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Bilski v. Kappos: What It Might Mean for You

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On June 28th, 2010, the U.S. Supreme Court rendered a decision in one of the most anticipated patent cases in recent years in Bilski v. Kappos, U.S., No. 08-964. In a narrow 5-4 vote, the Supreme Court confirmed that business methods are not categorically excluded from patent protection, thus preserving the viability of business method patents, at least for the near future. Unfortunately, the Court avoided providing any specific guidance to practitioners, examiners or the courts as to how to analyze whether (and which) business method inventions are patentable. However, the Court did hold that the “machine-or-transformation” test, recently adopted by the Federal Circuit (the court to which all patent cases are appealed), is not the sole test for patent eligibility under Section 101 of the Patent Laws.

The Case

The applicants, Bernard L. Bilski and Rand Warsaw, sought to patent a method that explained how commodities buyers and sellers in the energy market can protect, or hedge, against the risk of price changes. Claim 1 of the patent application described a series of steps instructing how to hedge risk and application claim 4 put the concept of claim 1 into a simple mathematical formula. For example, claim 1 consisted of the following steps:

“(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 consumers;

“(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.”

The remaining claims explained how claims 1 and 4 can be applied to allow energy suppliers and consumers to minimize the risks resulting from fluctuations in market demand for energy.

The patent examiner rejected Bilski's application, explaining that it "is not implemented on a specific apparatus and merely manipulates an abstract idea and solves a purely mathematical problem without any limitation to a practical application, [and] therefore, the invention is not directed to the technological arts." The Board of Patent Appeals and Interferences (the "Board") affirmed, concluding that the application involved only mental steps that did not transform physical matter and was directed to an abstract idea. The United States Court of Appeals for the Federal Circuit heard the case *en banc* and affirmed.

In affirming the Board's decision, the Federal Circuit rejected its own prior test for determining whether a claimed invention was a patentable "process" under §101 (i.e. whether it produced a "useful, concrete, and tangible result") as articulated in its 1998 decision of State Street Bank & Trust Co. v. Signature Financial Group and held that a claimed process is patent-eligible under Section 101 of the Patent Laws if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." The Federal Circuit concluded this "machine-or-transformation" test is the sole test governing §101 analyses, and thus the "test for determining patent eligibility of a process under §101." Applying this "machine-or-transformation test," the Federal Circuit held that Bilski's invention was not patent eligible.

The Supreme Court Decision

The Supreme Court agreed that Bilski's invention was not patentable and thus affirmed the Federal Court's judgment. However, in doing so, the Supreme Court rejected the Federal Circuit's framework for using the "machine-or-transformation" test as the sole test for patent eligibility. But, even though Bilski's invention was not categorically outside the "machine-or-transformation" test, the Supreme Court was sure to note that such a result did not automatically mean it is a "process" eligible for protection under the patent laws. Specifically, The Supreme Court found that Bilski's invention was nevertheless an attempt to patent an abstract idea, which remains unpatentable under the long standing precedent of the Court.

Unfortunately, the Supreme Court was able to reject Bilski's invention under the Court's precedents on the unpatentability of abstract ideas and felt it unnecessary to define further what constitutes a patentable "process," beyond pointing to the statutory definitions and its own prior decisions.

Notably however, the Supreme Court rejected the broad contention that the term "process" in Section 101 categorically excludes business methods. Section 101 defines the 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 therefore, subject to the conditions and requirements of this title." Section 101 thus specifies four independent categories of inventions or discoveries that are eligible for protection: processes, machines, manufactures, and compositions of matter.

Among other reasons, the Supreme Court noted that the term "method" itself may include at least some methods of doing business, as well as the fact that federal law

explicitly contemplates the existence of at least some business method patents, for example, noting that a defense of “prior use” in an infringement of a method in a patent can include prior use of “a method of doing or conducting business.”

The Supreme Court also noted that in Congress’ choosing of such expansive terms in the definition (i.e. modified by the comprehensive term “any” in the foregoing definition), the legislature plainly contemplated that the patent laws would be given wide scope, but also pointed out that its own court precedent provided three specific exceptions to §101’s broad patent-eligibility principles: “laws of nature, physical phenomena, and abstract ideas.”

Summary

In summary, the Supreme Court, at least for now, declined to impose limitations on the Patent Act that are inconsistent with the Act’s text, as Bilski’s patent application was able to be rejected under the Court’s prior precedents on the unpatentability of abstract ideas without the Court having to define what constitutes a patentable “process.”

What the Future May Hold in Light of Bilski

Just some of the reasons the Bilski case could be very interesting are:

1. in preserving the patentability of business methods, the Bilski decision will surely be an interesting factor in upcoming cases, such as in the field of medical processes, having significant implications in at least the biotechnology industry, just by way of example;
2. the uncertainty rendered by the Supreme Court certainly provides the Federal Circuit with an opportunity to provide some clarity in this area of the patent laws, and it will be interesting to see how the Federal Circuit responds;
3. given the closeness of the vote, the Supreme Court’s makeup in the coming years could have a significant impact on decisions affecting the patentability of business methods; and
4. although patent examiners will continue to rely on the machine-or-transformation test for process patent applications as this test’s legitimacy was upheld, inventors whose applications stand rejected based solely on failing the machine-or-transformation test might be inclined to seek reconsideration in light of the Bilski decision.

To read the Bilski decision, please go to:
www.supremecourt.gov/opinions/09pdf/08-964.pdf

If you have any further questions or would like to discuss how the Bilski decision could impact the patentability of an invention, do not hesitate to contact Art Schaier at 203.575.2629 or aschaier@carmodylaw.com.