use of a specific machine or transformation of an article must impose meaningful limits on the claim’s scope” and “must not merely be insignificant extra-solution activity.” *Id.* at 961-62. The court failed to explain what it meant by imposing “meaningful limits” or “insignificant extra-solution activity.” Similarly, the court held that a process claim is not rendered patent eligible merely by limiting the process to a certain “field of use,” such as Bilski’s limitation to commodities hedging. *Id.* at 957.

As for the two-pronged disjunctive “machine-or-transformation” test itself, the Federal Circuit provided extensive comment on the “transformation” prong. The court first noted that the “transformation must be central to the purpose of the claimed process” (although it did not explain what it meant to be “central”). *Id.* at 962. The court also held that processes that transform physical objects or substances, as well as electronic data that represent physical and tangible objects, are patent eligible under Section 101. *Id.* at 964. By contrast, processes that merely transform “abstract constructs such as legal obligations, organizational relationships, and business risks” are not patent eligible. *Id.* at 963. The Federal Circuit did not address where the line fell between these two categories of transformations.

The Federal Circuit provided less guidance on the “machine” prong. Because the patent applicant in *Bilski* admitted that his claim did not require any specific machine or apparatus, the court left “to future cases the elaboration of the precise contours of machine implementation,” including “whether or when recitation of a computer suffices to tie a process claim to a particular machine.” *Id.* at 962. The Court has not offered much clarification on the “machine” prong since *Bilski* either. See *In re Comiskey*, 554 F.3d 967, 981 (Fed. Cir. 2009) (remanding claims reciting the use of a “module” so that “the § 101 question [can] be addressed in the first instance by the PTO”).

The Aftermath of *Bilski*

Since the Federal Circuit’s decision seven months ago, the *Bilski* case has had widespread effects on patent litigation and prosecution. At the district court level, courts have generally been willing to grant summary judgment of invalidity, and patents on business methods, software, and methods of drug treatment have been held invalid.

For example, in *Fort Properties, Inc. v. American Master Lease, LLC*, 2009 U.S. Dist. LEXIS 7217 (C.D. Cal. Jan. 22, 2009), the district court granted summary judgment of invalidity on claims relating to a method for creating an investment instrument out of real property. The “machine” prong was not at issue, but the court held that the creation of a “deedshare” was insufficient because it only “transform[ed] or manipulat[e]d legal ownership interests in real estate.” *Id.* at **10-11.

In *King Pharmaceuticals, Inc. v. Eon Labs, Inc.*, 593 F. Supp. 2d 501 (E.D.N.Y. 2009), the

district judge found on summary judgment that claims to methods of administering and informing patients about a muscle relaxant were invalid. The judge reasoned that “the act of informing another person of the food effect of metaxalone does not transform the metaxalone into a different state or thing.” *Id.* at 512-13.

Most recently, in *Every Penny Counts, Inc. v. Bank of America Corp.*, Civ. No. 2:07-cv-042 (M.D. Fla. May 27, 2009), the district court granted defendants’ summary judgment motion, and invalidated claims relating to a system that allows consumers to save or donate a portion of a credit or debit transaction that had been rounded up to the nearest dollar. Other decisions have held likewise.

Although there have been a few decisions where courts held that genuine factual disputes precluded summary judgment, see, e.g., *KBA-Giori v Muhlbauer* Civ. No. 2:08cv34, (E.D. Va. May 20, 2009); *In the Matter of Certain Video Game Machines and Related Three-Dimensional Pointing Devices*, 2009 WL 1070801 (U.S.I.T.C. March 26, 2009), most practitioners have interpreted *Bilski* as a boon to accused infringers in litigation.

Decisions by Examiners and the Board of Patent Appeals and Interferences (“BPAI”) have also spelled trouble for patent applicants in the wake of *Bilski*. Post-*Bilski* patent applicants have witnessed a surge in subject matter rejections from the PTO. The impact of *Bilski* in the PTO is further evidenced by a dramatic increase in the number of subject matter rejections issued by the BPAI. After *Bilski*, the BPAI has seemed willing to reject most method claims that are not very clearly tied to a particular machine or apparatus.

The BPAI has, in addition, been perceived as failing to define a clear line of reasoning when applying the “machine or transformation” test – especially in the context of claims to software, computer readable media, and computer systems. While the BPAI has rejected most software claims that fail to recite the use of a hardware component (even when they previously may have been considered patentable under the *Beauregard* doctrine), it is not clear what kind of computer limitation the BPAI considers adequate to meet the “machine prong” of the *Bilski* test.

For example, in cases such as *Ex Parte Borenstein*, 2009 WL 871128 (B.P.A.I. Mar. 30, 2009), the BPAI was fairly generous to inventors, finding that the use of a computer (machine) is inherent in claims that recite steps for “storing path information.” By contrast, the BPAI in *Ex Parte Halligan*, 2009 WL 963939 (B.P.A.I. Apr. 8, 2009), was less permissive, even though the claims explicitly recited the use of a computer in each step of a “programmed computer method.” Citing *Bilski*, the BPAI invalidated the claims because holding otherwise would “allow pre-emption of the fundamental principle present in a non-machine implemented method.” *Id.* at *11.

Conclusion

The Supreme Court’s decision to take the *Bilski* case has been interpreted by many as an indication that the Court will endorse a more liberal standard for patent eligibility under Section 101. That may be the case, and the grant of *Bilski*’s petition for certiorari may signal new life for owners of and applicants for method patents. At the same time, it is always difficult to predict what the Supreme Court will do.

After all, some Justices have already made statements suggesting that they have concerns about an overly broad interpretation of patent-eligible subject matter. Justice Breyer’s dissent to the Court’s dismissal of a writ of certiorari in *LabCorp v. Metabolite*

Laboratories, Inc., 548 U.S. 124 (2006), is frequently cited on this point. Writing for himself, Justice Stevens, and the soon-to-depart Justice Souter, Justice Breyer cautioned that “sometimes too much patent protection can impede rather than ‘promote the Progress of Science and useful Arts,’ the constitutional objective of patent and copyright protection.” *Id.* at 126. Because of this, Justice Breyer wrote, “[p]atent law seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten.” *Id.* at 127.

Other comments from a concurrence in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 397 (2006), also merit consideration. In an opinion joined by Justices Stevens, Breyer, and Souter, Justice Kennedy suggested that district courts take the strength of a patent into account when considering the propriety of an injunction. Justice Kennedy called particular attention to business method patents. He wrote: “injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The *potential vagueness and suspect validity* of some of these patents may affect the calculus under the four-factor test.” *Id.* (emphasis added).

It is also worth recalling that, in most of its recent patent cases, the Supreme Court has tried to realign the patent law with its own prior precedents and the policies these precedents were designed to further. This does not always result in a pronouncement that is strictly advantageous or strictly unfavorable for patent applicants and owners.

For instance, one guiding principle that may come into play at the Supreme Court is the “preemption” doctrine. Relying on *Diamond v. Diehr*, 450 U.S. 175, 187-88 (1981), and *Gottschalk v. Benson*, 409 U.S. 63, 70-72 (1972), the *Bilski* decision itself emphasized that “[t]he question before us . . . is whether Applicants’ claim recites a fundamental principle and, if so, whether it would pre-empt substantially all uses of that fundamental principle if allowed.” *Bilski*, 545 F.3d at 954. If the Supreme Court tries to ground the Section 101 inquiry more firmly in the policy of avoiding preemption, we may wind up with a test that is more nuanced and fact-based than the Federal Circuit’s relatively bright-line test.

Either way, this will be an opportunity to get clarity on a complex legal issue with which the courts and the PTO have struggled.