

# LEGAL UPDATE

## ***IN RE BILSKI* EN BANC REHEARING ON PATENTABLE SUBJECT MATTER: FAREWELL TO BUSINESS METHOD PATENTS?**

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### TABLE OF CONTENTS

I. INTRODUCTION .....	252
II. A BRIEF HISTORY OF BUSINESS METHOD PATENTS .....	255
A. <i>State Street Bank &amp; Trust Co. v. Signature Financial Group, Inc.</i> .....	255
B. <i>AT&amp;T Corp. v. Excel Communications, Inc.</i> .....	256
C. <i>Ex Parte Lundgren</i> .....	257
D. <i>PTO Interim Guidelines</i> .....	257
E. <i>In re Comiskey</i> .....	258
F. <i>In re Nuijten</i> .....	258
III. CASE HISTORY - BILSKI .....	259
A. <i>PTO Examiner's Rejection of Bilski Application</i> .....	259
B. <i>Board of Patent Appeals and Interferences Decision</i> .....	260
C. <i>Court of Appeals for the Federal Circuit Ordered En Banc Rehearing Sua Sponte</i> .....	261
IV. IMPLICATIONS OF BILSKI ON BUSINESS METHOD PATENTS ...	261
A. <i>Uncertainty Regarding the Bilski En Banc Rehearing</i> .....	261
B. <i>Future Supreme Court Decision</i> .....	263
C. <i>Recommendations to Patent Applicants</i> .....	263
V. CONCLUSION .....	263

### I. INTRODUCTION

Title 35 U.S.C. § 101 grants patent protection to “[w]hoever invents or discovers any new and useful process, machine, manufacture, or any new and useful improvement.”<sup>1</sup> Since the 1980s, the judiciary in interpreting § 101

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<sup>1</sup> 35 U.S.C. § 101 (1952).

have expanded the scope of patentable subject matter to include living organisms<sup>2</sup>, computer software<sup>3</sup>, and most recently business methods<sup>4</sup>. The Federal Circuit opened the floodgate to business method and process claims in its 1998 *State Street Bank & Trust Co. v. Signature Financial Group, Inc.* decision, which approved a patent on a data processing method to pool mutual fund assets.<sup>5</sup> After *State Street*, technology start-ups rushed to patent their model for online transactions.<sup>6</sup> Soon brick-and-mortar companies<sup>7</sup> and Wall Street investment firms<sup>8</sup> joined the patent stampede to add business method patents to their portfolios as a means to gain a competitive edge.<sup>9</sup> The exponential increase in filings and its ensuing litigations resulted in a “public outcry for clearer boundaries respecting the patentability of business methods.”<sup>10</sup>

The U.S. Supreme Court has recently issued several decisions to limit the rights and protections of patent holders. The Court has acknowledged the

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<sup>2</sup> *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (holding that “a live, human-made micro-organism is patentable subject matter under [Title 35 U.S.C.] 101. Respondent’s micro-organism constitutes a ‘manufacture’ or ‘composition of matter’ within that statute”).

<sup>3</sup> *In re Beauregard*, 53 F.3d 1583 (Fed. Cir. 1995) (finding that “computer programs embodied in tangible medium, such as floppy diskettes, were patentable”).

<sup>4</sup> *State St. Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) (holding that a data processing system for managing a financial services configuration of a portfolio established as a partnership is patentable) (“[The] patent was directed to machine, not process . . . invention was not unpatentable under mathematical algorithm exception to patentability; and . . . there is no ‘business method’ exception to patentability”).

<sup>5</sup> *Id.*

<sup>6</sup> See, e.g., *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (Fed. Cir., 2001) (Amazon.com successfully secured patent law protection for its “one-click” online payment system in the 2001 decision). See also, e.g., Nate Anderson, Amazon’s “One-Click” Patent Reconsidered, *ARS TECHNICA: THE ART OF TECHNOLOGY*, May 19, 2006, <http://arstechnica.com/news.ars/post/20060519-6872.html> (US Patent and Trademark Office announced its decision to re-examine Amazon’s “one-click” payment patent).

