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In The Wake Of Bilski

Law360, New York (June 30, 2009) -- On June 1, 2009, the Supreme Court granted Bernard Bilski's petition for certiorari.

While the world waits to see what will happen now that the Supreme Court has decided to hear argument on the Federal Circuit's decision in *Bilski*, both the federal courts and the Board of Patent Appeals and Interferences continue to struggle with exactly how to apply the Federal Circuit's machine-or-transformation test to the specific process claims before them.

Bilski

On Oct. 30, 2008, the Federal Circuit issued its decision in *In re Bilski*, 545 F.3d 943 (Fed. Cir. Oct. 2008). In that decision, the Federal Circuit articulated a test to determine whether method claims cover patentable subject matter under 35 U.S.C. § 101.

The court held that, in order for a method to be patentable subject matter, it must be "tied to a particular machine or apparatus, or ... transform[] a particular article into a different state or thing.

Eight months after the *Bilski* decision, courts are beginning to come to grips with defining the metes and bounds of the *Bilski* standard; but in many instances, no clear picture has yet emerged.

The Federal Circuit

To date, the Federal Circuit has addressed whether a method covers patentable subject matter three times since *Bilski* and, in each case, has invalidated claims as unpatentable under the *Bilski* standard.

First, in *Classen Immunotherapies Inc. v. Biogen Idec*, 2008 WL 5273107 (Fed. Cir. Dec. 19, 2008) (unpublished), the Federal Circuit affirmed the district court's grant of summary judgment of invalidity under 35 U.S.C. § 101.

The Classen patent claimed "a method of determining whether an immunization schedule affects the incidence or severity of a chronic immune-mediated disorder in a treatment group of mammals, relative to a control group of mammals." *Classen Immunotherapies Inc. v. Biogen IDEC*, 2006 WL 6161856 (D.Md. Aug. 16, 2006).

The district court held that the Classen patent did not claim a specific technical process, but rather merely described "a general inquiry" into the correlation between an immunization schedule and the incidence of chronic disorders.

It found the claimed process "indistinguishable from the idea itself" and viewed the claim as an attempt to patent "an unpatentable natural phenomenon."

Citing *Bilski* without any further discussion, the Federal Circuit affirmed the district court's decision, noting only that the claims were neither "tied to a particular machine or apparatus," nor "transform[ed] a particular article into a different state or thing."

Then, in *In re Stephen W. Comiskey*, 554 F.3d 967 (Fed. Cir. 2009), the Federal Circuit upheld the BPAI's rejection of claims to a method for mandatory arbitration resolution for certain types of legal documents as an attempt to reach unpatentable subject matter.

Curiously, while the decision provides an overview of the relevant case law governing business method patents, it never cites to *Bilski*. Nonetheless, the decision tracks the *Bilski* rationale.

The Comiskey application contained two types of claims. The first generally recited a "method for mandatory arbitration resolution regarding one or more unilateral documents" with the following specific steps: (1) the unilateral document and its author are enrolled; (2) second, a mandatory arbitration clause is incorporated in the unilateral document; (3) "a complainant [sic] [] submit[s] a request for arbitration resolution" (4) an arbitration is conducted; and (5) "support to the arbitration" is provided.

Finally, the method calls for "an award or decision ... [that] is final and binding" to be determined. The parties agreed that these claims did not require the use of a computer or other mechanical device.

Applying the *Bilski* standard, the Federal Circuit found that these claims were not tied to any machine, nor did they describe a "process for the alteration of a composition of matter." Rather, according to the Federal Circuit, the claims sought only to patent "the use of human intelligence in and of itself."

The second set of claims at issue in *Comiskey* recited a "module" for performing such business methods, and some included a limitation whereby the steps would be

performed “through the Internet, intranet, World Wide Web, software applications, telephone, television, cable, video [or radio], magnetic, electronic communication or other communications means.”

The Federal Circuit noted that this second set of claims “could require the use of a machine” so as to satisfy 35 U.S.C. § 101 and remanded those claims to the PTO for determination of whether the addition of such limitations could be sufficient to meet the machine prong of the Bilski test.

Most recently, in *In re Ferguson*, 558 F.3d 1359 (Fed. Cir. 2009), the Federal Circuit affirmed the BPAI’s rejection of a patent claiming methods and paradigms for marketing products.

Specifically, the Federal Circuit held that Bilski was dispositive of the method claims, as the claims did not satisfy the machine-or-transformation test.

Regarding the paradigm claims, the Federal Circuit again cited Bilski and held that the applicants were doing “no more than provid[ing] an abstract idea — a business model for an intangible marketing company.”

