

KEY IDEAS:

1. Understand the Statute’s Basic Language1

2. Know New Cases.....2

3. Remember Inherent Balancing Act Underlying Patent Rights4

4. Understand Application of 35 U.S.C. § 101.....6

5. Three Categories Clearly Not Patentable.....7

6. Claim Construction Comes First7

7. Patentable Subject Matter a Threshold Issue8

8. “Machine-or-Transformation” Test Not Exclusive8

9. Must Subject Matter Be Distinct From Product of Nature?8

10. “Business Methods” May Be Patentable9

Prepared by:



PETER STRAND
Washington, D.C.
(202) 783-8400
pstrand@shb.com

Peter is a partner in the Firm’s Intellectual Property & Technology Litigation Practice. He holds an LLM in intellectual property law from the University of Houston School of Law.

EVERYTHING UNDER THE SUN OR PARTIAL ECLIPSE?
TEN RULES FOR PATENTABLE SUBJECT MATTER

Is nature the mother of all invention? Are abstract concepts just too slippery for patentable traction? When Congress gained the power to grant patents in 1787 at the Constitutional Convention,¹ the Patent Clause passed without objection or debate.² That, however, was likely the last time patent rights were not subject to the teeter-totter of discussion and debate.

Fast forward to 2010, where two cases have refocused attention on what constitutes patentable subject matter. In April, Judge Robert Sweet of the Southern District of New York sent shock waves through the biotech world by declaring that patent claims for isolated DNA and analyzing and comparing DNA sequences were unpatentable subject matter under 35 U.S.C. §101.³

Less than 90 days later, in its long-awaited opinion in *Bilski*, the U.S. Supreme Court narrowed the range of business method patents when it determined claims of an invention relating to hedging strategies in the energy market⁴ were impermissible attempts to patent abstract ideas.⁵

While the courts and commentators hash out unsettled issues of “patentability,” certain fundamental concepts remain constant. To ride out the storm, wise patent practitioners will add the following 10 patentable subject matter rules to their IP IQ.

1. Understand the Statute’s Basic Language

Section 101 defines subject matter that may be patented under the Patent Act:

“Whoever *invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.*”⁶

Four independent categories of inventions or discoveries are eligible for protection: processes, machines, manufactures, and compositions of matter.⁷ Section 100(b) defines

1 *Bilski v. Kappos*, ___ U.S. ___, 130 S. Ct. 3218, 3242, n.22 (2010) (Stevens, J., concurring in the judgment).

2 *Id.* at 3242, n.23.

3 *Ass’n of Molecular Pathology v. U.S. Patent & Trademark Office*, 702 F. Supp. 2d 181 (S.D.N.Y. 2010) (*Myriad*).

4 *Bilski v. Kappos*, 130 S. Ct. at 3223.

5 *Id.* at 3229-30.

6 35 U.S.C. § 101 (emphasis added).

7 *Bilski v. Kappos*, 130 S. Ct. at 3223.

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

Although the U.S. Supreme Court affirmed the Federal Circuit, it eviscerated the underlying opinion, saying, “The patent application here can be rejected under our precedents on the unpatentability of abstract ideas. The Court, therefore, need not define further what constitutes a patentable ‘process,’ beyond pointing to the definition of that term provided in § 100(b) and looking to the guideposts in *Benson*, *Flook*, and *Diehr*.”

The Court considered two “proposed categorical limitations” on “process” patents under § 101: the machine-or-transformation test and the categorical exclusion of business method patents.

“process” as a “process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.”⁸

2. Know New Cases

Volumes have been written about *Bilski* and *Myriad*, but a brief refresher on each case is worthwhile.