<sup>7</sup> See generally, Josephine Chinying Lang, *Management of Intellectual Property Rights Strategic Patenting*, J. OF INTELL. CAP. (2008) (“In the USA an estimated 17,500 software patents were issued in 1998, and about 22,500 in 1999. Companies such as IBM, NEC, Canon, Samsung, Sony, Toshiba, Fujitsu, Motorola, Lucent Technologies, and Mitsubishi were among the top ten private-sector patent recipients in 1999. With licensing, patents can be a valuable source of revenue. For example, licensing revenues accounted for a fifth of IBM’s profit in 1999”).

<sup>8</sup> See, e.g., Michael Orey, *A Pending Threat to Patents: A Case before An Appeals Court Could Make It Harder To Win Legal Protection for Business Methods*, *BUS. WK.*, Mar. 3, 2008, at 68 (“Merrill Lynch received a patent for its asset allocation strategy”).

<sup>9</sup> *Id.*

<sup>10</sup> Leslie M. Spencer, *Tightening the Reins: The Implications of Recent Federal Circuit Decisions on the Patentability of Business Methods under 35 U.S.C. § 101*, in *Patents, Copyrights, Trademarks, and Literary Property 2008*, at 347 (PLI Patents, Copyrights, Trademarks, and Literary Property, Course Handbook Series No. 14506, 2008).

rising ambiguity of business method patents and appears to be retreating from its philosophy that “anything under the sun that is made by a man”<sup>11</sup> is patentable. In its 2006 *MercExchange, L.L.C. v. eBay, Inc.* decision, the Court noted the “potential vagueness and suspect validity of some business method patents”<sup>12</sup> and contemplated over the suitability of the injunctive remedy for this category of patents.<sup>13</sup> A month later, in *Laboratory Corp. of America Holdings v. Metabolite Labs., Inc.*, the dissenting Justices stated that the Court has not explicitly adopted the *State Street* holding that a process of conducting business is patentable so long as it produces a “useful, concrete, and tangible result.”<sup>14</sup>

The recent activity surrounding the issue of patentable subject matter within the Court of Appeals for the Federal Circuit (“CAFC”) may be a response to the anti-patent sentiment at the Supreme Court.<sup>15</sup> In 2007, the CAFC rejected several claimed business method patents for failure to fall within the four statutory classes of § 101 subject matter or denied patent protection to pure mental processes.<sup>16</sup> In February 2008, the CAFC ordered an en banc rehearing *sua sponte* in *In re Bilski*, a method for hedging consumption risk, to provide guidance on the extent to which business methods are qualified for patent law protection. The court may in fact reconsider the appropriateness of *AT&T Corp. v. Excel Communications, Inc* and *State Street* and whether these decisions have over-expanded patentable subject matter.<sup>17</sup> Thus, the rehearing may culminate a long line of case revolution on business method patents by redefining § 101 boundaries. This update will present a brief history of business method patents leading up to the *In re Bilski* case, introduce the claim in dispute in *In re Bilski*, and discuss the implications of the forthcoming en banc rehearing on the scope of business method patents.

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<sup>11</sup> *Diamond*, 447 U.S. at 309. See also, S.REP.NO.1979, 82D CONG., 2D SESS., 5 (1952); H.R.REP.NO.1923, 82D CONG., 2D SESS., 6 (1952).

<sup>12</sup> *eBay v. MercExchange*, 126 S.Ct. 1837, 1842 (2006) (unanimously deciding that a permanent injunction should not automatically be issued following a finding of patent infringement).

<sup>13</sup> Pavan Agarwal, *Federal Circuit To Consider ‘Business Method’ Patent Eligibility in En Banc Rehearing*, MONDAQ BUS. BRIEFING, Feb. 27, 2008.

<sup>14</sup> *Id.* See also, *Lab. Corp. of Am. Holdings v. Metabolite Lab., Inc.*, 548 U.S. 124 (2006).

<sup>15</sup> *Orey*, *supra* note 9.

