

U.S. Supreme Court Decision in *Bilski v. Kappos* and Its Practical Impact

Jeffrey Kuester, Taylor English Duma LLP
David Cornett, Ballard Spahr LLP
Chris Haggerty, Alston & Bird LLP

July 21, 2010

Bilski v. Kappos, 561 U.S. _____ (2010)

Supreme Court Decision

- **The Originally-Filed Bilski Application:**
 - Title: “ENERGY RISK MANAGEMENT METHOD”
 - 14-page Specification (No Figures)
 - A computer or processor is not explicitly disclosed in the specification
 - Figures were added by amendment as required by the examiner
 - One Independent Claim; Nine Claims Total
 - Independent Claim is a three-step method claim for “managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price”

Bilski v. Kappos, 561 U.S. _____ (2010)

Supreme Court Decision

■ Claim 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:
 - initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at *a* fixed rate based upon historical averages, said fixed rate corresponding *to* a *risk* position of said *consumers*;
 - identifying market participants for said commodity having a counter-risk position to said consumers; and
 - initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.

Bilski v. Kappos, 561 U.S. _____ (2010)

Supreme Court Decision

■ **Chronology:**

- April 1997: Bernard Bilski and Rand Warsaw file application (08/833892 – not published)
 - Application rejected by Examiner
 - Appealed to BPAI, rejection affirmed (September 2006)
 - Appealed to CAFC
- October 2007: Argued before a three-judge panel of the CAFC; before deciding the court orders an en banc rehearing sua sponte

Bilski v. Kappos, 561 U.S. _____ (2010) Supreme Court Decision

■ **Chronology (Cont'd):**

- May 2008: En banc rehearing
- October 2008: Decision issued by the CAFC; rejection upheld, m-or-t test set forth by the CAFC; “useful, concrete and tangible” test of *State Street* is overruled
- June 2009: Supreme Court grants writ of certiorari
- November 2009: Supreme Court hears oral arguments
- June 2010: Supreme Court issues decision (last day of session)

Bilski v. Kappos, 561 U.S. _____ (2010)

Supreme Court Decision

- Opinion delivered by Justice Kennedy
- All of the justices affirmed the CAFC's decision that Bilski's claims are not patent-eligible subject matter
 - Based on "abstract idea" exception to § 101 as defined by *Benson, Flook, Diehr* decisions
- **What it did:**
 - Narrowly decided (5-4) that claims directed toward business methods are not categorically unpatentable
 - "Method" falls within §100(b)'s definition of "process"
 - Congress contemplated business methods with § 273
 - But, "[i]f a high enough bar is not set when considering patent applications of this sort, patent examiners and courts could be flooded with claims that would put a chill on creative endeavor and dynamic change."

Bilski v. Kappos, 561 U.S. _____ (2010)
Supreme Court Decision

- **What it did (cont'd):**
 - M-or-T Test is not the *sole* test for determining patentability of a process
 - Is “a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101.”
 - The exceptions to § 101 remain:
 - Abstract Ideas
 - Laws of Nature
 - Physical Phenomena

Bilski v. Kappos, 561 U.S. _____ (2010) Supreme Court Decision

■ What it did (cont'd):

- Made clear that it was not endorsing any prior tests defined by the CAFC (e.g., the “useful, concrete and tangible” test of patentability for processes and methods as laid out in *State Street*)
- Reiterated that field of use limitations and insignificant postsolution activities fail to create patentability: “Petitioners’ remaining 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 postsolution components did not make the concept patentable. That is exactly what the remaining claims in petitioners’ application do. These claims attempt to patent the use of the abstract idea of hedging risk in the energy market and then instruct the use of well-known random analysis techniques to help establish some of the inputs into the equation.”

Bilski v. Kappos, 561 U.S. _____ (2010)
Supreme Court Decision

- **What it didn't do:**

- Failed to generally define what constitutes an "abstract idea"
 - But, it does tell us that "hedging" is an abstract idea: "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*."
- Failed to provide any additional tests for the patentability of methods or processes

Components of the M-or-T Test

- Tied to Particular Machine or Apparatus
- Transforms a Particular Article Into a Different State or Thing
- Two Considerations:
 - Must Impose Meaningful Limits on the Claim Scope
 - Must Not Merely Be Insignificant Extra-Solution Activity

What We Know

- S. Ct. advises statutory definition of “process” + prior precedents govern.
- Claims that do not meet the M-or-T test may still be patentable.
- Prohibition against patenting abstract ideas cannot be circumvented by attempting to limit field of use or by adding insignificant post-solution activity.
- Transformation – Physical objects are okay, legal obligations are not.
- “Useful, concrete, and tangible result” test is out.

What is Left Unanswered

- Is a general purpose computer good enough?
- What other tests accompany the M-or-T test?
- What is an abstract idea? What pre-empts a fundamental principle?