Bilski v. Kappos, __ U.S. __, 130 S. Ct. 3218 (2010)

In *Bilski*, the Court examined “whether a patent can be issued for a claimed invention designed for the business world.”⁹

Bilski sought patent protection for an invention that explained how buyers and sellers of commodities in the energy market can protect, or hedge, against the risk of price changes.¹⁰ After the patent examiner rejected petitioner’s application because the claimed invention, in part, “merely manipulates [an] abstract idea,” the Board of Patent Appeals and Interferences affirmed, saying the application involved only mental steps that do not transform physical matter and was directed to an abstract idea.¹¹

The Federal Circuit Court of Appeals subsequently affirmed the Board of Patent Appeals.¹² The Federal Circuit said, “[a] claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.”¹³ The Federal Circuit then decided that the “machine-or-transformation test” is “the sole test governing § 101 analyses,” and is the “test for determining patent eligibility of a process under § 101.”¹⁴ Applying its machine-or-transformation test, the Federal Circuit said petitioner’s application was not patent eligible.¹⁵

Although the U.S. Supreme Court affirmed the Federal Circuit, it eviscerated the underlying opinion, saying, “The patent application here can be rejected under our precedents on the unpatentability of abstract ideas. The Court, therefore, need not define further what constitutes a patentable ‘process,’ beyond pointing to the definition of that term provided in § 100(b) and looking to the guideposts in *Benson*, *Flook*, and *Diehr*.”¹⁶

The Court considered two “proposed categorical limitations” on “process” patents under § 101: the machine-or-transformation test and the categorical exclusion of business method patents.¹⁷

The Court first noted, “Under the Court of Appeals’ formulation, an invention is a ‘process’ only if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.”¹⁸ The Court flatly rejected this statutory construction.

⁸ 35 U.S.C. § 100(b).

⁹ *Id.*

¹⁰ *Id.* at 3224.

¹¹ *Id.*

¹² *In re Bilski*, 545 F.3d 943, 959-60, and n.19 (Fed. Cir. 2008) (en banc).

¹³ *Id.* at 954.

¹⁴ *Id.* at 955-56 (emphasis added).

¹⁵ *Id.* at 963-66.

¹⁶ *Bilski v. Kappos*, __ U.S. __, 130 S. Ct. 3218, 3231 (2010).

¹⁷ *Id.* at 3225.

¹⁸ *Id.* at 3225 (citing *In re Bilski*, 545 F.3d at 954).

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

In patent law, as in all statutory construction, “[u]nless otherwise defined, ‘words will be interpreted as taking their ordinary, contemporary, common meaning.’” The Court then said it “is unaware of any ordinary, contemporary, common meaning, of the definitional terms ‘process, art or method’ that would require these terms to be tied to a machine or to transform an article.”

... all members of the Court agree that the patent application at issue here falls outside of § 101 because it claims an abstract idea.”

Opening its analysis, the Court observed that it has “more than once cautioned that courts should not read into the patent laws limitations and conditions which the legislature has not expressed.”¹⁹ In patent law, as in all statutory construction, “[u]nless otherwise defined, ‘words will be interpreted as taking their ordinary, contemporary, common meaning.’”²⁰ The Court then said it “is unaware of any ordinary, contemporary, common meaning, of the definitional terms ‘process, art or method’ that would require these terms to be tied to a machine or to transform an article.”²¹ Given this, the Court observed, “The Court of Appeals incorrectly concluded that this Court has endorsed the machine-or-transformation test as the exclusive test.”²²

But the Court did not reject the test. Rather, “This Court’s precedents establish that the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101. The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible ‘process.’”²³

As set forth below, the Court also refused to adopt an argument that business method patents are *per se* not patentable subject matter.