<sup>16</sup> See *In re Nuijten*, 500 F.3d 1346, 1357 (Fed. Cir. 2007) (en banc reh’g denied, Feb. 11, 2008); *In re Stephen W. Comiskey*, 499 F.3d 1365, 1377-78 (Fed. Cir. 2007).

<sup>17</sup> See generally, *State St. Bank & Trust Co.*, 149 F.3d 1368; *AT&T Corp. v. Excel Comm., Inc.*, 172 F.3d 1352 (Fed. Cir. 1999).

## II. A BRIEF HISTORY OF BUSINESS METHOD PATENTS

A. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*

The disputed claim in *State Street* was a computerized accounting system used to manage mutual fund investment structures.<sup>18</sup> The central issue was whether computer software performing the function of mathematical accounting functions is patentable subject matter.<sup>19</sup> In 1998, the CAFC held that “the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces ‘a useful, concrete and tangible result’ – a final share price. . .”<sup>20</sup> Furthermore, the court rejected the “so-called ‘business method’ exception to statutory [patentable] subject matter” once and for all.<sup>21</sup>

Although *State Street* only upheld the patentability of a data processing computer program, many applicants interpreted the decision as to make any and all types of business methods patent-eligible so long as the method produces a “useful, tangible, and concrete” result, a test left undefined by the CAFC.<sup>22</sup> Therefore, after *State Street* the demarcating line between patentable processes and unpatentable abstract ideas was blurred. Business methods performed on a machine are generally patentable.<sup>23</sup> However, the controversy

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<sup>18</sup> *State Street Bank & Trust Co.*, 149 F.3d at 1370.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.* at 1373.

<sup>21</sup> *Id.* at 1373-75 (“The Supreme Court has identified three categories of subject matter that are unpatentable, namely ‘laws of nature, natural phenomena, and abstract ideas.’ . . . [I]t is improper to read limitations into § 101 on the subject matter that may be patented where the legislative history indicates that Congress clearly did not intend such limitations”).

<sup>22</sup> See James G. Gatto & Larry J. Hume, *En Banc Federal Circuit to Revisit The Scope of Patentable Subject Matter: Will Business Method Patents Survive?*, E-COMMERCE LAW REPORT, Feb. 2008; Brief for Appellee Director of the United States Patent and Trademark Office, at 5, *In re Bernard L. Bilski and Rand A. Warsaw*, No. 2007-1130 (Fed. Cir. June 13, 2007) [hereinafter PTO CAFC Brief]; Supplemental Brief for Bernard L. Bilski as Appellants Pursuant to the Court’s Order of Feb. 15, 2008 at 25, 15-16, *In re Bernard L. Bilski and Rand A. Warsaw*, No. 2007-1130 (Fed. Cir. Mar. 6, 2008) [hereinafter Bilski Rehearing Brief] (“Over the past several years, the USPTO has witnessed many applicants, including Bilski, take the position that *State Street* and *AT&T* effectively reduced the section 101 condition of patentability to nothing more than a question of ‘usefulness’”).

<sup>23</sup> See *State St. Bank & Trust Co.*, 149 F.3d at 1371-72; *AT&T Corp.*, 172 F.3d at 1358; PTO CAFC Brief, *supra* note 23, at 46; *Comiskey*, 499 F.3d at 1377 (explaining that the inventions in both *State Street* and *AT&T* were patent-eligible “because they claimed practical applications and were tied to specific machines”) (*Comiskey* did not offer blanket patent protection for all methods tied to a machine because it also recognized that “a mere use of the machine to collect data necessary for application of the mental process may not make the claim patentable subject matter”); Supplemental Brief for Appellee Director of the United States Patent and Trademark Office Pursuant to the Court’s Order of Feb. 15, 2008

remains in determining statutory subject matter when a machine does not implement the method. Those contending for the patentability of all business method patents reference the broad language in *State Street* as evidence of judicial intent to expand the scope of patentable subject matter to all “useful” methods.<sup>24</sup> Others advocated limiting the scope of patentable business methods as to prevent misuse of the patent system.<sup>25</sup> After *State Street*, the U.S. Patent and Trademark Office (“PTO”) was inundated with claims that do not involve technology, including financial methods, arbitration methods, teaching methods, and even methods for simple routines such as swinging on a playground swing.<sup>26</sup> Thus, in the succeeding years, the courts and PTO struggled to offer clear guidelines on the confines of subject matter patentable methods.

