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Are Business Methods Patentable? The Supreme Court Weighs In.

By: David Carroll. ***This was posted Friday, May 14th, 2010***

Venture and IT professionals are familiar with *Bilski v. Kappos*, in which the Patent & Trademark Office denied a business-method patent for a method of hedging risk through commodities trading. A patent application was filed in 1997 by Bernard Bilski and Rand Warsaw, which was rejected by the US Patent & Trademark Office on the basis that it involved only an idea or concept and did not need any technology to implement. The patent was rejected through a series of appeals culminating in a hearing before the Supreme Court in November last year 2009.

The Court of Appeals for the Federal Circuit in the *Bilski* case overthrew a test called: the "useful, concrete and tangible result" test that it had articulated in the 1998 case of *State Street Bank & Trust Co. v. Signature Financial group, Inc.* The *State Street* case opened up a deluge of business method patent applications for any developer of a new method or process, especially internet designers and code developers. The Appeals Court in that case derived a test known as the "machine-or-transformation" test. This test requires that all patentable methods must either (1) be tied to a particular machine or apparatus, or (2) transform a particular article into a different state or thing. Bilski's method patent failed both.

Bilski's argument is that hedging risk in commodities trading shouldn't be categorically excluded from patenting just because it doesn't centrally involve equipment, such as wires and electricity like the telephone and the telegraph or because it does not transform one thing or material into another. Only literary works, abstract principles and mental processes can be excluded, the argument goes, and Bilski's invention is none of these.

By agreeing to hear this appeal the Supreme Court is considering a question of great importance to entrepreneurs and inventors of all stripes. Critics of the business-method patents say that these patents were never intended to protect such things as abstract concepts or mathematical algorithms rather than concrete physical inventions. Supporters of the business method patents say they are essential to promoting innovation and entrepreneurship in today's knowledge-based, internet-driven economy.

Whichever way the Supreme Court rules it's likely that the holding will have a significant impact on innovation for years to come. A variety of businesses have written "friend-of-the-court briefs" (amicus curiae) on both

sides of the issue. IBM, which over the years has obtained many business-method patents, filed an amicus brief stating that it is now opposed to them. IBM now maintains that the patents are unnecessary for the promotion of innovation. They believe that businesses would develop these new processes without patent protection. IBM's in-house patent attorney, David Kappos stated that: "You're creating a 20- year monopoly for no good reason."

Bilski will definitely be a watershed case. The Supreme Court is due out with its opinion in a matter of weeks.