To resolve this conundrum, the Court said, “Rather than adopting categorical rules that might have wide-ranging and unforeseen impacts, the Court resolves this case narrowly on the basis of this Court’s decisions in *Benson*, *Flook*, and *Diehr*, which show that petitioners’ claims are not patentable processes because they are attempts to patent abstract ideas. Indeed, all members of the Court agree that the patent application at issue here falls outside of § 101 because it claims an abstract idea.”²⁴

***Association of Molecular Pathology v. U.S. Patent & Trademark Office*, 702 F. Supp. 2d 181 (S.D.N.Y. 2010) (*Myriad*)**

In *Myriad*, the District Court for the Southern District of New York faced the “unique and challenging question: Are isolated human genes and the comparison of their sequences patentable?”²⁵

The challenged patent claims are directed to (1) isolated DNA containing all or portions of the *BRCA1* and *BRCA2* gene sequence, and (2) methods for “comparing” or “analyzing” *BRCA1* and *BRCA2* gene sequences to identify the presence of mutations correlating with a predisposition to breast or ovarian cancer.²⁶ The claims-in-suit include two types of claims: composition claims and method, or process, claims.²⁷

Plaintiffs moved for summary judgment seeking, in part, to declare invalid under 35 U.S.C. § 101 15 claims contained in seven patents relating to the human *BRCA1* and *BRCA2* genes because the patent claims cover products of nature, laws of nature and/or natural phenomena, and abstract ideas or basic human knowledge or thought.²⁸

19 *Id.* at 3226 (citing *Diamond v. Diehr*, 450 U.S. 175, 182 (1981)) (internal quotation marks omitted).

20 *Id.* (some internal quotation marks omitted).

21 *Id.* (some internal quotation marks omitted).

22 *Id.*

23 *Id.* at 3227.

24 *Id.* at 3229-30.

25 *Myriad*, 702 F. Supp. 2d 181, 184 (S.D.N.Y. 2010).

26 *Id.* at 185.

27 *Id.* at 212.

28 *Id.* at 184.

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

First, in reaching its conclusion, the court rejected arguments that it shouldn't consider the merits of plaintiffs' motion. Second, the *Myriad* court decided, to be patentable, an invention must be "markedly different" from a product of nature.

Applying the second standard, the court decided that the claimed isolated DNA is not "markedly different" from native DNA because it exists in nature and is, therefore, unpatentable under 35 U.S.C. § 101.

The district court rejected the patent claims, saying, "DNA's existence in an 'isolated' form alters neither this fundamental quality of DNA as it exists in the body nor the information it encodes. Therefore, the patents at issue directed to 'isolated DNA' containing sequences found in nature are unsustainable as a matter of law and are deemed unpatentable subject matter under 35 U.S.C. § 101."²⁹ Similarly, the court held, "because the claimed comparisons of DNA sequences are abstract mental processes, they also constitute unpatentable subject matter under § 101."³⁰

The opinion contains an extensive discussion of the development of genetics as a field of knowledge, molecular biology and gene sequencing, DNA, extracted and purified DNA, RNA, cDNA and DNA sequencing, the development of the patents-in-suit, application of the patents-in-suit, Myriad's *BRCA1/2* testing, funding for Myriad's *BRCA1/2* tests, Myriad's enforcement of the patents-in-suit, the impact of Myriad's patents on *BRCA1/2* testing, and the impact of gene patents on the advancement of science and medical treatment.³¹

The *Myriad* court faced the specific question with respect to composition claims of whether claims directed to isolated DNA containing naturally occurring sequences fall within the products-of-nature exception to § 101. The court concluded that composition claims-in-suit are excepted.³²

First, in reaching its conclusion, the court rejected arguments that it shouldn't consider the merits of plaintiffs' motion.³³ Second, the *Myriad* court decided, to be patentable, an invention must be "markedly different" from a product of nature.³⁴

Applying the second standard, the court decided that the claimed isolated DNA is not "markedly different" from native DNA because it exists in nature and is, therefore, unpatentable under 35 U.S.C. § 101.³⁵

3. Remember Inherent Balancing Act Underlying Patent Rights

Article I, Section 8, Clause 8 of the Constitution provides, "The Congress shall have Power . . . To Promote the Progress of Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

Numerous cases discuss this constitutional language and have detailed its inherent tension. Specifically, in every patent grant, there are "two interests involved, that of the public, who are the grantors, and that of the patentee."³⁶

From the public's perspective, "The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures."³⁷

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.* at 192-211.

