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IP Client Alert

Supreme Court's Limited Decision in *Bilski* Leaves the Door Open for Business Method Patents

On June 28, 2010, the U.S. Supreme Court issued its much-anticipated decision in *Bilski v. Kappos*. The Court unanimously held that the patent application at issue did not embrace patent subject matter and that the so-called "machine or transformation test" enunciated by the Court of Appeals for the Federal Circuit is not the exclusive test for subject-matter eligibility. This decision is expected to have long-lasting effects on the manner in which all members of the U.S. patent community-applicants, the U.S. Patent & Trademark Office ("USPTO"), patentees, accused infringers, licensors, licensees, etc.-approach process-related claims. In the interest of quickly informing our readers of this important decision, this Alert briefly summarizes the issues considered by the Court and its conclusions. A more comprehensive analysis can be found in the upcoming July edition of our IP Strategies newsletter.

A little over thirteen years ago, Bernard Bilski and Rand Warsaw ("Bilski") filed a patent application including claims directed to a method of hedging risk in the field of commodities trading, i.e., the buying and selling of coal by a "commodity provider" between a mining company and an energy utility. Steps in the first claim of the patent application included "initiating a series of transactions between [a] commodity provider and consumers of [a] commodity," "identifying market participants for said commodity" and "initiating a series of transactions between said commodity provider and said market participants." As later admitted by Bilski, nothing in this claim stated that these steps were to be performed by any type of machine or device, and each of the steps could theoretically be performed by a person.

The USPTO subsequently rejected Bilski's process claims because they did not involve any patent-eligible transformation, determining that the transformation of non-physical financial risks and legal liabilities was not patent-eligible subject matter. Further, because the claims preempted every possible way of implementing the method, the claims were directed to no more than an abstract idea, and were thus ineligible for patent protection.

In a highly publicized decision in October 2008, the Court of Appeals for the Federal Circuit issued a 9-3 opinion striking down the claims, "clarify[ing] the standards applicable in determining whether a claimed method constitutes a statutory 'process' under § 101." In affirming the USPTO's conclusion that Bilski's claim recites a fundamental principle that would preempt substantially all uses of that fundamental principle if allowed, the court articulated the so-called machine-or-transformation test: "A claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." Noting Bilski's admission that the claims failed to recite any particular machine or apparatus, the court further noted that the claims failed to recite a patent-eligible transformation as well.

As noted above, the justices of the Court agreed that Bilski should not be allowed to obtain a patent. In the Court's opinion, drafted by Justice Kennedy, the machine-or-transformation test is not the exclusive test, although the justices appeared to agree that it was an "important clue" to determining what might be considered patent eligible. Likewise, Justice Kennedy's opinion explains that statutory construction principles mandate the conclusion that § 101 should be broadly interpreted, and that business methods per se should not be categorically excluded from patentability. However, he then goes on to say that if the lower courts can develop tests for subject-matter eligibility that are more clearly grounded in the Court's previously established exceptions to patentability (i.e., laws of nature, physical phenomena and abstract

ideas), then limitations on the scope of eligible subject matter may be well founded. Indeed, the ultimate conclusion in the opinion that Bilski is not entitled to a patent is grounded on the finding that Bilski's claimed process is little more than an abstract idea.

An interesting development appears to be the near-agreement among four of the justices, reflected in Justice Stevens' concurrence, that an exclusion of business methods per se is appropriate. Although this conclusion is merely dicta at this time, the fact that a near-majority of justices agree on this principle may signal further decisions in the future. Of course, Justice Stevens is retiring, thus making the views of his replacement all the more critical to subsequent decisions.

We shall explore these issues in further depth, and offer our recommendations regarding how clients should move forward in light of this decision, in the upcoming July issue of IP Strategies.

If you have any questions regarding this decision, or have any other questions, please contact **Angelo J. Bufalino** at (312) 609-7850 or **Christopher P. Moreno** at (312) 609-7842.

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We welcome your input for future articles. Please call Angelo J. Bufalino, the Intellectual Property and Technology Practice Chair, at 312-609-7850 with suggested topics, as well as other questions or comments concerning materials in this Alert.

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