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Intellectual Property Update: Supreme Court to Hear Business Method Patent Case

By Bruce E. Dahl and Susan E. Chetlin

On June 1, 2009, the Supreme Court of the United States agreed to review the en banc ruling of the U.S. Court of Appeals for the Federal Circuit in the case of *In re Bilski*, 545 F.3d. 943 (Fed. Cir. 2008)(en banc). This decision will have a significant impact the types of inventions that can be patented, particularly what are commonly called “business method patents.”

What are Business Method Patents?

Section 101 of the Patent Act defines a patentable invention as “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” The U.S. Supreme Court has previously limited the scope of patentable processes, holding, for example, that patents cannot be extended to “laws of nature, natural phenomena, and abstract ideas,” such as mathematical formulas. *Diamond v. Diehr*, 450 U.S. 175, 185 (1981) (citing cases). Thus, a business method embodies a process for conducting business that is not merely an abstract idea or mathematical formula. The question in *In re Bilski* is on which side of the line did the Bilski business method fall?

In re Bilski

The patent application at issue in *In re Bilski* claimed a method for hedging risks involved in the sale of commodities. The U.S. Patent and Trademark Office rejected the patent application as unpatentable, non-statutory subject matter that fell outside the scope of Section 101. The inventor, Bilski, appealed to the Federal Circuit. In a fractured en banc decision, the Federal Circuit agreed with the Patent Office. In so doing, the Federal Circuit substantially restricted the range of patent-eligible subject matter by holding that a claimed process or method is eligible for patent protection only if it is tied to a particular machine or apparatus, or if it transforms a particular article into a different state or thing. Since the Bilski process did not meet that “machine or transformation” test, the Federal Circuit concluded it was not a patentable process by its very nature.

The two questions presented in the Petition for Writ of Certiorari are:

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.”

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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 Amethod[s] of doing or conducting business." 35 U.S.C. §273.

The Supreme Court's examination of patentable subject matter under Section 101 is likely to have a wide-ranging impact on all types of process or method claims. The significance of the eventual Supreme Court decision cannot be underestimated, given the current climate of Federal legislation in which many stimulus dollars are being directed to innovation.

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