³² *Id.* at 220.

³³ *Id.* at 220-23 (deference to USPTO policy; previous cases where patents on biological products were upheld in response to § 102 or § 103 challenges; constitutional challenge; challenge under TRIPS).

³⁴ *Id.* at 222-23.

³⁵ *Id.* at 232.

³⁶ *Butterworth v. Hoe*, 112 U.S. 50, 59 (1884).

³⁷ *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249, 255. See *Anderson's Black Rock v. Pavement Salvage Co.*, 396

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

From the patentee's perspective, the exclusive right granted for the relevant time period "is the reward stipulated for the advantages for the exertions of the individual, and is intended as a stimulus to those exertions." But the exclusive right granted to inventors was "never designed for their exclusive benefit or advantage."

From the patentee's perspective, the exclusive right granted for the relevant time period "is the reward stipulated for the advantages for the exertions of the individual, and is intended as a stimulus to those exertions."³⁸ But the exclusive right granted to inventors was "never designed for their exclusive benefit or advantage."³⁹ Rather, "the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly."⁴⁰ As Justice William Douglas wrote,

The grant of a patent is the grant of a special privilege "to promote the Progress of Science and useful Arts." Const., Art. I, Sec. 8. It carries, of course, a right to be free from competition in the practice of the invention. But the limits of the patent are narrowly and strictly confined to the precise terms of the grant. . . . It is the public interest which is dominant in the patent system. . . . It is the protection of the public in a system of free enterprise which alike nullifies a patent where any part of it is invalid . . . and denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant.⁴¹

Thus, "The grant of an exclusive right to an invention was the creation of society – at odds with the inherent free nature of disclosed ideas – and was not to be freely given."⁴²

The U.S. Supreme Court is also clear on the means by which this balance of interests is to be accomplished. In *Mazer v. Stein*, the Court eloquently said:

The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in "Science and useful Arts." Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.⁴³

While inventors "are bound to diligence and fairness in their dealings with the public, with reference to their discoveries on the other hand, they are by obligations equally strong entitled to protection against frauds or wrongs practiced to pirate from them the results of thought and labor, in which nearly a lifetime may have been exhausted . . ."⁴⁴

U.S. 57 (1969) (noting public benefit requirement).

38 *Grant v. Raymond*, 31 U.S. 218, 241-42 (1832).

39 *Kendall v. Winsor*, 62 U.S. 322, 327 (1858); *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1965) ("The patent monopoly was not designed to secure to the inventor his natural right in his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge.") (discussing Jefferson's philosophy regarding patents).

40 *Kendall*, 62 U.S. at 328.

41 *Mercoird Corp. v. Mid-Continent Co.*, 320 U.S. 661, 665-66 (1944).

42 *Graham*, 383 U.S. at 9 (reciting Jefferson's position on patents and later describing the "embarrassment of an exclusive patent").

43 *Mazer v. Stein*, 347 U.S. 201, 219. See also *Butterworth v. Hoe*, 112 U.S. 50, 59 (1884) ("The legislation based on this provision [of the Constitution] regards the right of property in the inventor as the medium of the public advantage derived from his invention . . ."); *Scott Paper Co. v. Marcalus, Co.*, 326 U.S. 249, 255 (1945) ("As has been many times pointed out, the means adopted by Congress of promoting the progress of science and the arts is the limited grant of the patent monopoly in return for the full disclosure of the patented invention and its dedication to the public on the expiration of the patent."). This reflects Jefferson's rejection of a natural-rights theory of intellectual property and clearly recognizes the social and economic rationale of the patent system. *Graham*, 383 U.S. at 8-9.

44 *Kendall*, 62 U.S. at 329. But see *Grant v. Raymond*, 31 U.S. 218, 242 (1832) ("The public yields nothing which it has not agreed to yield; it receives all which it contracted to receive.").

