

Intellectual Property Alert

Bilski v. Kappos: Business Method Patents Survive to Fight Another Day

June 29, 2010

After almost 30 years, the U.S. Supreme Court has finally revisited the boundaries of patentable subject matter in a case that will affect the computer/software industry, financial services industry and any industry that deals with process patents. On June 28, 2010, in *Bilski v. Kappos*, the Supreme Court held that business methods may constitute patentable subject matter and rejected the Federal Circuit's rigid test for determining whether processes are patentable. In so doing, the Supreme Court relied on its existing case law and long-held exclusion against patenting abstract ideas, but left the industry with little clarity.

Background

Petitioners Bernard Bilski and Rand Warsaw (hereafter "Bilski") filed a patent application describing a process of hedging against the risk of price changes in energy markets. The U.S. Patent and Trademark Office rejected Bilski's application because it did not constitute patentable subject matter. Bilski subsequently appealed to the Federal Circuit, which pronounced a new test for determining whether processes are patentable, known as the machine-or-transformation test. Using this test, a process is only patentable if "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." Since Bilski's patent claims are directed to human activity rather than a method in a machine or a method that transforms a particular article into a different state or thing, the Federal Circuit found Bilski's process to be unpatentable.

The Supreme Court's Opinion

The Supreme Court reviewed its precedent and held that, although the machine-or-transformation test is "a useful and important clue, an investigative tool, for determining" whether a process is patentable, it "is not the sole test for deciding whether an invention is a patent eligible 'process.'" Also, the Supreme Court rejected the contention that the term "process" in 35 U.S.C. § 101—the statute that defines patentable subject matter—categorically excludes business methods. Instead, the Court noted that the term "method," which appears within the patent statute's definition of process, "may include at least some methods of doing business." To bolster its rationale, the Supreme Court stated that the existence of the prior use defense of 35 U.S.C. § 273, available to business method users, necessarily recognizes that business method patents exist, and to adopt such a categorical exclusion would render this statute meaningless. The Supreme Court cautioned, however, that § 273 "does not suggest broad patentability of such claimed inventions."

Although business methods may be patentable, the Supreme Court held that Bilski's were unpatentable because they constituted an abstract idea, one of the Court's long-held exceptions to patentable subject matter:

Petitioners seek to patent both the concept of hedging risk and the application of that concept to energy markets. 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.



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The Supreme Court stated that *Bilski*'s claims recite the basic concept of hedging, and to allow such a patent would "preempt use of this approach in all fields and would effectively grant a monopoly over an abstract idea."

Impact

The Supreme Court avoided adopting any categorical exclusions of subject matter, such as business methods or software. Therefore, these categories of subject matter remain patentable.

However, the post-*Bilski* boundaries of patentable subject matter are potentially unclear. While there is room for processes beyond those that satisfy the machine-or-transformation test, the Supreme Court did not endorse any of the prior tests used by the Federal Circuit. Yet, the Court did not foreclose the Federal Circuit from adopting "other limiting" criteria for patentable subject matter determinations. Thus, it is now up to the Federal Circuit to further define the boundaries of patentable subject matter.

Portions of this alert originally appeared on "The Legal Pulse," an online project of Washington Legal Foundation.

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