



IN RE BILSKI:
HIGH STAKES IN HIGH COURT
FOR PATENTS AND INNOVATION

by
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From the early days of the Union, we have protected the rights of an inventor through patents. Specifically, an inventor is given the right to exclude others from “making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.” 35 U.S.C. § 154(a)(1). However, serious questions arise when the invention sought to be protected is a non-physical invention, referred to as a process, and in particular when that process is directed toward a method of doing business. This LEGAL OPINION LETTER reviews the history behind business method patents in anticipation of the Supreme Court’s upcoming review of *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), and how it may impact future patent acquisition.

Patentable Inventions. 35 U.S.C. § 101 defines patentable material as “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” However, the Supreme Court has limited the interpretation of ‘process’ such that “laws of nature, natural phenomena, and abstract ideas” may not receive patent protection. See *Diamond v. Dier*, 450 U.S. 175, 185 (1981).

Laws of nature and natural phenomena are easily understood: Einstein could not have received a patent on his famous equation $E=MC^2$ because it is a universal (albeit difficult to understand) truth. However, companies which utilize Einstein’s equation to provide a useful application may receive protection on their specific inventions.

Abstract ideas are not as readily defined. It makes sense that one may not simply obtain a patent on just an idea (for example, flying cars) without an actual way of enabling this invention. Nevertheless, they may obtain patents on ideas that may not be considered classic, concrete technology. For example, a company which developed a unique way of shifting money between branches of a widely distributed business was determined to have a patentable invention because it provided a “useful, concrete, and tangible result.” See *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368, 1375 (Fed. Cir. 1998).

In re Bilski. Bernard Bilski and his partner Rand Warsaw claim to have developed a method of hedging the consumption risk associated with a commodity sold at a fixed price for a given period (Petr.’s Br. 5). Essentially, the idea is to use an intermediary between producers and consumers to limit risk. The intermediary sets a fixed contract with the producer, so that if the market price drops the

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producer will be safe from reduced wages. Likewise, the intermediary sets a fixed price contract with the consumer to protect the consumer against increased market rates. Regardless of how the market shifts, the intermediary will then be able to earn a profit from the shift in market price and the contracted rates with producers and consumers. Essentially, the idea is simply hedging on commodities.

The Patent and Trademark Office (PTO) rejected Bilski's patent application as being simply a manipulation of an abstract idea without a practical application, and upon appeal to the PTO appeals board the rejection was affirmed. This in turn led to an appeal to the Federal Circuit, which granted an *en banc* hearing.

The Federal Circuit affirmed the rejection, but did so by introducing a test for determining if a claim is a patent-eligible process. This test is the "machine or transformation test", and requires utilizing a machine to complete the process, or transforming an article into a different state or thing. *In re Bilski* at 966. While the majority cites previous Supreme Court cases as being the source of the 'machine or transformation' test, in fact the test has never been expressly articulated by the Supreme Court as the proper test. *See id.* at 954.

Implications. Numerous method patents may become invalid if the 'machine or transformation' test is affirmed. In particular, three types of patents will be vulnerable. (1) Business method patents, (2) Advanced biological method patents; and (3) Software patents. One clear indication of this vulnerability is the number of *amicus* briefs concerned parties have filed with the Court. As of September 28, 43 such briefs had been submitted, many by software, banking, and biotechnology companies. A full list of these briefs, and links to them, is available at http://www.scotuswiki.com/index.php?title=Bilski_v._Doll.

In addition to the immediate impact the Court's ruling will have on current patent holders, there are equally important long-term implications. Courts and the patent office have struggled with the changing technological landscape computers and biotechnology have introduced since the last time the Supreme Court considered what may be patented in *Diamond v. Diehr*, 450 U.S. 175 (1981). These technology areas may not be eligible for further patent protection, and accordingly innovation may be discouraged. Should the Supreme Court affirm the 'machine or transformation' test, it may also undermine yet-to-be-developed technological methods which neither use a machine nor transform data or materials.

Conclusion. The Supreme Court decision in *In Re Bilski* will have long term repercussions throughout many industries. Should the justices affirm the Federal Circuit's decision it could mean that many method patents currently held will be easily invalidated. If they reverse the Federal Circuit's decision it would uphold many businesses' method patents, specifically those from the banking and software industries. There are many who feel that such patents go against the true intent of the patenting system and abuse the protection meant to offer new technology, not new ways of doing business.

However, it is just as likely that the Court will use this opportunity to introduce a new test to determine patentability and thereby set the record straight on how processes and methods are to be analyzed with regards to patent protection. Regardless of how the Supreme Court decides the case, Bilski's patent on hedging commodities will most likely continue to be rejected—vague patents describing concepts already practiced publicly certainly don't add to the public knowledge nor benefit the common good.