*B. AT&T Corp. v. Excel Communications, Inc.*

In *AT&T* the Federal Circuit in 1999 found that a method involving electronic switches and a telecommunication system was patent-eligible.<sup>27</sup> The claimed process was patentable because it produced “a useful, concrete, tangible result” and, therefore, fell comfortably within the scope of § 101.<sup>28</sup> Citing its 1994 en banc decision in *In re Alappat*<sup>29</sup>, the court explained the limitations on the patentability of mathematical subject matter as follows:

[The Court] never intended to create an overly broad, fourth category of [mathematical] subject matter excluded from § 101. Rather, at the core of the Court’s analysis . . . lies an attempt by the Court to explain a rather straightforward concept, namely, that certain types of mathematical subject matter, *standing alone, represent nothing more than abstract ideas until reduced to some type of practical application, and thus that subject matter is not, in and of itself, entitled to patent protection.*<sup>30</sup>

The Court also proceeded to support its decision by referencing *State Street*,

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at 27, *In re Bernard L. Bilski and Rand A. Warsaw*, No. 2007-1130 (Fed. Cir. Mar. 6, 2008) [hereinafter PTO Rehearing Brief] (“[A] process claim must either transform an article to a different state or thing, or be tied to a particular apparatus, in a manner that is not merely incidental or insignificant”).

<sup>24</sup> See Bilski Rehearing Brief, *supra* note 23, at 6-7, 15-16; Reply Brief of Bernard L. Bilski as Appellants at 2, *In re Bernard L. Bilski and Rand A. Warsaw* (Fed. Cir. July 2, 2007) [hereinafter Bilski CAFC Brief].

<sup>25</sup> See PTO Rehearing Brief, *supra* note 24, at 32 (“[T]he *State Street* decision has been widely misread as giving *imprimatur* for the patentability of all methods of doing business regardless of whether they satisfy the traditional section 101 eligibility requirements”).

<sup>26</sup> PTO CAFC Brief, *supra* note 23, at 5.

<sup>27</sup> *AT&T Corp.*, 172 F.3d 1352.

<sup>28</sup> *Id.* at 1358.

<sup>29</sup> *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994).

<sup>30</sup> *AT&T Corp.*, 172 F.3d at 1357 (Fed. Cir. 1999) (citing *In re Alappat*, 33 F.3d at 1543) (emphasis added).

stating “any step-by-step process, be it electronic, chemical, or mechanical, involves an ‘algorithm’ in the broad sense of the term.”<sup>31</sup> In addition, the CAFC found that the disputed claims containing mathematical algorithms “need not involve physical transformation or conversion of subject matter from one state into another to be deemed patentable subject matter.”<sup>32</sup>

### C. *Ex Parte Lundgren*

Seven years after *State Street*, the CAFC in 2005 upheld a method of compensating managers in a privately owned firm even though it did not require a computer or other machine for its implementation.<sup>33</sup> The examiner rejected the claims arguing that it was non-statutory because it was “outside the technological arts, namely an economic theory expressed as a mathematical algorithm without the disclosure or suggestion of a computer, automated means, apparatus of any kind.”<sup>34</sup> The claimed patent was a pure business method. The Board of Patent Appeals and Interferences (“Board”) found that the examiner’s rejection of the application was improper because patentable subject matter is not limited to the technological arts.<sup>35</sup> The majority refused to exclude the claims under § 101 on any other ground.

