

Jun 28, 2010

## Bilski v. Kappos

**Although Bilski's claims were held unpatentably abstract, the Supreme Court has re-affirmed that the door to patent eligibility should remain broad and open.**

*Bilski v. Kappos* (Supreme Court 2010)(08-964)

The Supreme Court has issued its opinion in *Bilski v. Kappos*. In the decision, the Supreme Court affirmed that Bilski's risk-management method was not the type of innovation that may be patented. However, rather than using the Federal Circuit's "machine-or-transformation test", the court simply relied on prior precedent to find the claimed method unpatentably abstract. Justice Kennedy authored the majority opinion. Justices Breyer and Stevens both wrote concurring opinions.

**Business as Usual:** In general, the opinion offers no clarity or aid for those tasked with determining whether a particular innovation falls within Section 101. The opinion provides no new lines to be avoided. Rather, the outcome from the decision might be best stated as "business as usual."

Today, the Court once again declines to impose limitations on the Patent Act that are inconsistent with the Act's text. The patent application here can be rejected under our precedents on the unpatentability of abstract ideas. The Court, therefore, need not define further what constitutes a patentable "process," beyond pointing to the definition of that term provided in §100(b) and looking to the guideposts in *Benson*, *Flook*, and *Diehr*.

By refusing to state any particular rule or categorical exclusion, the Court has almost certainly pushed Section 101 patent eligibility to the background in most patent prosecution and litigation.

**Business Methods:** Section 101 does not categorically exclude business methods from patentability. Rather, the court noted that the prior-use defense found in Section 273(b)(1) of the Patent Act "explicitly contemplates the existence of at least some business method patents. . . . [B]y allowing this defense the statute itself acknowledges that there may be business method patents."

**Software:** Although the court expressly refused to rule on the patentability of software, it appears that software will largely remain patentable. At minimum, the decision would bar any categorical exclusion of software patents. The court neither endorsed nor rejected the Federal Circuit's past interpretations of Section 101 -- Noting that "nothing in today's opinion should be read as endorsing interpretations of §101 that the Court of Appeals for the Federal Circuit has used in the past. See, e.g., *State Street*, 149 F. 3d, at 1373; *AT&T Corp.*, 172 F. 3d, at 1357."

**Abstract Idea:** The one thing that all nine justices agreed upon is that *Bilski's* method of hedging risk was not patentable because it is an abstract idea "just like the algorithms at issue in *Benson* and *Flook*."

The concept of hedging, described in claim 1 and reduced to a mathematical formula in claim 4, is an unpatentable abstract idea, just like the algorithms at issue in *Benson* and *Flook*. Allowing petitioners to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.

Petitioners' remaining claims are broad examples of how hedging can be used in commodities and energy markets. *Flook* established that limiting an abstract idea to one field of use or adding token postsolution components did not make the concept patentable. That is exactly what the remaining claims in petitioners' application do. These claims attempt to patent the use of the abstract idea of hedging risk in the energy market and then instruct the use of well-known random analysis techniques to help establish some of the inputs into the equation. Indeed, these claims add even less to the underlying abstract principle than the invention in *Flook* did, for the *Flook* invention was at least directed to the narrower domain of signaling dangers in operating a catalytic converter.

It is unclear to me how patent office examiners will be able to apply the test for abstract ideas in any meaningful way. I suspect that they will not. Rather, the best advice for the USPTO is to focus on Section II-A of Justice Kennedy's opinion. There, the opinion recognizes that Section 101 patent eligibility is "only a threshold test." To be patentable, the invention must also "be novel, see §102, nonobvious, see §103, and fully and particularly described, see §112."

**What is the test?:** 35 USC 101 offers patent protection for "any new and useful process, machine, manufacture, or composition of matter." Here, the focus was on the definition of a "process" because *Bilski's* patent application was written to claim a method of hedging risk. Although the majority opinion refused to define the term process, it did write that the machine-or-transformation test developed by the Federal Circuit *does not* define what is (and is not) a patentable process. Rather, the Court held that the machine-or-transformation offers "a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101. The machine-

or-transformation test is not the sole test for deciding whether an invention is a patent-eligible process." As a "clue," the machine-or-transformation test likely correlates with the existence of patentable subject matter. However, some patent claims that fail the test will still be patentable and other patent claims that pass the test will still be ineligible.

Read the Opinion [<http://www.supremecourt.gov/opinions/09pdf/08-964.pdf>]

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