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UPDATE
Intellectual Property and Trade Secrets Litigation

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Court Rejects Bilski Patent Application but Leaves Door Open to Business Method Patents

June 29, 2010 - In a narrow ruling, the Supreme Court of the United States, in *Bilksi v. Kappos (In re Bilski),* addressed the question of what inventions are patentable. The case marks the first time in nearly 30 years that the Court has ruled on the issue of patentability. Highlighting the importance of the case, a diverse group of more than 75 interested companies and trade and industry associations filed friend of the court briefs, thus making it one of the most widely and closely watched cases in recent Supreme Court history.

In a decision written by Justice Kennedy, the Court affirmed the rejection of the claimed invention and patent application at issue but declined to adopt a broad or sweeping test for the patentability of inventions and declined to find that business methods are per se not patentable. The Court held that while the "machine-or-transformation" test endorsed by the Federal Circuit Court of Appeals is "a useful and important clue" for patentability of some processes, it is not the only test for deciding whether such inventions are patent-eligible. Justices Stevens and Breyer issued concurring opinions in which they would have concluded that business method inventions are not patentable.

Although *Bilski* arose in the context of the eligibility under the Patent Laws for certain "process" patents known as business method patents, the threshold question of patent eligibility has broader application because it goes to the heart of the patent system.[1] Recognizing that the Information Age "puts the possibility of innovation in the hands of more people and raises new difficulties for the patent law," the case leaves open the precise outer limits of process and business method patents and the exact test for patentability going forward.

BACKGROUND

In *Bilski*, the claimed invention was a method for hedging risk in commodities trading through a series of transactions, including rights to purchase the commodities, called options. In 2008, the Federal Circuit, the federal appellate court that handles appeals in patent cases, distilled a test for patent eligibility from its assessment of earlier Supreme Court cases. It held that a claimed process is patent-eligible if "(1) it is tied to a particular machine or apparatus, or (2) it

transforms a particular article into a different state or thing." *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008). The Court further held that its "machine-or-transformation" test is the sole and "governing test" for determining patent eligibility of a process. Applying this test, the Federal Circuit affirmed the Patent Office's denial of the patent application submitted by Bilski and his coapplicant. It found that the business method claimed "encompasses the exchange of only options, which are just legal rights to purchase some commodity at a given price in a given time period." These transactions that merely involved the exchange of legal rights or business risks did not involve the transformation of any physical object nor were they tied to a machine. Therefore, the court held the business method was not eligible for patent protection. The Federal Circuit's "machine-or-transformation" test in *Bilski* was viewed as toughening the eligibility test for process patents in that it more strictly tied patent eligibility to a physical machine or the transformation of a physical article, i.e., a tangible invention or technology of some type. *Bilski* was viewed as a test that might call into question a large number of patents (such as business method and software patents) that were granted under the Federal Circuit's prior *State Street* decision and that might no longer meet patent eligibility standards.

BILSKI AT THE SUPREME COURT

In line with the skepticism of many of the justices at oral argument, all members of the Court agreed to reject the patent application at issue. Instead of adopting categorical rules governing patentability that might have unforeseen consequences on innovation, the Court found that allowing the subject invention and a potential patent on the risk-hedging process of Bilski and his coapplicant would be improper. In the end, based on the text of the Patent Laws, the claimed invention was simply too much of an abstract idea, and not an actual process, on which to grant a monopoly. The Court did not further define what constitutes a patentable process.

THE IMPLICATIONS AND TAKEAWAYS OF *BILSKI*

In today's Information and Digital Age, where there is a focus on the provision of services, method and process patents are important to companies because the technologies they use are often automated implementations. Given the issue before the Supreme Court and its narrow ruling, *Bilski* likely favorably impacts companies and inventors in a number of sectors, including biotech, medical diagnostic device, life sciences, computer software, technology, and financial services, among others, in that it does not close the door on patents in those areas, as some had feared. Indeed, the opinion by Justice Kennedy noted that it wanted to avoid doubt in those fields; however, the exact boundary on patentability in those areas remains to be determined.

While every business and circumstance is unique, in light of the discrete ruling in *Bilski*, what are the takeaways for companies, inventors, and entrepreneurs?

- While the "machine-or-transformation" test is reliable and important, it is not the exclusive test for determining patent eligibility of processes and business methods and the Supreme Court did not specifically employ the "machine-or-transformation" test to reach its conclusion concerning Bilski's application. The Supreme Court left open the Federal Circuit's further development of criteria to evaluate patent eligibility.
- Although there are limits (here undefined) to what is patentable, the door to patentability is open for process and business method patents provided they are actual processes, can meet the other requirements of the Patent Laws, and are not too abstract.

- A tougher standard for obtaining a business method patent was not announced and some already-issued patents in high technology fields appear to be safe for now, which might not have been the case if the Court had issued a broad ruling invalidating or imposing strict requirements on all process or business method inventions.
- Inventions that focus too much on abstract ideas or concepts are going to be suspect under this decision. Pure process and method patents (i.e., those not specifically tied to a computer or other device and not resulting in a tangible product) must meet the other requirements of the Patent Laws and must not be too abstract to at least be considered for patent eligibility. Whether they must be more strictly tied to a machine or tangible object in every case is an open issue.

To read a copy of the *Bilski* decision, please click here.

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[1] Title 35, United States Code, Section 101 states, "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."

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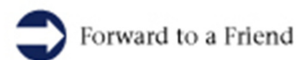

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