The dissenting opinions, however, offered a new ground for rejection. Judge Barrett joined by Judge Smith argued that the claimed method “does not fall within the definition of a process under § 101 because it does not transform physical subject matter into a different state or thing,” and concluded that “it was an abstract idea.”<sup>36</sup> The dissent reasoned that the claims failed the *State Street* test requiring a “useful, concrete and tangible result” because a concrete and tangible result, in contrast to an abstract idea, requires physical instantiation.<sup>37</sup>

### D. *PTO Interim Guidelines*

To address the rise in non-technology business method patent applications, the PTO issued Interim Examination Guidelines<sup>38</sup> (“Guidelines”) on November

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<sup>31</sup> *Id.* at 1356 (citing *State Street*, 149 F.3d at 1374-75) (emphasis added); PTO Rehearing Brief, *supra* note 24, at 29-30 (“AT&T . . . has frequently been misunderstood as ignoring the qualifiers” in the quotation cited).

<sup>32</sup> *Id.* at 1358.

<sup>33</sup> *Ex parte Lundgren*, 76 U.S.P.Q.2D 1385 (2005).

<sup>34</sup> *Id.* at 1386.

<sup>35</sup> *Id.* at 1388.

<sup>36</sup> *Id.* at 1431-32.

<sup>37</sup> *Id.* at 1432.

<sup>38</sup> See United States Patent and Trademark Office: Interim Guidelines for Examination of Patent Applications for Patent Subject Matter Eligibility (Nov. 22, 2005), available at <http://www.uspto.gov/go/og/2005/week47/patgupa.htm> (The PTO states that “these guidelines are based on the USPTO’s current understanding of the law and are believed to be fully consistent with binding precedent of the Supreme Court, the Federal Circuit and the

22, 2005 to assist its examiners in determining whether the subject matter as claimed is eligible for patent protection. The Guidelines first direct the examiner to ascertain which of the enumerated statutory category (i.e., process, manufacture, machine, or composition of matter) the claimed invention falls within. Then the examiner checks whether any of the three exceptions to patentability (i.e., abstract idea, laws of nature, or mental step) is applicable. To determine whether the invention meets the practical application requirement, the examiner must decide whether the claimed invention “transforms” an article or physical object to a different state or thing, or whether the claimed invention produces a “useful, concrete and tangible result.”<sup>39</sup> Finally, the Guidelines require the examiner to reexamine the claims as to be confident that the application does not in reality seek patent protection for an exception to patentability – that is, a law of nature, natural phenomenon, or abstract idea.<sup>40</sup> Although the Guidelines are internal PTO rules without the force of law, they are derived from recent decisions and, therefore, reflective of the PTO’s understanding of the current state of law in this area.

*E. In re Comiskey*

On September 20, 2007, the CAFC found that a process to resolve legal disputes by a human arbitrator is an abstract idea that is not patent-eligible under § 101.<sup>41</sup> Although the Board found that the claim was unpatentable for failure to meet the obviousness requirements under § 103, the CAFC affirmed the Board’s decision to reject the invention on § 101 grounds. The court explained that “a claim reciting an algorithm or abstract idea can state statutory subject matter only if. . .it is embodied in, operates on, transforms, or otherwise involves another class of statutory subject matter under § 101 – a process, machine, manufacture, or composition of matter.”<sup>42</sup> After the *In re Comiskey* decision, although mental processes alone are unpatentable subject matter, it may still be patentable under § 101 if combined with a machine.<sup>43</sup>

*F. In re Nuijten*

On the same day as the *In re Comiskey* decision, the CAFC also held that signals embedded with information allowing them to place signal digital watermarks on electronic data files are unpatentable. Rejecting Nuijten’s argument that under *State Street* the utility of the invention should be paramount in determining its patentability, the court held that the claims do not

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Federal Circuit’s predecessor courts.” Therefore, the Guidelines only reflect the PTO’s understanding of the current state of law with regard to business method patents).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> *Comiskey*, 499 F.3d at 1365.

<sup>42</sup> *Id.* at 1376.

