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Supreme Court Affirms Federal Circuit's Judgment, But Rejects Its Reasoning In *Bilski v. Kappos*

By Paul H. Beattie¹

Today, the Supreme Court issued its decision in *Bilski v. Kappos*, one of the most highly-anticipated patent decisions in years.² The Court affirmed the Federal Circuit's decision that the claims of the Bilski patent application were too close to *abstract ideas* to be patentable under 35 U.S.C. § 101. The Bilski claims were directed to a process of hedging risk (particularly weather-based risk) in commodities trading, by making (1) a series of sales to commodity buyers, say coal burning electric plants, and (2) a series of purchases from commodity sellers, say coal mines. In this way, the commodity provider (or broker) insulated his risk from swings in the price of the commodity, whether down or up.

This is analogous to wanting to patent the concept of making money by "buying low and selling high," and *all nine Supreme Court Justices concurred in the judgment that the Bilski claims were unpatentable*. The patent examiner, Board of Patent Appeals and Interferences, the Federal Circuit, and now the Supreme Court have all reached the same conclusion – the Bilski claims are unpatentable subject matter, because they are too vague and abstract. But while affirming the Federal Circuit's decision, the Supreme Court rejected much of its reasoning.

The Federal Circuit had enunciated a "definitive test" for determining whether any process claim constituted unpatentable subject matter – "the machine or transformation" test.³ Under this test, if a process claim is either (1) "tied to a particular machine or apparatus, or (2) transforms a particular article into a different state or thing," then it is patentable subject matter.⁴ Otherwise, it is not. The Federal Circuit claimed to have divined this test from the Supreme Court's own precedents.

But the Supreme Court rejected this "machine or transformation" test as the sole test for determining whether process claims are statutory subject matter. First, noted the Court, "courts should not read into the patent laws limitations and conditions which the legislature has not expressed."⁵ Second, words in statutes are generally given their "ordinary, contemporary, common meaning," and there is nothing in the word "process" that necessarily links it to a machine or requires a transformation of matter from one state or thing to another.⁶ Third, the Supreme Court's prior precedents do not endorse "machine or transformation" as the definitive test for determining whether a process claim constitutes patentable subject matter, a position that Judge Newman thoroughly debunked in her dissent from the majority Federal Circuit decision.⁷

On these and other grounds, the Supreme Court rejected the Federal Circuit's attempt to elevate the "machine or transformation" test to a process claim panacea. Although the Court acknowledged that the test is a useful tool in some cases, it "is not the sole test for determining whether an invention is a patent-eligible process."⁸

Finally, the Court declined the invitation to hold that all business methods are unpatentable. Because thousands of business method patents have been issued in the past decades, some had feared (and others hoped) that the Supreme Court would toss a grenade into that immense pile of patents, with "stirring" consequences. In avoiding such a detonation, the Court noted, among other things, that 35 U.S.C. § 273(a)(3) explicitly defines the term "method" as "a method of doing or *conducting business*."⁹ The Court also suggested that lower courts should not unthinkingly apply case law developed before the Internet and personal computers to claims reflecting those newer innovations; a test that might apply well to a process of synthesizing rubber might not work if applied to a claim reflecting the latest software advances.¹⁰

The Supreme Court decision in *Bilski* is a model of classical common law decision-making. It resolves the rights of Bernard Bilski and Rand Warsaw: their patent application is now dead in its present form. But regarding the legal landscape, the Supreme Court decision does little more than negate the Federal Circuit decision. The “machine or transformation” test is not the definitive test for determining if process claims are patentable; it is just one useful test. And business method claims are here to stay for the present. The Supreme Court has left it to lower courts, particularly the Federal Circuit, to explore additional meaningful limits on business method and other process claims.

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² *Bilski v. Kappos*, 561 U.S. ____ (2010).

³ *In re Bilski*, 545 F.3d 943, 954 (2008).

⁴ *Id.*

⁵ *Bilski*, 561 U.S. at ____.

⁶ *Id.*

⁷ *In re Bilski*, 545 F.3d at 977-83.

⁸ *Bilski*, 561 U.S. at ____.

⁹ *Id.* (citing 35 U.S.C. § 273(a)(3) (emphasis added)).

¹⁰ *Id.*

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