

Supreme Court Ends 2009-10 Term With Major Patent Law Ruling

The Supreme Court has now ruled in the long awaited case of *Bilski v. Kappos*, holding that the inventors' claimed methods for hedging "consumption risk" in a business transaction were unpatentable. The Court rejected the "machine or transformation" test that had been established by the United States Court of Appeals for the Federal Circuit as the "sole" test for patentability of a process, and applied an "abstract ideas" analysis to reject the patent at issue.

The decision, written by Justice Anthony M. Kennedy, broadly reopens questions concerning patentable subject matter in a manner suggesting that patent subject matter analysis will be more searching than it has been under recent practice. It also explicitly notes that the Court does not endorse any of the prior Federal Circuit section 101 formulations and instructs a return to the Court's precedents.

The decision was unanimous in rejecting Bilski's patent application. Four Justices (Kennedy, Roberts, Thomas and Alito) applied the "abstract ideas" analysis, but also wrote approvingly about patent protection potentially covering computer software, medical diagnostic methods and possibly even business methods. Four Justices (Stevens, Breyer, Ginsburg and Sotomayor) would have held that business methods are categorically patent-ineligible. Justice Scalia joined those parts of the Kennedy opinion that held the subject matter in question unpatentable as an abstract idea, but did not join in the sections in which Justice Kennedy addressed business methods, software and related inventions. The Court did not categorically exclude business methods from patentability, but made clear that it could not accept the "broad patentability of such claimed inventions." (Slip Op. at 11.)

One thing all Justices did agree on was this: "[a]ll members of the Court agree that the patent application at issue here falls outside of §101 because it claims an abstract idea." (Slip. Op. at 13.) The Court reaffirmed the approach of *Diamond v. Diehr*, 450 U.S. 175, 188 (1981), of determining patentable subject matter by considering the invention "as a whole." According to the Court, "[t]he concept of hedging, described in claim 1 and reduced to a patentable formula in claim 4, is an unpatentable abstract idea . . . Allowing petitioners to patent risk hedging would preempt the use of the approach in all fields, and would effectively grant a monopoly over an abstract idea." (Slip. Op. at 15.) The Court addressed all of the claims in the patent application, but found that remaining claims added either "[a limitation] to one field of use, or . . . token postsolution components," that did not make any of those claims patentable. (Slip Op. at 15-16.)

The Court's holding in this case was narrow, but its instruction to the Federal Circuit with respect to the Supreme Court's prior decisions was profound. It rejects a "machine or transformation" test as the sole test of patentability but continues to endorse it as "a useful and important clue" in the analysis (Slip Op. at 8). It leaves open the possibility of patents concerning business methods but invites greater scrutiny to them, and it reestablishes the "abstract ideas" approach to patentable subject matter, giving little weight to field-of-use limitations and "post-solution activity" in applying this analysis. With respect to prior Federal Circuit precedents, it states 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," citing as examples the Federal Circuit's decisions in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) and *AT&T Corp. v. Excel Communications, Inc.*, 172 F. 3d 1352 (1999).

In sum, while this decision reflects an openness *in principle* to a broad range of subject matter, it

probably augurs for more scrutiny than has been applied in the recent past, to broad patent claims in any field.

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