The District Courts

Only four District Courts have yet attempted to apply Bilski’s “machine-or-transformation” test.

In the first post-Bilski district court decision, *King Pharmaceuticals Inc. v. Eon Labs Inc.*, 593 F.Supp. 2d 501 (E.D. N.Y., Jan. 20, 2009), the Eastern District of New York granted summary judgment of invalidity against a patentee claiming methods for informing patients about and administering a particular muscle relaxant.

Although an anticipation case, the court noted that the inclusion in the method of a limitation requiring informing the patient of certain inherent properties of administering the relaxant with food could not make the claimed method patentable.

The court noted that Bilski made clear that only methods that meet the “machine-or-transformation” test would be patentable. The court added that the claim failed the Bilski test because the underlying inherent food effect would have been unpatentable, and the act of informing others about that food effect did nothing to transform the relaxant into a different state or thing.

The Central District of California was the first district court to actually cite Bilski in support of a grant of summary judgment on §101 grounds.

In *Fort Properties Inc. v. American Master Lease LLC*, 2009 WL 249 205, *4 (C.D.Cal. Jan. 22, 2009), the court invalidated, as reaching unpatentable subject matter, a patent claiming business methods for creating an investment instrument out of real property.

The court found that the claims involved only the transformation or manipulation of legal ownership interests in real estate and, therefore, did not transform an article or thing as required under Bilski.

The court further noted that the method's creation of "deed shares" was not sufficient transformation, as the deed shares were only "an arrangement of conceptual legal rights, which may or may not be in a printed document," and were not physical objects.

Quickly following suit, in *Cybersource Corporation v. Retail Decisions Inc.*, 2009 WL 815448 (N.D. Cal. Mar. 27, 2009), the Northern District of California granted a motion for summary judgment of invalidity with respect to claims to a method for detecting fraud in a credit card transaction between a consumer and a merchant over the Internet.

The court first found that the claimed processes "manipulated" credit card numbers, but did not "transform" them. Specifically, the court noted that the credit card numbers at issue could not be considered "physical object[s] or substance[s]," nor did they "represent[] a physical credit card."

Rather, "[b]oth the number and the card represent[ed] a common underlying abstraction — a credit card account, which is a series of rights and obligations existing between an account holder or account holders and a card issuer."

In addition, the court held that Bilski's "machine" requirement could not be met. According to the court, claiming that the methods could be performed "over the Internet" was insufficient.

The court interpreted Bilski as requiring that the process be tied to "a particular machine," so that "all uses of a fundamental principle are not preempted in any field." The court also forewarned that, in its opinion, at minimum, Bilski "suggests a perilous future for most business method patents."

The Eastern District of Texas, it appears, may disagree. In *Verstata Software Inc. v. Sun Microsystems*, 2009 WL 1084412 (E.D. Tex. Mar. 31, 2009), that court denied a motion for judgment on the pleadings — despite defendant's argument that the methods claimed could "be performed entirely within the human mind, or using pencil and paper" — on the grounds that Bilski did not create a "broad exclusion" of all software claims from patent eligibility.

Administrative Decisions: The Board of Patent Appeals and Interferences

In contrast to the small number of federal district decisions interpreting Bilski, there have been nearly 50 BPAI decisions citing Bilski since it was issued in October 2008.

A substantial number of these decisions have rejected business method claims under the “particular machine” prong where the steps could otherwise be performed solely by the human mind.

To date, the BPAI has struck down the mere recitation of phrases such as “a computerized method,” “a computer-based method” and methods performed in conjunction with “a processor,” “a computer readable medium,” “a machine processing unit,” “a programmed computer method” and “general user output devices” as not being tied to a “particular” machine.”

Likewise, the general recitation of computer programs and data structures seems to be insufficient. However, at least one decision has found that “the recitation of a structured relationship between multiple stores that requires ‘path information’” may be sufficient. Ex Parte Howard Borenstein, 2009 WL 871128, *3 (Bd. Pat. App. & Interf. Mar. 30, 2009).

While another has found that the “particular machine” test could be satisfied where the preamble mentions “a receiver/decoder unit having a local storage unit” or “a security unit” and that “storage unit” and “security unit” are embodied in the steps of the method, because such units “constitute tangible, solid, real-world machines.” Ex Parte Corinne Le Buhan, 2009 WL 1007620, *2 (Bd. Pat. App. & Interf. Apr. 14, 2009).

While these decisions may begin to suggest ways to meet Bilski’s “particular machine” test, the exact types of “machines” that qualify remain uncertain.

As a result, and until the Supreme Court issues its decision next Fall, applicants and litigants will remain uncertain as to how their claims will fair under the Bilski standard.

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