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

Clearly, the scope of patentable subject matter involves social compromise as well as legal issues. Especially in areas where technology is rapidly changing, a determination of what constitutes patentable subject matter will generate intense feelings and resultant political pressures.

An intense focus means the parties and the courts may be subjected to scrutiny far beyond the normal dispute between litigants. Against this high-pressure backdrop, unusual things can happen.

Clearly, the scope of patentable subject matter involves social compromise as well as legal issues. Especially in areas where technology is rapidly changing, a determination of what constitutes patentable subject matter will generate intense feelings and resultant political pressures. For anyone who doubts this, note the more than 20 plaintiff parties⁴⁵ and more than 24 *amicus curiae*⁴⁶ that participated in the *Myriad* motion for summary judgment—a mere district court case!

For a glimpse inside the emotional issues at play, consider the following excerpts from the *Myriad* opinion:

Two complicated areas of science and law are involved: molecular biology and patent law. The task is to seek the governing principles in each and to determine the essential elements of the claimed biological compositions and processes and their relationship to the laws of nature. The resolution of the issues presented to this Court deeply concerns breast cancer patients, medical professionals, researchers, caregivers, advocacy groups, existing gene patent holders and their investors, and those seeking to advance public health.⁴⁷

The claims-in-suit directed to “isolated DNA” containing human *BRCA1/2* gene sequences reflect the USPTO’s practice of granting patents on DNA sequences so long as those sequences are claimed in the form of “isolated DNA.” This practice is premised on the view that DNA should be treated no differently from any other chemical compound, and that its purification from the body, using well-known techniques, renders it patentable by transforming it into something distinctly different in character. Many, however, including scientists in the fields of molecular biology and genomics, have considered this practice a “lawyer’s trick” that circumvents the prohibitions on the direct patenting of the DNA in our bodies but which, in practice, reaches the same result.⁴⁸

An intense focus means the parties and the courts may be subjected to scrutiny far beyond the normal dispute between litigants. Against this high-pressure backdrop, unusual things can happen.

4. Understand Application of 35 U.S.C. § 101

“The Constitutional provision is not self-executing. It empowers but does not command the Congress to grant patent rights, and the source of any specific patent right is the statute which defines the nature and extent of the patent right granted.”⁴⁹ Or, phrased another way, “The right to a patent is purely statutory, and Congress has full power to prescribe to whom and upon what terms and conditions a patent shall issue.”⁵⁰ Within the limits of the constitu-

45 Plaintiffs included the Association for Molecular Pathology, American College of Medical Genetics, American Society for Clinical Pathology, College of American Pathologists, more than six medical school professors, Breast Cancer Action, Boston Women’s Health Book Collective, and six individual plaintiffs (some deceased) complaining of limitations resulting from the patents-in-suit. See *Myriad*, 702 F. Supp. 2d at 186-89.

46 See *id.* at 190-92.

47 *Id.* at 185.

48 *Id.*

49 *Cali v. Japan Airlines, Inc.*, 380 F. Supp. 1120, 1124 (E.D.N.Y. 1974) (citing *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 525-26 (1971)).

50 *Owen v. Heimann*, 12 F.2d 173,174 (D.C. Cir. 1926).

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

Undeniably, Congress knew patent laws would be given a broad interpretation. In the seminal *Chakrabarty* case, the U.S. Supreme Court cited legislative history indicating that Congress intended statutory subject matter to “include anything under the sun that is made by man.”

