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Bilski v. Kappos: A Divided Supreme Court Holds That at Least Some Business Methods are Patentable, and Unanimously Rejects Bilski's Claims Because They Attempt to Patent Abstract Ideas

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On June 28, 2010, the Supreme Court issued its long-awaited decision in *Bilski v. Kappos,* 561 U. S. ____ (2010), addressing the patentability of process patent claims under 35 U.S.C. § 101. The Supreme Court unanimously rejected Bilski's business method claims as unpatentably abstract because the claims attempted to patent the idea of using hedging transactions to manage risk.

Bilski's impact will be muted

Bilski's core holding will have little immediate impact on patent owners, because a five Justice majority also held that the Patent Act does not categorically forbid patents on business methods. In other words, by a 5-4 margin, the Supreme Court held that business method claims can constitute patentable subject matter under Section 101.

The Supreme Court *did* leave open the possibility that courts may later find that the Patent Act forbids patenting certain types of business methods. But the Court made no effort to supply any new criteria that might further limit the patentability of business methods. The Court's lack of guidance will undoubtedly slow the development of the law in this area.

Bilski provides little new guidance on applying Section 101

Considerable uncertainty will linger over the patentability of business methods because the *Bilski* decision rejects the Federal Circuit's earlier holding that the "machine-or-transformation" test is the *sole* test for determining the patentability of process or method claims under Section 101. The Supreme Court found that aspect of the Federal Circuit's decision too limiting and emphasized that, while the machine-or-transformation test may provide helpful "clues" regarding patentability, other tests may be developed in the future. In this regard, *Bilski's* holding is broader than the Federal Circuit's, because it acknowledges that process patent claims may be patent-eligible under Section 101 even if they fail to satisfy the machine-or-transformation test. As a result, pending or issued patent claims that would fare poorly under the machine-or-transformation test are at least marginally more likely to be found valid now than in the past.

Rather than provide new guidance on how to test the patentability of process claims under Section 101, the Supreme Court invoked the precedents it set in *Gottschalk v. Benson* (1972), *Parker v. Flook* (1978), and *Diamond v. Diehr* (1981). *Benson, Flook,* and *Diehr* applied the underpinnings of the machine-or-transformation test and reaffirmed earlier precedents holding that claims directed towards laws of nature, physical phenomena, or abstract ideas are unpatentable. Lower courts have struggled with these decisions for 30 years and made very little progress in settling the law since the Supreme Court decided *Diehr*.

The Patent Office intends to continue using the machine-or-transformation test

The United States Patent and Trademark Office issued guidance to its Patent Examining Corps shortly after *Bilski* was decided. The Patent Office memorandum directs patent examiners to "continue to examine patent applications for compliance with section 101 using the existing guidance concerning the machine-or-transformation test …." The memorandum concludes that, "[i]f a claimed method meets the machine-or-transformation test, the method is likely patent-eligible under section 101 unless there is a clear indication that the method is directed to an abstract idea." The Patent Office guidelines also recognize that process claims that fail the machine-or-transformation test may still be patent-eligible if there "is a clear indication that the method is

not directed to an abstract idea." But the memorandum offers no new guidance regarding how examiners should decide whether a claim is directed to an abstract idea—and the Supreme Court provided none in *Bilski*.

Conclusion

The Supreme Court's *Bilski* decision provides very little new guidance on how Section 101 should be applied. *Bilski* suggests that, in most cases, the machine-or-transformation test should remain the preferred standard for determining whether process claims are patent-eligible under Section 101. But the decision also signals that new law will have to be developed to deal with process claims that fail the machine-or-transformation test even though they are not drawn to abstract ideas, laws of nature, or physical phenomena.

Fortunately, additional guidance will be provided by the Federal Circuit in the coming months. One day after issuing its *Bilski* decision, the Supreme Court granted certiorari in *Mayo Collaborative Services v. Prometheus Laboratories Inc.* and *Classen Immunotherapies Inc. v. Biogen IDEC,* vacated the Federal Circuit's judgments in those cases, and remanded them to the Federal Circuit for reconsideration. *Mayo* and *Classen* demonstrate the broad range of process and method claims that are impacted by *Bilski;* the claims at issue in *Mayo* involve an iterative approach to drug dosing in which dosing is adjusted based on blood chemistry, and the claims at issue in *Classen* involve a method for determining whether an immunization schedule is effective in treating a chronic immune-related disorder. We expect a decision in those cases and several other cases involving the patentability of process claims to issue from the Federal Circuit within the next 3-6 months.

Recommendations

While waiting for the Federal Circuit to provide additional guidance regarding patent eligibility for process claims under Section 101, we recommend the following:

Future applications

- When drafting process claims, applicants and their attorneys should structure claims to emphasize particular machine operations or the physical results of claimed processes.
- Applicants should consider the importance of drafting the specification in a manner that provides a detailed description of specific uses and implementations of a fundamental principle. This should support more particularized claims and avoid the appearance of trying to cover all possible uses of the principle.
- Applicants should also consider a hybrid claiming strategy that uses multiple different claim types (e.g., process claims, apparatus claims, and *Beauregard* claims) within an application or family of applications and does not rely too heavily on only process claims.

Pending applications

- The USPTO will likely provide additional guidance to the Examining Corps in the coming months, so it is safest to take a wait-and-see approach with pending claims. As before, applicants and their attorneys should style claim amendments to meet the machine-or-transformation standard and avoid claiming particular implementations that appear to cover abstract ideas.
- Continuation and divisional applications may also be used to protect the full scope of process-based inventions so that different claims can still be pursued in the future as more case law is developed.

Patents in litigation

- Defendants may find that invalidating process claims under Section 101 is more difficult than in the past. *Bilski* allows patent owners to propose other tests for patent eligibility under Section 101 if their patent claims fail the machine-or-transformation test. They will certainly do so.
- The result in *Bilski* will also prompt more defendants to argue that asserted claims are invalid for attempting to patent an abstract idea.

These recommendations are necessarily general in nature. If you have questions about particular prosecution or litigation-related strategies, we encourage you to speak with an attorney.

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