<sup>43</sup> *Patents/Patentability: En Banc CAFC Will Address Scope of Subject Matter Patentable under § 101*, BNA’S PAT., TRADEMARK & COPYRIGHT J., Feb. 22, 2008.

fit into any of the four patentable subject matter categories set forth in § 101 – a process, machine, manufacture, or composition of matter.<sup>44</sup> Judge Gajarsa argued that *State Street* should not be interpreted as “holding that the four statutory categories are rendered irrelevant, non-limiting, or subsumed into an overarching question about patentable utility.”<sup>45</sup> Rather, *State Street* simply instructs the court to avoid being “overly concerned with pigeonholing subject matter once the court assures itself that some category has been satisfied.”<sup>46</sup> The CAFC denied Nuijten’s petition for en banc rehearing on February 11, 2008.<sup>47</sup>

The CAFC decisions in *In re Nuijten* and *In re Comisky* substantially narrowed the scope of § 101. After these cases, the PTO and patent holders contended over whether a business method must be combined with a machine or fall within another statutory category in order to meet the subject matter requirements of § 101. Both sides are now looking to *In re Bilski* to clarify the ambiguous case law.

### III. CASE HISTORY - BILSKI

#### *A. PTO Examiner’s Rejection of Bilski Application*

In 1997, Bernard L. Bilski and Rand A. Warsaw filed a patent application on a method for hedging risks in the energy market.<sup>48</sup> The claim does not require a computer or other technology to implement the method.<sup>49</sup> Furthermore, at least one of the steps of the method is a mental step.<sup>50</sup>

The PTO examiner rejected claims 1-11 as a nonstatutory § 101 subject matter because “it is not implemented on a specific apparatus and merely manipulates [an] abstract idea and solves a purely mathematical problem

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<sup>44</sup> Nuijten, 500 F.3d at 1353-54.

<sup>45</sup> *Id.* at 1354. *See also*, *State St. Bank & Trust Co.*, 149 F.3d at 1372.

<sup>46</sup> Nuijten, 500 F.3d at 1354.

<sup>47</sup> *Id.* at 1361.

<sup>48</sup> Claim 1 of the *Bilski* application, the most significant independent claim, reads as follows:

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 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 consumer;

(b) identifying market participants for said commodity having a counter-risk position to said consumers; and

(c) 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.

<sup>49</sup> Gatto, *supra* note 23.

<sup>50</sup> *Id.*



without any limitation to a practical application.”<sup>51</sup> The examiner found that the claims fell within the abstract idea exception of patentable subject matter since “no specific apparatus is disclosed to perform the steps of the method.”<sup>52</sup> In reaching its decision, the examiner focused on the applicant’s admission that the steps of the method do not need to be performed on a computer or machine.<sup>53</sup> The examiner, therefore, concluded that the non-machine-implemented method claims are unpatentable subject matters because they are “directed solely to an abstract idea and solves...a purely mathematical problem without practical application in the technological arts.”<sup>54</sup>

#### *B. Board of Patent Appeals and Interferences Decision*

On appeal, the Board identified and applied three possible tests in determining the patentability of the Bilski claims: “(1) whether the process transforms physical subject matter to a different state or thing, (2) whether the process falls outside the abstract idea exclusion by being ‘instantiated in some physical way’ and by not claiming or ‘preempting’ any and every way of performing the abstract idea, and (3) whether the process yields a ‘useful, concrete, and tangible result’ as set forth in *State Street*.”<sup>55</sup> In applying each of these tests, the Board “focused on the extent of physical transformation in the claimed processes” and ultimately concluded that the Bilski claims failed all three tests.<sup>56</sup> Specifically, the Board held that the steps of the method do not transform any physical subject matter into a different state or thing.<sup>57</sup> Furthermore, the method without a physical device remains an abstract idea “until it is instantiated in some physical way so as to become a practical application of the idea.”<sup>58</sup> The Board also rejected the claims as nonstatutory subject matter because they do not recite a “practical application” or produce a “concrete and tangible result” under the *State Street* test.<sup>59</sup> The Board in writing its decision described the PTO’s struggles in defining the boundaries between patentable business methods and abstract idea and sought guidance from the CAFC on the issue.