Despite the statute’s broad language, it is well established that laws of nature, physical phenomena and abstract ideas are not patent-eligible.

tional grant, Congress may implement the framers’ purpose by selecting the policy which it judges best effectuates the constitutional aim.⁵¹

Undeniably, Congress knew patent laws would be given a broad interpretation. In the seminal *Chakrabarty* case, the U.S. Supreme Court cited legislative history indicating that Congress intended statutory subject matter to “include anything under the sun that is made by man.”⁵² “In choosing such expansive terms ... Congress plainly contemplated that the patent laws would be given wide scope.”⁵³ Congress took this permissive approach to patent eligibility to ensure that “‘ingenuity should receive a liberal encouragement’ (quoting 5 Writings of Thomas Jefferson 75-76 (H. Washington ed. 1871)).”⁵⁴

5. Three Categories Clearly Not Patentable

Despite the statute’s broad language, it is well established that laws of nature, physical phenomena and abstract ideas are not patent-eligible.⁵⁵ The concepts these exceptions cover are “part of the storehouse of knowledge of all men . . . free to all men and reserved exclusively to none.”⁵⁶ “While these exceptions are not required by the statutory text, they are consistent with the notion that a patentable process must be ‘new and useful.’ And, in any case, these exceptions have defined the reach of the statute as a matter of statutory *stare decisis* going back 150 years.”⁵⁷

Thus, “The rule that the discovery of a law of nature cannot be patented rests, not on the notion that natural phenomena are not processes, but rather on the more fundamental understanding that they are not the kind of ‘discovery’ that the statute was enacted to protect.”⁵⁸

6. Claim Construction Comes First

Before considering the patent-eligibility of the claim, disputed terms must first be construed.⁵⁹ Once the claims are properly construed, the inquiry into patentability is fundamental.⁶⁰

51 *Graham v. John Deere Co.*, 383 U.S. 1, 6 (cited in *Constant v. Advanced Micro-Devices, Inc.*, 848 F.2d 1560 (Fed. Cir. 1988)), accord *U.S. v. Dublier Condenser Corp.*, 289 U.S. 178, 189 (1933).

52 *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

53 *Bilski v. Kappos*, 130 S. Ct. at 3223 (citing *Diamond v. Chakrabarty*, 447 U.S. at 308) (internal quotation marks omitted).

54 *Id.*

55 *Bilski v. Kappos*, 130 S. Ct. at 3225 (citing *Diamond v. Chakrabarty*, 447 U.S. at 309); see also *Diamond v. Diehr*, 450 U.S. 175, 185 (1981).

56 *Bilski v. Kappos*, 130 S. Ct. at 3225 (citing *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130, 68 S. Ct. 440, 92 L. Ed. 588 (1948)).

57 *Bilski v. Kappos*, 130 S. Ct. at 3225 (citing *Le Roy v. Tatham*, 14 How. 156, 174-75, 14 L. Ed. 367 (1853)).

58 *Parker v. Flook*, 437 U.S. 584, 593 (1978).

59 *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1354 (Fed. Cir. 2005); *Myriad*, 702 F. Supp. 2d 181, 214 (S.D.N.Y. 2010).

60 *Parker v. Flook*, 437 U.S. at 593 (“The obligation to determine what type of discovery is sought to be patented must precede the determination of whether that discovery is, in fact, new or obvious.”); *Prometheus Labs, Inc. v. Mayo Collaborative Servs.*, 581 F.3d 1336, 1343 (Fed. Cir. 2009); *Myriad*, 702 F. Supp. 2d 181, 214 (S.D.N.Y. 2010).

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

On its face, § 101 states three requirements: novelty, utility, and statutory subject matter. The understanding that these three requirements are distinct is long-standing and has been universally accepted.

... the *Myriad* court concluded that, to be patentable, an invention must be “markedly different” from a product of nature.