Fed. Cir. Cases to Consider

Mayo v. Prometheus Labs

A method of optimizing therapeutic efficacy for treatment of an immune-mediated gastrointestinal disorder, comprising:

- (a) administering a drug providing 6-thioguanine to a subject having said immune-mediated gastrointestinal disorder; and
- (b) determining the level of 6-thioguanine in said subject having said immune-mediated gastrointestinal disorder, wherein the level of 6-thioguanine less than about 230 pmol per 8×10^8 red blood cells indicates a need to increase the amount of said drug subsequently administered to said subject and wherein the level of 6-thioguanine greater than about 400 pmol per 8×10^8 red blood cells indicates a need to decrease the amount of said drug subsequently administered to said subject.

Prometheus ...

- The Federal Circuit originally held the method patentable under its *Bilski* test by finding that the required administration of the drug transformed an article into a different state or thing.
- This case had been pending on a petition for a writ of certiorari to the Supreme Court. The Court granted the petition and then summarily vacated the decision with a remand to the Federal Circuit to reconsider the case “in light of *Bilski v. Kappos*, 561 U.S. ____ (2010).”

Classen Immunotherapies Inc. v. Biogen Idec

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, which comprises

immunizing mammals in the treatment group of mammals with one or more doses of one or more immunogens, according to said immunization schedule, and

comparing the incidence, prevalence, frequency or severity of said chronic immune-mediated disorder or the level of a marker of such a disorder, in the treatment group, with that in the control group.

Classen ...

- The Federal Circuit affirmed the District Court's grant of summary judgment that these claims are invalid under 101. The opinion was only 69 words long.
- This case has also been remanded to the Federal Circuit to reconsider "in light of *Bilski v. Kappos*, 561 U.S. ____ (2010)."

Research Corp. Tech. v. Microsoft

A method for the halftoning of color images, comprising the steps of

utilizing, in turn, a pixel-by-pixel comparison of each of the plurality of color planes of said color image against a blue noise mask in which the blue noise mask is comprised of a random non-deterministic, non-white noise single valued function which is designed to provide visually pleasing dot profiles when thresholded at any level of said color images, wherein a plurality of blue noise masks are separately utilized to perform said pixel-by-pixel comparison and in which at least one of said blue noise masks is independent and uncorrected with the other blue noise masks.

Research Corp. Tech. ...

- D. Ariz. held the asserted claims invalid for failing to satisfy 101.
- Microsoft argues that the inventive portion of the claims are directed to the unpatentable mathematical operation of halftoning and the remaining portions use well known technology to preempt use of the mathematical operation.

In Re Bonnstetter

A method of benchmarking a job comprising:

identifying subject matter experts (SMEs) for the job;

facilitating discussion with the SMEs to identify and prioritize key accountabilities of the job;

giving a survey to SMEs to determine soft skills necessary for superior performance in the job, the survey incorporating the key accountabilities;

combining responses to the survey from multiple subject matter experts into a composite report identifying and

prioritizing skills for superior performance for the job; and interviewing a job candidate relative to said prioritized skills.

In Re Bonnstetter ...

- Neither the examiner nor the BPAI suggested that the claim would fail under Section 101. However, in its brief to the Federal Circuit, the USPTO indicated that the claim certainly failed the machine or transformation test (as well as being obvious).
- The specification reports that the invention can be implemented "using pencil and paper."

Accenture Global Servs. GmbH v. Guidewire Software

(D. Del. 2010)

A method for generating a file note for an insurance claim, comprising the steps of, executed in a data processing system, of:

prefilling a first set of fields with information identifying a file note, said information comprising at least one suffix indicating a type of insurance coverage for a participant in a claim and identification of the participant, wherein the at least one suffix is preselected from one or more types of insurance coverage applicable to the claim;

obtaining a selection of fields of a first set of fields from a user, the selection identifying information for a second set of fields;

Accenture Claim Cont...

displaying in the second set of fields, the information identified by selection of field of the first set of fields;

permitting the user to add data to a predefined text area related to each field of the second set of fields based on the selected fields;

generating a file note that contains the first set of fields, the second set of fields, and the data in the predefined text area;

identifying a level of significance of the file note; and

storing the file note with the identified level of significance in a claim database including file notes associated with the claim.

Accenture ...

- District court Judge Sue Robinson requested briefing on whether Accenture's asserted patents are invalid based on *Bilski v. Kappos*.
- The court had previously delayed its ruling on Section 101 pending outcome of that case.

Fort Properties, Inc. v. American Master Lease

A method of creating a real estate investment instrument adapted for

performing tax-deferred exchanges comprising:

aggregating real property to form a real estate portfolio;

encumbering the property in the real estate portfolio with a master agreement; and

creating a plurality of deedshares by dividing title in the real estate portfolio into a plurality of tenant-in-common deeds of at least one predetermined denomination, each of the plurality of deedshares subject to a provision in the master agreement for reaggregating the plurality of tenant-in-common deeds after a specified interval.

Fort Properties ...

- The claims do not recite a machine of any kind.
- C. D. Cal. found that, like *Bilski*, only legal obligations and relationships were transformed.