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<sup>51</sup> *Ex Parte* Bernard L. Bilski and Rand A. Warsaw, 2006 WL 4080055 at 1 (Bd. Pat. App. & Int. Sept. 2006) (Patent Appeals and Interferences Patent and Trademark Office decision citing pages of the final rejection issued by the PTO examiner).

<sup>52</sup> *Id.* at 2.

<sup>53</sup> *Id.* at 2.

<sup>54</sup> *Id.* at 1.

<sup>55</sup> See Brief of American Intellectual Property Law Assoc. as Amicus Curiae Supporting Appellants at 5; *In re* Bernard L. Bilski and Rand A. Warsaw (Fed. Cir. Apr. 30, 2007) (citing *Ex Parte* Bilski at 18-22).

<sup>56</sup> *Id.*

<sup>57</sup> *Ex Parte* Bernard L. Bilski and Rand A. Warsaw, 2006 WL 4080055 at 18.

<sup>58</sup> *Id.* at 21.

<sup>59</sup> *Id.* at 22.

*C. Court of Appeals for the Federal Circuit Ordered En Banc Rehearing Sua Sponte*

The *In re Bilski* case follows suit from two recent CAFC decisions in *In re Nuijten* and *In re Comisky* which rejected the patent claim for propagating signals and mental process respectively.<sup>60</sup> A CAFC three-judge panel heard on October 1, 2007 the *In re Bilski* appeal from the examiners' and Boards' decisions.<sup>61</sup> To both sides' surprise, the CAFC on February 15, 2008 ordered on its own initiative an en banc rehearing to address the boundaries of patentable subject matter.<sup>62</sup> The court framed the issues for review as follows and accordingly requested the parties to file supplemental briefs on the following questions:

1. Whether claim 1 of the 08/833,892 patent application claims patent-eligible subject matter under 35 U.S.C. § 101?
2. What standard should govern in determining whether a process is patent-eligible subject matter under § 101?
3. Whether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process; when does a claim that contains both mental and physical steps create patent-eligible subject matter?
4. Whether a method or process must result in a physical transformation of an article or be tied to a machine to be patent-eligible subject matter under § 101?
5. Whether it is appropriate to reconsider *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, and *AT&T Corp. v. Excel Communications*, in this case and, if so, whether those cases should be overruled in any respect?<sup>63</sup>

Oral arguments are set to begin on May 8, 2008.

#### IV. IMPLICATIONS OF BILSKI ON BUSINESS METHOD PATENTS

*A. Uncertainty Regarding the Bilski En Banc Rehearing*

The result of the *In re Bilski* en banc rehearing is uncertain, but the CACF's intent to draw clearer boundaries between patent-eligible business methods and patent-ineligible mental processes is pronounced.<sup>64</sup> The question remains as to

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<sup>60</sup> Gatto, *supra* note 23.

<sup>61</sup> Patents/Patentability, *supra* note 44.

<sup>62</sup> *In re Bilski*, 2008 WL 417680 (Fed. Cir. 2008).

<sup>63</sup> *Id.*

<sup>64</sup> Agarwal, *supra* note 14. See also, Dennis Crouch, *Bilski: Full CAFC to Reexamine the Scope of Subject Matter Patentability*, <http://www.patentlyo.com/patent/2008/02/bilski-full-caf.html> [hereinafter Crouch].

how these limitations will be defined – will the court merely differentiate *In re Bilski* from *State Street*, or overturn *State Street* to eliminate business method patents altogether?

Some commentators are uneasy about the en banc rehearing because the decision “has the potential to eliminate an entire class of patents.”<sup>65</sup> Noting the fact that the Bilski claim is obvious and unspecific,<sup>66</sup> cynics are concerned that the CAFC may be using this imperfect claim as a means to curb the coverage of § 101 and eliminate business method patents altogether.<sup>67</sup> A complete overturning of *State Street*, however, is unlikely because it would deny patent protection to all methods, even those processes that connect to a machine or transform an article or physical object to a different state. Furthermore, a blanket exclusion of business method patents would be contrary to the legislative intent and the statutory language under § 101 to grant patent protection to “any new and useful . . . process.”<sup>68</sup>

