Are Business Method Patents on Life Support in Light of *Bilski*?

Marin Cionca, Esq.
OCBA-IP/T Section
November 15, 2010

(Practical) OBJECTIVES

- Learn to better challenge or defend business method patents using the decision in *Bilski*
- Learn to better draft and prosecute patent applications for business method inventions

CIONCA Law Group
Professional Corporation

Claim 1 of *Bilski*

1. A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:
   a) initiating a series of transactions … at a fixed rate …
   b) identifying market participants…
   c) initiating a series of transactions … at a second fixed rate …

CIONCA Law Group
Professional Corporation

Federal Circuit
Machine-or-Transformation Test

- Sole patentability test for *process* claims under 35 U.S.C. § 101 (↔ *State Street Bank*, 'useful, concrete, and tangible result', overturned)

  - ✓ process is tied to a particular *machine* or apparatus, or
  - ✓ process *transforms* a particular article into a different state or thing

Bilski: no machine (e.g., computer) or transformation

CIONCA Law Group
Professional Corporation

Federal Circuit (Cont'd)
***Machine-or-Transformation* Test**

- In light of *Flook*, could not be met by:
  - a field-of-use limitation
  - an *insignificant* step such as post- or pre-solution activity

U.S. Supreme Court

Bilski v. Kappos

- *Machine-or-Transformation* Test is NOT the sole patentability test for *process* claims under 35 U.S.C. § 101

  - ✓ a useful and important clue
  - ✓ an investigative tool

CIONCA Law Group
Professional Corporation

U.S. Supreme Court (Cont'd)

Bilski v. Kappos

- *Abstract Ideas* – **Not Patentable** under Section 101 (*process*, machine, manufacture, composition of matter, and useful improvement thereof)

  - ✓ *Bilski* might be a process; however,
  - Case law exceptions: processes that are laws of nature, physical phenomena or *abstract ideas* are not patentable

Bilski = Abstract Idea

CIONCA Law Group
Professional Corporation

U.S. Supreme Court (Cont'd)

Bilski v. Kappos

- Process or *Abstract Idea*?
  - *Benson*: algorithm to convert binary-coded decimal numerals into pure binary code.

Benson = abstract idea; a contrary holding would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself.

CIONCA Law Group
Professional Corporation

U.S. Supreme Court (Cont'd)

Bilski v. Kappos

- Process or *Abstract Idea*?
  - *Flook*: procedure for monitoring the conditions during the catalytic conversion process in the petrochemical and oil-refining industries.

Flook = abstract idea; unpatentable, not because it contained a mathematical algorithm as one component, but because once that algorithm was assumed to be within the prior art, the application, *considered as a whole*, contained no patentable invention; prohibition against patenting abstract ideas cannot be circumvented by attempting to limit the use of the formula to a particular technological environment or adding insignificant post-solution activity.

CIONCA Law Group
Professional Corporation

U.S. Supreme Court (Cont'd)

Bilski v. Kappos

- Process or *Abstract Idea*?

- *Diehr*: a previously unknown method for molding raw, uncured synthetic rubber into cured precision products, using a mathematical formula to complete some of its several steps by way of a computer.

  Diehr = process; the invention has to be *considered as a whole*; the claim was not an attempt to patent a mathematical formula, but rather was an industrial process; while an abstract idea, law of nature, or mathematical formula could not be patented, an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.

CIONCA Law Group
Professional Corporation

U.S. Supreme Court (Cont'd)

Bilski v. Kappos

- *Abstract Idea* Exception Applied to *Bilski*
  - The concept of hedging, described in claim 1 and reduced to a mathematical formula in claim 4, is an unpatentable abstract idea, just like the algorithms at issue in *Benson and Flook.* Allowing petitioners to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.
  - The remaining dependent claims are broad examples of how hedging can be used in commodities and energy markets. *Flook* established that limiting an abstract idea to one *field of use* or adding token *post-solution components* did not make the concept patentable.

CIONCA Law Group
Professional Corporation

What is USPTO saying after *Bilski?*

➢ *Interim Bilski Guidance*, July 27, 2010

- Factors that weigh in favor of patent-eligibility satisfy the criteria of the **machine-or-transformation** test **or** provide evidence that the **abstract idea** has been **practically applied**, and factors that weigh against patent-eligibility neither satisfy the criteria of the machine-or-transformation test nor provide evidence that the abstract idea has been practically applied.

