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Supreme Court Hears Oral Argument Regarding Patentability of Business Method Claims

The Supreme Court recently heard oral argument in In Re Bilski, in which the Court will make a ruling on the limits of patentable subject matter.

Since the Supreme Court's decision in State Street Bank v. Signature Financial Group, 149 F.3d 1368 (Fed. Cir. 1998), businesses have been concerned with the issue of patentability of software and business methods. In State Street, the Supreme Court ruled that a computer programmed with novel software is patentable even if the output is merely numbers, which resulted in a surge in business method patent applications. Since there were no prior business methods against which to vet the new applications, the United States Patent and Trademark Office ("PTO") granted many applications that covered things already in the prior art. The PTO then retracted, delaying the processing of business method patents for years before eventually rejecting them. Bilski's was one of the rejected patents.

At issue in Bilski are claims relating to a method of managing risk in commodities trading. The PTO examiner determined that the invention did not constitute patentable subject matter under 35 U.S.C. § 101, and the Board of Patent Appeals and Interferences ("BPAI") affirmed the decision. Bilski appealed the rejection to the Federal Circuit. In affirming the BPAI, the Federal Circuit promulgated a new test for patent eligibility for method claims (the "machine-or-transformation" test), stating that an invention is patentable 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 Supreme Court granted certiorari to consider whether this machine-or-transformation test conflicts with precedent that allowed for broad patent eligibility for new and useful processes other than laws of nature, physical phenomena and abstract ideas.

The Justices questioned Bilski's attorney about whether business method patents could be intended by the authors of the Patent Act to be patentable. Early on, Justice Scalia asked Bilski's attorney why patentable subject matter could not be limited to "machines and inventions. In arguing that the "machine-or-transformation test" is unduly restrictive and against the intent of 35 U.S.C. §101, Bilski's attorney urged that the Court should broadly construe what should be considered a patent-eligible process, noting that "today the raw materials are just as likely to be information or electronic signals, and to simply root us in the industrial era because that's what we knew I think would be wrong and contrary to the forward-looking aspect of patent law."

The Court appeared to be skeptical of whether business method patents should be patent eligible, attempting to define the boundaries of what kinds of method claims should be permitted to be patentable. The Justices offered several hypotheses testing Bilski's argument. Justice Ginsberg,

for instance, mentioned means of tax avoidance, how to resist a corporate takeover and how to chose a jury. Justice Sotomayor expressed a concern over patents for speed dating, while Justice Breyer discussed an original method of teaching antitrust law that would keep 80% of students awake. Justice Sotomayor also appeared to suggest that the Federal Circuit had gone too far in broadening the scope of patentable subject matter, asking "How do we limit it to something that is reasonable?" The Justices appeared to be concerned that permitting business method claims to be construed as broadly as possible would be unreasonable, since doing so would cause "anything that helps any businessman succeed is patentable," as mentioned by Justice Breyer. Bilski's attorney later responded that while many of the hypotheticals offered by the Justices should meet the test of patentable subject matter under Section 101, they would likely be invalid as obvious – but that the vetting of a process should turn not on the threshold issue of patentability, but instead on the issue of obviousness.

The government argued that the Federal Circuit's "machine or transformation" test is not rigid or inflexible, but rather that there simply must be some link between the process and a machine or transformation of matter in order for a process to be patent-eligible. It distinguished Bilski from State Street Bank, in which the Federal Circuit construed the statutory term "machine," rather than the term "process." Justice Sotomayor appeared to agree with the government's argument, stating that no ruling in Bilski would change State Street. Chief Justice Roberts questioned the government's attorney on his written brief, asking why a footnote indicated that, while the Bilski process was unpatentable, it might be patentable if executed on a computer. He analogized such a situation to a process being unpatentable unless typed out on a typewriter, and appeared to find it troubling.

If the Supreme Court affirms the Federal Circuit's decision in Bilski, software and other business method claims will remain patent-eligible. But, the questions posed by the Justices suggest that the Supreme Court is open to limiting the scope of patentable subject matter. If the Supreme Court does decide to limit patent-eligible subject matter, the validity of many business method patents may be called into question.

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