DealerTrack, Inc. v. Huber

A computer aided method of managing a credit application, the method comprising the steps of:

receiving credit application data from a remote application entry and display device;

selectively forwarding the credit application data to remote funding source terminal devices;

forwarding funding decision data from at least one of the remote funding source terminal devices to the remote application entry and display device; wherein the selectively forwarding the credit application data step further comprises:

sending at least a portion of a credit application to more than one of said remote funding sources substantially at the same time;

DealerTrack Claim Cont...

sending at least a portion of a credit application to more than one of said remote funding sources sequentially until a finding source returns a positive funding decision;

sending at least a portion of a credit application to a first one of said remote funding sources, and

then, after a predetermined time, sending to at least one other remote funding source, until one of the finding sources returns a positive funding decision or until all funding sources have been exhausted; or;

sending the credit application from a first remote funding source to a second remote finding source if the first funding source declines to approve the credit application.

DealerTrack, Inc. ...

- DealerTrack conceded that its asserted '427 patent claims do not meet the transformation prong of the *Bilski* test.
- C. D. Cal. declared the claims of asserted patent invalid for unpatentable subject matter because they were tied to “general purpose computer” systems that were not “specially programmed” to perform the steps claimed.

FuzzySharp Technologies. Inc. v. 3D Labs Inc.

A method of reducing the visibility related computations in 3-D computer graphics, the visibility related computations being performed on 3-D surfaces or their sub-elements, or a selected set of both, the method comprising:

identifying grid cells which are under or related to the projections or extents of projections associated with at least one of said 3-D surfaces or their sub-elements;

comparing data associated with said at least one of 3-D surfaces or their sub-elements with stored data associated with the grid cells;

FuzzySharp Claim Cont...

determining which of said at least one of 3-D surfaces or their sub-elements is always invisible or always visible to a viewpoint or a group of viewpoints by projection based computations prior to a visibility computation; and

ignoring said determined at least one of the 3-D surfaces or their sub-elements during said visibility computation.

FuzzySharp ...

- The plaintiff conceded that claims in question were not transformative, but nevertheless were tied to a particular machine; namely, a computer.
- The N.D. Cal. found that "a computer" is not a particular machine, citing DealerTrack and various BPAI decisions.

Every Penny Counts v. Bank of America

A system, comprising:

a network;

entry means coupled to said network for entering into the network an amount being paid in a transaction by a payor;

identification entering means in said entry means and coupled to said network for entering an identification of the payor;

said network including computing means having data concerning the payor including an excess determinant established by the payor for the accounts;

Every Penny Counts Claim Cont...

said computing means in said network being responsive to said data and said identification entering means for determining an excess payment to the basis of the determinant established by the payor, and

said computing means in said network being responsive to the excess payment

for apportioning at least a part of the excess payment among said accounts on the basis of the excess determined and established by the payor and on the basis of commands established by the payor and controlled by other than the payee.

Every Penny Counts ...

- M. D. Fla. held that the system claim is really directed to "a process, not a machine."
- Although the claim was literally directed to a system, the court characterized the machine's involvement as insignificant extra-solution activity.

CyberSource Corp. v. Retail Decisions, Inc.

A method for detecting fraud in a credit card transaction between a consumer and a merchant over the Internet comprising the steps of:

receiving, from the consumer, credit card information relating to the transaction;

creating and storing a consistency check mechanism, a history check mechanism, an automatic verification mechanism and an Internet identification mechanism, each of which may indicate whether the credit card transaction is fraudulent based on transaction information, in combination with information that identifies the consumer, in which the transaction information provides the merchant with a quantifiable indication of whether the credit card transaction is fraudulent;

receiving from the merchant and storing a weight value associated with each of the mechanisms and storing the weight value in association with information that identifies the mechanisms, wherein each of the weight values signifies an importance to the merchant of the value to the credit card transaction of the associated mechanism;

CyberSource Claim Cont...

weighting each value of the plurality of parameters according to the weight values;

determining whether the credit card information is fraudulent, based upon the values of the parameters and the weight values;

communicating to the merchant, over the Internet, an indication whether the credit card information is fraudulent;

wherein the steps of creating and storing further include:

obtaining other transactions utilizing an Internet address that is identified with the credit card transaction;

constructing a map of credit card numbers based upon the other transactions; and

utilizing the map of credit card numbers to determine if the credit card transaction is valid.

CyberSource ...

- N. D. Cal. held that the claimed manipulation of credit card numbers did not amount to a transformation, and even if it did, a credit card number is not a physical object.
- The court held that "the Internet" was a network of millions of individual machines (rather than a particular machine), and was furthermore an abstraction. ("One can touch a computer or a network cable, but one cannot touch 'the internet'.")
- The court also held that a computer-readable medium claim is not exempt from the machine-or-transformation test.

Practice Tips

- Audits or Opinions
 - Consider reviewing patent portfolio to identify potential problem claims.
- Reexamination/Reissue
 - Reexamination route is difficult.
 - Possible to file a reissue application.
- Claim and Specification Drafting
 - Be proactive!

Thank You!