The CAFC is more likely to differentiate the patentability of various types of business method patents, which range from machine-implemented process claims to pure mental methods. To start, the court may decide that the statutory subject matter of “process” is not all encompassing. The panel may hold that only two categories of methods are patent-eligible – that is, processes tied to a particular apparatus or “result in a physical transformation of an article.”<sup>69</sup> The Bilski claim can then be distinguished from that of *State Street* and *AT&T*; the former does not require any machine to implement the invention<sup>70</sup> and does not transform any matter to a different state of thing as to fall within the statutory definition of a patent-eligible “process.”<sup>71</sup> In contrast, the disputed claim in *State Street* was computer-implemented and the claim in *AT&T* was a machine-based process, both of which fall within the “machine” statutory category for patentable subject matter.<sup>72</sup> Under this narrower definition of “process,” the Bilski claim is not a patent-eligible § 101 process because it merely recites an abstract idea. A CAFC decision to distinguish, but not overrule, *State Street* and *AT&T* may be the easiest, least-disruptive fix-up solution to the § 101 quandary.

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<sup>65</sup> Orey, *supra* note 9.

<sup>66</sup> Crouch, *supra* note 65; *See also*, PTO Rehearing Brief at 5 (“Instead, the claim is so broad as to include a non-machine implement method in which human beings negotiate and enter into commodity contracts”).

<sup>67</sup> *Id.*

<sup>68</sup> 35 U.S.C. § 101.

<sup>69</sup> Gatto, *supra* note 23; *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978) (quoting *Cochrane v. Deener*, 94 U.S. 780, 787-88 (1876)); *Diamond*, 450 U.S. at 185 (quoting *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972)).

<sup>70</sup> PTO CAFC Brief, *supra* note 23 at 21-24; PTO Rehearing Brief, *supra* note 24, at 26-7.

<sup>71</sup> PTO CAFC Brief at 33.

<sup>72</sup> *Id.* at 31.

In addition, the CAFC may further limit *State Street*'s "useful, concrete and tangible result" test to machines and machine-implemented methods that transform data. All of the decisions that have applied the "useful, concrete and tangible result" test have all involved "computer-controlled data transformation using a mathematical algorithm, thereby suggesting that it not a general test for [patent] eligibility."<sup>73</sup> The *Bilski* claims do not involve the machine implementation of mathematical algorithms and are arguably outside the applicability of the "useful, concrete and tangible result" test.

#### B. Future Supreme Court Decision

Defining statutory subject matter eligible for patents is an increasingly difficult task for PTO examiners, the Board, and the CAFC. The Supreme Court may have to resolve the tension between "protecting inventions to encourage innovation and stifling invention through overprotection."<sup>74</sup> If the dissenting opinions in *MercExchange, L.L.C. v. eBay, Inc.* and *Laboratory Corp. of America Holdings v. Metabolite Labs., Inc.* are any indication of the Justices' growing distaste for overly broad business method patents, a Supreme Court decision on the issue of patent-eligible subject matter under § 101 may be forthcoming.

#### C. Recommendations to Patent Applicants

Before the law on patentable subject matter is solidified, patent applicants should be cognizant of the developments in the law regarding subject matter eligibility under § 101. To ensure that the process will be patentable irrespective of the results of the *In re Bilski* decision, applicants should include claims with detailed specifications and physical manifestations in one of the four established statutory categories for patentable subject matter.

### V. CONCLUSION

The *In re Bilski* en banc rehearing reflects the courts' attitude concerning vague business method patents and answers the PTO's plea for guidance on the scope of patent-eligible subject matter. The CAFC hopes to provide clearer boundaries between patent-eligible business methods and patent-ineligible mental processes through the rehearing. Although a complete eradication of business methods as a category of patents is unlikely, the *In re Bilski* decision may nevertheless change the landscape of patentable subject matter under § 101.

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<sup>73</sup> *Id.* at 43-45.

<sup>74</sup> Philip McGarrigle & Vern Norviel, *Laws of Nature and the Business of Biotechnology*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 275, 333 (2008).