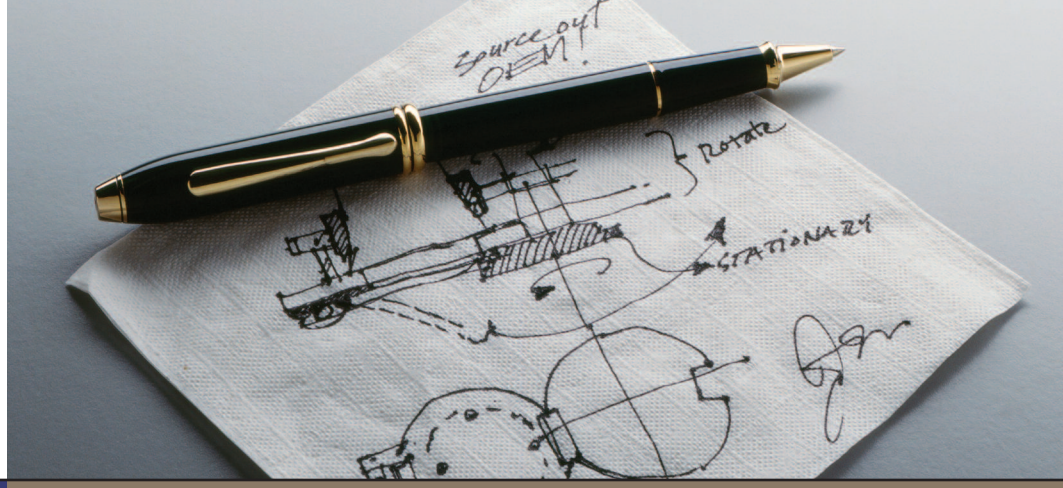
BENESCH
Attorneys at Law

June 2009



Intellectual Property Bulletin

BUSINESS METHODS AND SOFTWARE PATENTS IN THE UNITED STATES: THE U.S. SUPREME COURT GRANTS CERTIORARI IN BILSKI

The patentability of business methods and software-based inventions have been called into question by the decision of the Court of Appeals for the Federal Circuit in *In re Bilski*.[1] The decision is seen by some as the latest salvo in a movement to eliminate business methods and software patents. These patents have been attacked by various interest groups as impeding the development of technology.[2] However, the implications of a ban on the patentability of business methods and software inventions can hardly be understated. In this information age, software inventions reach virtually every aspect of business and day-to-day life including, not only business methods, but also communications, biotechnology, etc.

In *Bilski*, the Federal Circuit, sitting *en banc*, set forth its "machine or transformation" test: a process is eligible for a patent only if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing."[3] In its opinion, the court seems to struggle in devising a test to demark the line between patentable and unpatentable subject matter that is in accord with Supreme Court precedent and a test that lower courts and the USPTO can apply consistently. The court declined to completely exclude business methods or software as unpatentable categories of inventions. However, the test has been widely criticized by some as going too far to restrict patent rights and by others as not going far enough to curtail such rights. The test has also been criticized as being unworkable and as ignoring the realities of developing technologies.

The U.S. Supreme Court has not delved into the patentability of processes in 28 years.[4] The Court did accept a process patent case in 2005, however the Court later dismissed the case as improvidently granted.[5] Now, the Supreme Court has granted Bilski's request for review.[6] The Court's ruling in the case may decide the future of business methods, software patents, and a panoply of other technologies including biotech.

At first glance, the future of business methods and software patents at the Supreme Court does not look promising. Recent Supreme Court decisions on patent cases indicate a consistent trend towards increasing restrictions on the availability of patents.[7] Thus, it would seem that the Court's acceptance for review of *Bilski* will prognosticate issuance of a ruling that will make it easier for the USPTO and the courts to reject patent claims. However, guessing what the Supreme Court will do is a complex and imprecise business, akin to reading tea leaves. Previous Supreme Court decisions, changing public policy implications, and even the appointment of a new Justice to the Court without an extensive record on patents, make the picture murky. How the Court will decide is not clear, but some of these circumstances may not necessarily point towards further restrictions on patents.

One thing that is clear is that the Supreme Court does not usually takes cases, especially Federal Circuit cases, to affirm. This fact tends to indicate that the Court does not agree with the Federal Circuit's "machine or transformation" test. This is at first surprising because "machine or transformation" seems fairly restrictive on patents. A reversal would seemingly have the effect of expanding patent rights, and that is against the trend of restricting patent rights.

But perhaps *Bilski* is a harbinger of a pendulum swing. After all, patents have been ravaged by the courts in the last ten years. The number of filings and the allowance rates are way down[8], and the USPTO is apparently in a budget crisis.[9] Moreover, in the current economic climate, whole industries built on the back of software patents may be threatened by the impact of further curtailing of patent rights. Perhaps the Supreme Court realizes that the courts have gone too far and now threaten to kill the goose that laid the golden egg. It would also be ironic and detrimental to the U.S. software industry for the U.S. to turn its back on business methods and software patents at the same time that patent applications on such inventions are becoming increasingly common around the world.[10]

One possibility is that the Federal Circuit's *Bilski* decision may be repugnant to the Supreme Court on multiple grounds. For one, the "machine or transformation" test is a so-called "bright line" test. The Federal Circuit has a history of promoting bright line tests such as the "teaching, suggestion or motivation" test for obviousness, and the Supreme Court has a history of rejecting such tests for less rigid approaches.[11] The Federal Circuit favors "bright line" tests, at least in part, because part of its mandate is to harmonize patent law at the district court level and at the USPTO.[12] Therefore, the court often seeks to promote consistent application of patent law by lower courts and the USPTO by simplifying the standards to be applied.

The Supreme Court, on the other hand, has different concerns, and, at least in patent law, it has generally not approved of rigid, inflexible tests, but has opted for standards that allow district courts more flexibility.

In this case, the Court may take a step back from its recent history of aversion to patent rights and devise a flexible standard for lower courts to make patentable subject matter determinations. The Court may also choose to simply reinforce its precedent establishing that "everything under the sun created by man" is patentable[13] with the only exceptions being for laws of nature, natural phenomena and abstract ideas.[14] Such rulings would be in accord with Supreme Court jurisprudence on viewing patentable subject matter broadly and have the salutary effect of promoting important categories of inventions and U.S. industry.

1 545 F.3d 943 (Fed. Cir. 2008).

2 *See e.g.* stopsoftwarepatents.org.

3 545 F.3d at 954.

4 *Diamond v. Diehr*, 450 US 175 (1981).

5 *LabCorp v. Metabolite Labs Inc*, No. 04-607 (U.S. 6/22/2006) (2006).

6 *Bilski v. Doll*, No. 08-964.

7 *See e.g. KSR v. Teleflex*, 550 U.S. 398 (2007); *Metabolite*, No. 04-607 (Breyer, J., dissenting).

8 USPTO, *Public Session, Patents Public Advisory Committee*, Nov. 7, 2008.

9 Diane Bartz, *Patent Office Budget Hit by Financial Crisis*, Reuters, Mar. 16, 2009.

10 Eugene F. Derenyi et al., *Protection of Business Method Patents Outside of the United States*, Landslide, May/June 2009.

11 *See KSR v. Teleflex*, 550 U.S. 398 (2007).

12 Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25.

13 *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).

14 *Diamond v. Diehr*, 450 US 175 (1981).

Additional Information

For more information on this topic, please contact Luis Carrion at (216) 363-4635 or lcarrion@beneschlaw.com.