CIONCA Law Group
Professional Corporation

What is USPTO saying after *Bilski?*
(Cont'd)

- *Process Claims That Do Not Meet M-o-T Test Are **Possibly** Patentable*

- "To date, no court, presented with a subject matter eligibility issue, has ever ruled that a method claim that lacked a machine or a transformation was patent-eligible. However, *Bilski* held open the **possibility** that some claims that do not meet the machine-or-transformation test might nevertheless be patent-eligible." *Interim Bilski Guidance (Federal Register Vol. 75, No. 143, p. 43924)*

CIONCA Law Group
Professional Corporation

What is USPTO saying after *Bilski?* (Cont'd)

- *Factors To Be Considered in an Abstract Idea Determination of a Method Claim*

A. Whether the method involves or is executed by a particular **machine** or apparatus. If so, the claims are less likely to be drawn to an abstract idea; if not, they are more likely to be so drawn. Where a machine or apparatus is recited or inherent in a patent claim, the following factors are relevant:

+	-
•particular machine •use of machine for performance •machine imposes meaningful limits on the execution of the claimed method	•general machine •machine is merely an object on which the method operates • machine involvement is extra-solution activity (e.g., data gathering step) or a field-of-use

CIONCA Law Group
Professional Corporation

What is USPTO saying after *Bilski?* (Cont'd)

- *Factors To Be Considered in an Abstract Idea Determination of a Method Claim*

B. Whether performance of the claimed method results in or otherwise involves a **transformation** of a particular article. If such a transformation exists, the claims are less likely to be drawn to an abstract idea; if not, they are more likely to be so drawn. Where a transformation occurs, the following factors are relevant:

+	-
•particular transformation •transformation of a particular article •change of function •physical article •meaningful transformation	•general transformation •transformation of any and all articles • change of location •concept (e.g., mental judgment) •nominal transformation (e.g., in a data gathering step)

CIONCA Law Group
Professional Corporation

What is USPTO saying after *Bilski?* (Cont'd)

- *Factors To Be Considered in an Abstract Idea Determination of a Method Claim*

C. Whether performance of the claimed method involves an **application of a law of nature**, even in the absence of a particular machine, apparatus, or transformation. If such an application exists, the claims are less likely to be drawn to an abstract idea; if not, they are more likely to be so drawn. Where such an application is present, the following factors are relevant:

+	-
•particular application	•general application (e.g., "the use of electromagnetism for transmitting signals at a distance.") •application of a law of nature to a particular way of thinking about, or reacting to, a law of nature •application of the law of nature that contributes only nominally or insignificantly to the execution of the claimed method (inessential step)

CIONCA Law Group
Professional Corporation

What is USPTO saying after *Bilski?*
(Cont'd)

- *Factors To Be Considered in an Abstract Idea Determination of a Method Claim*

D. Whether a **general concept** (which could also be recognized in such terms as a principle, theory, plan or scheme) is involved in executing the steps of the method. The presence of such a general concept can be a clue that the claim is drawn to an abstract idea. Where a general concept is present, the following factors are relevant:

+	-
•a concept that is well-instantiated (i.e., implemented, in a tangible way); however, limiting an abstract idea to one field of use or adding token post-solution components does not make the concept patentable. • steps that are observable and verifiable	•great extent to which use of the concept, as expressed in the method, would preempt its use in other fields; i.e., the claim would effectively grant a **monopoly over the concept**. •claim covers both known and unknown uses •claim effectively covers all possible solutions to a particular problem •steps are subjective or imperceptible

CIONCA Law Group
Professional Corporation

What is USPTO saying after *Bilski?* (Cont'd)

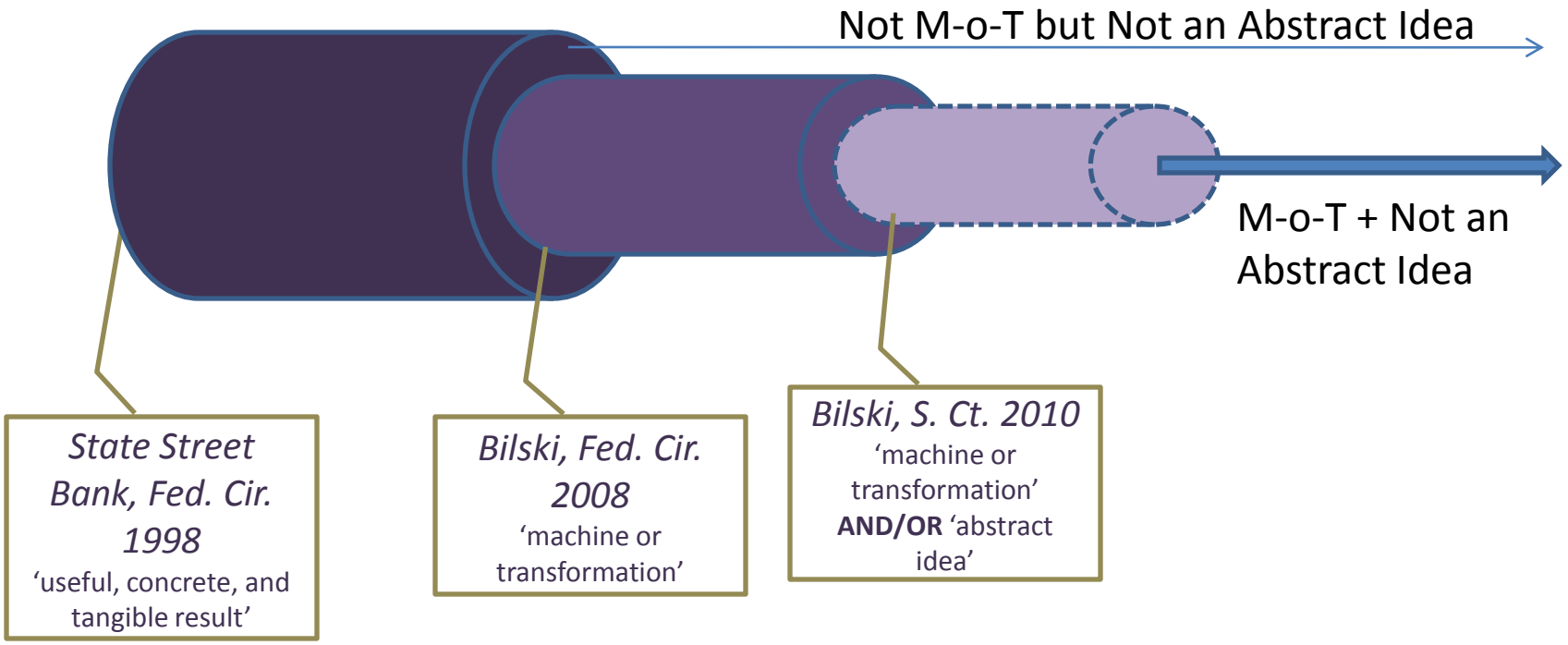
- **Examples of general concepts** include, but are not limited to:

