KRATZ, QUINTOS & HANSON, LLP

IP NEWSLETTER

THE LONG-AWAITED SUPREME COURT DECISION IN *BILSKI V. KAPPOS* FINALLY ISSUES. BUSINESS METHOD AND SOFTWARE INNOVATORS ACROSS THE COUNTRY ONCE AGAIN BREATHE WITH EASE.

by S. Laura Chung

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After waiting until the very end of the 2009 judicial term, the United States Supreme Court finally issued the long-awaited opinion in *Bilski v. Kappos* on June 28, 2010. In this opinion, the Supreme Court exercised unusual precaution by avoiding formulating a new test for determining the subject matter eligibility of patent claims, while still providing software and business method innovators across the country with some assurance for the validity of their patents. The Court stated that certain business methods may be directed to patent eligible subject matter like any other process claims; however, for this particular case, Mr. Bilski's claims were not directed to patent eligible subject matter as they were directed to an abstract idea.

> ***"In searching for limiting principle, this Court's precedents on the unpatentability of abstract ideas provide useful tools."***
>
> *- Justice Kennedy, delivering the opinion of the Court*

Since the issuance of the Federal Circuit opinion in the case of *In re Bilski* on October 30, 2008, which ruled that a process must be tied to either a particular machine or transform a particular article into a different state or thing to be patent eligible under 35 U.S.C. §101 (a.k.a. "machine-or-transformation test"), software patent applicants have been receiving rejections from patent examiners that stated that a software that runs on a general computer, whether implementing a business method or other application, is *per se* not directed to a patent eligible subject matter.

The Supreme Court, in its 71-page opinion, stated that, while the machine-or-transformation test is a useful tool in proving that a claim is directed to a patent eligible subject matter, it is not the sole test for deciding whether an invention is a patent-eligible process; it is possible that "a valid process patent may issue even if it does not meet machine or transformation test." The Court ruled that the appropriate test to use for Mr. Bilski's pure business method claim that does not use a computer would have been whether the claimed subject matter is directed to an "abstract idea."

On the same day that the Supreme Court issued its opinion, the United States Patent and Trademark Office issued a memorandum, stating that a method claim that meets the machine-or-transformation test is automatically not directed to an abstract idea. In the event that a method claim does not meet the machine-or-transformation test, the applicant would be given an opportunity to explain as to why the claimed subject matter is not directed to an abstract idea.

While the Patent and Trademark Office's memorandum may sound discouraging to some inventors in that it applies the same oppressive test (machine-or-transformation test) to determine the patent eligibility of process claims, in fact the machine-or-transformation test have lost its teeth for software patent claims, business method claims that recite the use of a computer, and many other process claims.

A machine-or-transformation test that evaluates whether a claim is directed to an abstract idea is hardly the same as the machine-or-transformation test that has been applied by the Patent and Trademark Office prior to the

issuance of the Supreme Court opinion. Software that runs on a computer, for example, cannot be fairly characterized as an "abstract idea" under the new Supreme Court opinion. In other words, while a pure business method that does not involve the use of a computer, such as Mr. Bilski's claims, or a method that is performed only by human actions (i.e., a method of teaching), may be still directed to a patent ineligible subject matter, the patent eligibility for process claims in the United States have been once again greatly broadened by the recent opinion.

As a practitioner, our argument for rebutting any 35 U.S.C. §101 rejection for non-statutory subject matter will now be whether the claim is directed to "laws of nature, natural phenomena, and abstract ideas." Any connection to a machine, such as a general computer, or any transformation, such as the formation of a metabolite in the body, will most likely allow applicants to overcome these rejections.

ENCOURAGING TREND IN PATENT ALLOWANCES

by Daniel A. Geselowitz, Ph.D.

Many of our clients have expressed concern in recent years about an apparent trend of decreasing allowance rates for U.S. patent applications. The perception of these clients was that the pendency of applications in the U.S. Patent and Trademark Office was increasing, indicating that there may be an increased probability of not being able to have a patent granted at all for their particular applications. This perception has discouraged some potential applicants from filing patent applications in the United States, and has led others to abandon their applications that were being prosecuted.

However, beginning in late 2009, the average number of utility patents issued per week began to rise, and this trend is continuing. In fact, during the nine weeks ending on July 6, 2010, the average number of issued applications was 4,500 patents per week, compared to a weekly average of about 3,210 for the entire year of 2009 and 3000 for the entire year of 2008. That is, the weekly allowance rate for the last several months represents about a 40% increase over the allowance rate for 2009.

While the reasons for this trend are not completely clear, given that the total number of applications pending has been relatively stable the past few years (1,208,076 at end of 2008 and 1,207,794 at end of 2009), this appears to represent a reversal of the trend of decreasing allowance rates of recent years.

The important message from these data is that it may now be ***easier*** to get a patent than in recent years. The belief that it has become more difficult to obtain a patent in the United States is no longer true, and inventors should utilize this reversal of trend to their advantages. Applicants therefore may wish to consider:

1) Not abandoning patent applications for which prosecution has been drawn out;

2) Where appropriate, trying out a new strategy in pending applications, such as requesting an interview with the examiner to determine whether there is subject matter that appears to be allowable to the examiner; and

3) Filing new applications and continuations now to take advantage of this trend.

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