7. Patentable Subject Matter a Threshold Issue

On its face, § 101 states three requirements: novelty, utility, and statutory subject matter. The understanding that these three requirements are distinct is long-standing and has been universally accepted.⁶¹ The question of whether a particular invention is novel or useful is wholly apart from whether the invention falls into a category of statutory subject matter. Of the three § 101 requirements, only two—utility and statutory subject matter—are applied under § 101. The novelty of an invention is considered under § 102, despite the fact that this requirement is first named in § 101.⁶²

Thus, 35 U.S.C. § 101 provides a threshold test. In considering whether the patents-in-suit comply with § 101, the proper analysis requires an initial determination of whether (1) the claimed invention possesses utility, and (2) the claimed invention is a “process, machine, manufacture, or composition of matter, or any new and useful improvement thereof,” 35 U.S.C. § 101.⁶³ Once these two issues are addressed, consideration is given to whether the claimed invention falls within one of the three judicially created exceptions to patentable subject matter—“laws of nature, physical phenomena, and abstract ideas.”⁶⁴ Finally, even if it is useful and related to patentable subject matter, any claimed invention must also be novel, § 102, non-obvious, § 103, and fully and particularly described, § 112 to receive patent protection.⁶⁵

8. “Machine-or-Transformation” Test Not Exclusive

The “machine-or-transformation” test for patentable subject matter announced by the Federal Circuit in *Bilski*⁶⁶ is a “useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101.”⁶⁷ It is *not* the sole test, however, for deciding whether an invention is a patent-eligible ‘process.’⁶⁸

9. Must Subject Matter Be Distinct From Product of Nature?

In *Myriad*, the court posited, “Supreme Court precedent has established that products of nature do not constitute patentable subject matter absent a change that results in the creation of a fundamentally new product.”⁶⁹ Relying on passages from *American Fruit Growers, Inc. v. Brogdex Co.*,⁷⁰ *Funk Brothers Seed Co. v. Kalo Inoculant Co.*,⁷¹ and *Diamond v. Chakrabarty*,⁷² the *Myriad* court concluded that, to be patentable, an invention must be “markedly different” from a product of nature.⁷³

Is the language in the U.S. Supreme Court cases on which the *Myriad* Court relied mere *dicta*? Should we consider the “markedly different” standard current law? As *Myriad* winds its way

61 *In re Bergy*, 596 F.2d 952, 960 (C.C.P.A. 1979) (opinion by Judge Rich).

62 *Id.* at 960-61.

63 *Myriad*, 702 F. Supp. 2d 181, 220 (S.D.N.Y. 2010).

64 *Id.* (citing *Diamond v. Chakrabarty*, 447 U.S. at 309).

65 *Bilski v. Kappos*, 130 S. Ct. at 3225.

66 *In re Bilski*, 545 F.3d 943, 963-66 (Fed. Cir. 2008) (en banc).

67 *Id.* at 3227.

68 *Id.*

69 *Myriad*, 702 F. Supp. 2d 181, 222 (S.D.N.Y. 2010).

70 283 U.S. 1 (1931).

71 333 U.S. 127 (1948).

72 447 U.S. 303 (1980).

73 *Myriad*, 702 F. Supp. 2d at 222-23.

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

While acknowledging the existence of business method patents, *Bilski* provides little comfort for those seeking to patent and prosper from such inventions. As a threshold matter, the *Bilski* Court concluded business methods have a statutory basis.

But the Court also said, “while § 273 appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions.”

through the courts, it seems likely this issue will be resolved either by the Federal Circuit Court of Appeals or the U.S. Supreme Court.

10. “Business Methods” May Be Patentable

While acknowledging the existence of business method patents, *Bilski* provides little comfort for those seeking to patent and prosper from such inventions. As a threshold matter, the *Bilski* Court concluded business methods have a statutory basis, stating in this regard,

The term “method,” which is within § 100(b)’s definition of “process,” at least as a textual matter and before consulting other limitations in the Patent Act and this Court’s precedents, may include at least some methods of doing business. See, e.g., Webster’s New International Dictionary 1548 (2d ed. 1954) (defining “method” as “[a]n orderly procedure or process ... regular way or manner of doing anything; hence, a set form of procedure adopted in investigation or instruction”).⁷⁴

