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BILSKI V. KAPPOS: THE SUPREME COURT AFFIRMS BUT HOLDS THAT PATENTABLE SUBJECT MATTER IS BROADER THAN THE FEDERAL CIRCUIT'S MACHINE-OR-TRANSFORMATION TEST

On June 28, 2010, the United States Supreme Court issued an opinion in *Bilski v. Kappos* on appeal from the Court of Appeals for the Federal Circuit. The Court affirmed the Federal Circuit, holding that the claimed invention was an abstract idea and thus outside the broad scope of patentable subject matter under § 101 of the Patent Act.

The Supreme Court's decision follows a long series of legal battles for Bernard L. Bilski and Rand A. Warsaw, the inventors behind the application entitled "Energy Risk Management Method," filed on April 10, 1997. The invention is a method of hedging risks in commodities trading, as shown by claim 1 of the application:

1. A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

- (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.

During prosecution, the Examiner rejected the claims under § 101 of the Patent Act, holding that the claimed invention "is not implemented on a specific apparatus and merely manipulates [an] abstract idea..." The Board of Patent Appeals and Interferences affirmed, holding that the claims are directed to nonstatutory subject matter because "they do not recite a 'practical application' or a 'concrete and tangible result' under the *State Street* test.

On appeal, the *en banc* Federal Circuit affirmed the BPAI's decision on October 30, 2008, but disagreed with the Board's reliance on the "useful, concrete and tangible result" test from *State Street*. Instead, the Federal Circuit held that the following "machine-or-transformation" test was the sole legal test for determining patent-eligible subject matter:

"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."

The *Bilski* invention, the Federal Circuit held, was not tied to a particular machine or apparatus, and did not transform a particular article. Accordingly, the claimed invention was not directed toward patentable subject matter.

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The applicants appealed to the United States Supreme Court, and certiorari was granted on June 1, 2009. On June 28, 2010, the Court finally issued the long-awaited decision. Although the Court unanimously held that the claimed invention was not directed toward patentable subject matter, the opinion is fragmented. The majority opinion is authored by Justice Kennedy, with Justices Roberts, Thomas, Alito, and Scalia joining (except for Parts II-B-2 and II-C-2, which Justice Scalia did not join). Justice Stevens filed a concurrence opinion, with which Justices Ginsburg, Breyer, and Sotomayor joined. Justice Breyer also filed a concurrence opinion in which Justice Scalia joined as to Part II.

The “Machine-or-Transformation” Test

Regarding the issue of whether the “machine-or-transformation” test is the sole legal test for patent-eligible subject matter, the Supreme Court rebuked the Federal Circuit, stating that it had “more than once cautioned that courts should not read into the patent laws limitations and conditions which the legislature has not expressed.” Accordingly, the Court held that while the machine-or-transformation test is indeed a viable test, it is not the *only* test:

“This Court’s precedents establish that the machine-or-transformation test is 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.’”

However, rather than establish a new, broader test that would help future determinations of patentability, the Court instead decided to rely on its own precedent to hold the invention unpatentable:

“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*.”

Patentability of Business Methods

The Court further held that section 101 does not preclude business methods from the scope of patentable subject matter, since “[t]he term ‘method,’ which is within §100(b)’s definition of ‘process,’...may include at least some methods of doing business.” In support of this argument, the Court pointed out that §273 of the Patent Act – entitled “defense to infringement based on earlier inventor” – was enacted by Congress in the late 1990s and specifically defines “method” as “a method of doing or conducting business.” Rendering business methods unpatentable would “render §273 meaningless,” according to the court.

In a concurring opinion, however, Justice Stevens noted that §273 is a “red herring,” and argued that “a claim that merely describes a method of doing business does not qualify as a ‘process’ under §101” and is therefore directed to unpatentable subject matter. Justice Breyer agreed with J. Stevens, stating in his concurrence that “a general method of engaging in business transactions is not a patentable ‘process’ within the meaning of 35 U. S. C. §101.”

Thus, while five Justices joined the majority opinion to hold that business method patents are patentable, the remaining four Justices would have held all such methods unpatentable. The patentability of business methods, therefore, remains a controversial issue for future cases.

The *Bilski* Application

Turning to the application at issue, all nine Justices agreed that the claims at issue are directed at an abstract idea:

“Petitioners seek to patent both the concept of hedging risk and the application of that concept to energy markets. Rather than adopting categorical rules that might have wide-ranging and unforeseen impacts, the Court resolves this case narrowly on the basis of this Court’s decisions in *Benson*, *Flook*, and *Diehr*, which show that petitioners’ claims are not patentable processes because they are attempts to patent abstract ideas. Indeed, all members of the Court agree that the patent application at issue here falls out-side of §101 because it claims an abstract idea.”

As a result, the Supreme Court affirmed the Federal Circuit’s determination, and the final curtain closed on *Bilski* and Warsaw’s 13-year saga.

Practical Implications

Following the Court’s decision in *Bilski v. Kappos*, it is clear that – at least for now – business method patents are patentable subject matter. Further, while the machine-or-transformation test is “a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101,” it is not the only means of determining whether an invention is directed toward patentable subject matter. Accordingly, a claimed method that fails to satisfy this test might still claim patentable subject matter if it can otherwise satisfy either the definition of a patentable “process” under §100(b) and/or the decisions in *Benson*, *Flook*, and *Diehr*.

Bilski v. Kappos, 561 U.S. ____ (2010), available at <http://www.supremecourt.gov/opinions/09pdf/08-964.pdf>.

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