

ALERT

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Supreme Court Agrees to Hear Arguments on the Patentability of Business Methods

On Monday, June 1, 2009, the United States Supreme Court granted a petition for certiorari in *Bilski v. Doll* (No. 08-964), setting the stage for the Supreme Court to rule on the patentability of business methods and perhaps shed new light on what constitutes a patentable “process” under 35 U.S.C. § 101.

Last fall, the U.S. Court of Appeals for the Federal Circuit, in an *en banc* decision, renounced the “useful, concrete and tangible result” test and other alternative tests for patentability in favor of the “machine-or-transformation” test. *See In re Bilski*, 545 F.3d 943, 88 USPQ2d 1385 (Fed. Cir. 2008). Under that test, a patentable “process” under Section 101 must: (1) be “tied to a particular machine or apparatus” or (2) transform “a particular article or substance into a different state or thing.” Applying that test, the Federal Circuit ruled that Bilski’s “method for managing the consumption risk costs of a commodity” did not represent patentable subject matter under Section 101.

The Federal Circuit’s decision has created uncertainty as to the boundaries of patentable subject matter under 35 U.S.C. § 101, particularly for business method and software-related applications. The case of *Bilski v. Doll* will provide the Supreme Court with an opportunity to clarify whether those areas represent patentable subject matter.

In their petition for certiorari, Bilski and his co-inventor requested that the Supreme Court consider two questions:

- (1) Whether the Federal Circuit erred by holding that a “process” must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing (“machine-or-transformation” test), to be eligible for patenting under 35 U.S.C. § 101, despite this Court’s precedent declining to limit the broad statutory grant of patent eligibility for “any” new and useful

process beyond excluding patents for “laws of nature, physical phenomena, and abstract ideas.”

(2) Whether the Federal Circuit’s “machine-or-transformation” test for patent eligibility, which effectively forecloses meaningful patent protection to many business methods, contradicts the clear Congressional intent that patents protect “method[s] of doing or conducting business.” 35 U.S.C. § 273.

The last time the Supreme Court addressed the issue of whether a process constituted patentable subject matter was in 1981, before wide-scale use of personal computers, the Internet, and e-commerce. In *Diamond v. Diehr*, the Supreme Court held that a process for molding synthetic rubber products using a mathematical equation and a digital computer was patentable subject matter, and not merely an attempt to patent a mathematical formula. The Court noted that a claim containing “subject matter otherwise statutory does not become nonstatutory simply because it uses a mathematical formula, computer program or digital computer.”

In 1998, in *State Street Bank*, the Federal Circuit opened the door to what have been termed “business method patents” by relying on *Diehr* for the proposition that abstract ideas are not patentable “until reduced to some practical application, i.e., ‘a useful, concrete and tangible result.’” The Federal Circuit also repudiated the business method exception to patentable subject matter stating that the issue of whether a process is patentable “should not turn on whether the claimed subject matter does ‘business’ instead of something else.”

In *In re Bilski*, the Federal Circuit repudiated its “useful, concrete and tangible result” test, deciding instead that the “machine-or-transformation” test is the proper test for “determining patent eligibility of a process under § 101,” noting that in *Parker v. Flook* the Supreme Court had itself acknowledged that it had “only recognized a process as within the statutory definition when it either was tied to a particular apparatus or operated to change materials to a ‘different state or thing.’”

Bilski is likely to be of interest to the software, biotech, financial services, and insurance industries. As the Federal Circuit noted in *In re Bilski*, the claimed process was “directed to the mental and mathematical process of identifying transactions that would hedge risk,” without regard to a particular machine and without transformation of a physical object or substance. The Federal Circuit further recognized that the Supreme Court “may ultimately decide to alter or perhaps even set aside [the “machine-or-transformation”] test to accommodate emerging technologies.” Thus, the Supreme Court appears ready to review the issue of patent-eligible subject matter in view of advances in technology since *Diehr* and to clarify the question of patentability of processes that are not tied to a particular machine or transformation.

The Supreme Court is expected to hear the case in Fall 2009. A decision will likely not be announced until late 2009 or early 2010.

Based on several decisions from the Board of Patent Appeals and Interferences decided in the wake of *In re Bilski*, it appears that the USPTO is examining applications under the “machine-or-transformation” test. Until the Supreme Court announces its decision, the USPTO will likely continue to do so. However, given the backlog of applications at the USPTO, the USPTO may not have an opportunity to examine recently-filed applications until after the decision is announced.

For more information regarding *Bilski v. Doll* and the role it may play in patent prosecution or litigation, contact the firm's intellectual property attorneys in the following offices: Atlanta (404-846-1693), Chicago (312-357-1313), Elkhart (574-293-0681), Fort Wayne (260-423-9440), Grand Rapids (616-742-3930), Indianapolis (317-236-1313), South Bend (574-233-1171), Washington, D.C. (202-289-1313). Find out more about Barnes & Thornburg's Intellectual Property Department at: www.btlaw.com/intellectualproperty.

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