Analyzing 35 U.S.C. § 273, the Court noted that “method” is defined in § 273(a)(3) as “a method of doing or conducting business,” and then concluded, “what § 273 does is clarify the understanding that a business method is simply one kind of ‘method’ that is, at least in some circumstances, eligible for patenting under § 101.”⁷⁵ The Court further observed, “a conclusion that business method patents are not patentable . . . would render § 273 meaningless.”⁷⁶

But the Court also said, “while § 273 appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions.”⁷⁷ Taking dead aim at the case that gave us business method patents, the Court stated,

And nothing in today’s opinion should be read as endorsing interpretations of § 101 that the Court of Appeals for the Federal Circuit has used in the past. See, e.g., *State Street*, 149 F.3d, at 1373; *AT & T Corp.*, 172 F.3d, at 1357. It may be that the Court of Appeals thought it needed to make the machine-or-transformation test exclusive precisely because its case law had not adequately identified less extreme means of restricting business method patents, including (but not limited to) application of our opinions in *Benson*, *Flook*, and *Diehr*. In disapproving an exclusive machine-or-transformation test, we by no means foreclose the Federal Circuit’s development of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its text.⁷⁸

Conclusion—As Technology Changes, So (Hopefully) Does the Law

So what are we to make of all of this, beyond *Semper Gumby*?⁷⁹ The U.S. Supreme Court seems to have taken the notion of a flexible approach to heart. In one *Bilski* passage, the Court said,

But times change. Technology and other innovations progress in unexpected ways. For example, it was once forcefully argued that until recent times, “well-

⁷⁴ *Bilski v. Kappos*, ___ U.S. ___, 130 S. Ct. 3218, 3228 (2010).

⁷⁵ *Id.* at 3228.

⁷⁶ *Id.*

⁷⁷ *Id.* at 3229.

⁷⁸ *Id.* at 3231.

⁷⁹ “Always Flexible.”

ENHANCING YOUR IP IQ

Vol. II, No. 8/9 AUGUST/SEPTEMBER 2010

ABOUT SHB

Shook, Hardy & Bacon offers expert, efficient and innovative representation to our clients. We know that the successful resolution of intellectual property issues requires a comprehensive strategy developed in partnership with our clients.



OFFICE LOCATIONS

Geneva, Switzerland

+41-22-787-2000

Houston, Texas

+1-713-227-8008

Irvine, California

+1-949-475-1500

Kansas City, Missouri

+1-816-474-6550

London, England

+44-207-332-4500

Miami, Florida

+1-305-358-5171

San Francisco, California

+1-415-544-1900

Tampa, Florida

+1-813-202-7100

Washington, D.C.

+1-202-783-8400

established principles of patent law probably would have prevented the issuance of a valid patent on almost any conceivable computer program.” But this fact does not mean that unforeseen innovations such as computer programs are always unpatentable. Section 101 is a “dynamic provision designed to encompass new and unforeseen inventions.” A categorical rule denying patent protection for “inventions in areas not contemplated by Congress ... would frustrate the purposes of the patent law.”

The Court added, on a hopeful note to patent owners,

It is important to emphasize that the Court today is not commenting on the patentability of any particular invention, let alone holding that any of the above-mentioned technologies from the Information Age should or should not receive patent protection. This Age puts the possibility of innovation in the hands of more people and raises new difficulties for the patent law. With ever more people trying to innovate and thus seeking patent protections for their inventions, the patent law faces a great challenge in striking the balance between protecting inventors and not granting monopolies over procedures that others would discover by independent, creative application of general principles. Nothing in this opinion should be read to take a position on where that balance ought to be struck.⁸⁰

The Court cautioned, however,

The Information Age empowers people with new capacities to perform statistical analyses and mathematical calculations with a speed and sophistication that enable the design of protocols for more efficient performance of a vast number of business tasks. If 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.⁸¹

⁸⁰ *Bilski v. Kappos*, 130 S. Ct. 3218 at 3228.

⁸¹ *Id.* at 3229.