- Basic economic practices or theories (*e.g., hedging, insurance, financial transactions, marketing);*
- Basic legal theories (*e.g., contracts, dispute resolution, rules of law);*
- Mathematical concepts (*e.g., algorithms, spatial relationships, geometry);*
- Mental activity (*e.g., forming a judgment, observation, evaluation, or opinion);*
- Interpersonal interactions or relationships (*e.g., conversing, dating);*
- Teaching concepts (*e.g., memorization, repetition);*
- Human behavior (*e.g., exercising, wearing clothing, following rules or instructions);*
- Instructing "how business should be conducted."

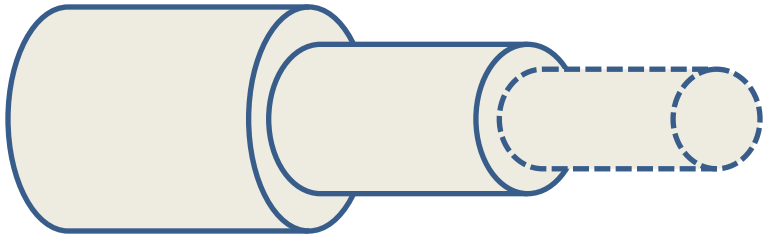
CIONCA Law Group
Professional Corporation

"Business Method" Invention

Narrower Passage Way? Will less "business method" applications survive prosecution?



"Business Method" Invention



Narrower Passage Way?

✓ "Business Method" inventions may still be patentable processes under § 101. No categorical exclusion of business method patents by the Supreme Court.

[At Fed. Cir., dissenting Judge Mayer argued that *Bilski* application was "not eligible for patent protection because it is directed to a method of conducting business." He urged the adoption of a "technological standard for patentability."*]*

▪ *Abstract Idea test*, an additional obstacle?

[At Fed. Cir., dissenting Judge Rader would also have found *Bilski* claims an unpatentable abstract idea.]

[Interim Bilski Guidance:
a claimed method that fails the machine or-transformation test may nonetheless be patent eligible (i.e., is not an abstract idea), and also, **a claimed method that meets the machine-or-transformation test may nonetheless be patent-ineligible** (i.e., is an abstract idea)].

CIONCA Law Group
Professional Corporation

Looking Forward

- Prosecution of "Business Method" Applications
  - Machine-or-Transformation Test – still alive
    - Draft or amend the claim to have at least one essential step implemented by a machine (e.g., computer);
    - If possible, draft or amend the claim to include transformation in one or more essential steps;
  - Watch for "Abstract Idea" Problems
    - Monopoly over a general concept?
    - Field of use limitation: not enough!

CIONCA Law Group
Professional Corporation

Looking Forward

- Challenge/Defend "Business Method" Patents
  - Machine-or-Transformation Test – still alive
    - Determine if the claim have at least one essential step implemented by a machine (e.g., computer);
    - Determine if the claim include transformation in one or more essential steps;
  - Watch for "Abstract Idea" Problems
    - Monopoly over a general concept?
    - Field of use limitation: not enough!

CIONCA Law Group
Professional Corporation

Looking Forward

- "Business Method" Patents Are Still Alive, But…
  - Likely, more "business method" patents will be successfully challenged through litigation (and reexamination?)
  - It is possible that less "business method" applications will issues as patents (USPTO may be strict in applying the Abstract Idea test).
- Watch for future case law developments
  - Will Federal Circuit develop other test(s)?
  - How will the courts apply the *Bilski* precedent?

Thank You

CIONCA Law Group
Professional Corporation