
“Business Methods and Patent-Eligible Subject Matter in Light of *Bilski v. Kappos*”

By
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1. Introduction

“Patent law seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten. One way in which patent law seeks to sail between these opposing and risky shoals is through rules that bring certain types of invention and discovery within the scope of patentability while excluding others.”²

“In analyzing *Bilski*, one is left to ponder whether the end has arrived for business method patents[...].”³

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² *Lab. Corp. of Am. V. Metabolife Labs.*, 548 U.S. 124, 127, 136-137 (2006) (Breyer, J., dissenting from denial of certiorari).

³ *Cybersource Corp. v. Retail Decisions, Inc.*, 2009 U.S. Dist. LEXIS 26056 *33 n.15 (N.D. Calif. 2009)

Business method patents, rare to non-existent during the 18th, 19th, and most of the 20th centuries, surged into popularity at the end of the 1990's and into the early years of the 21st century. With the surge of computer use and Internet based commerce came a flood of patent applications claiming processes directed at conducting business in these “virtual” mediums. Although, the patent statutes explicitly list processes as subject matter eligible for patenting, and processes related to “methods of doing business” are also statutorily included⁴, the United States Patent and Trademark Office (USPTO) and the Court of Appeals for the Federal Circuit in particular have had a difficult time reconciling business methods (as opposed to purely technical methods or chemical processes) into the category of “process”. Patent examiners as well as the Judges seem to have lost sight of the fact that the question of whether or not a claimed invention recites statutory subject matter is merely a *threshold* question determining patent *eligibility*. It is not the only question. In order to be *entitled* to receive a patent, the inventor of the new process must still, at a minimum, satisfy the other patentability requirements of utility, novelty, non-obviousness and disclosure of Sections 101, 102, 103, and 112 of the Patent Act.

Few areas of patent law have received such recent scrutiny as the subject matter eligibility of a claimed invention that recites a process directed to a “business method”. Scholars and commentators from the legal, business, and scientific community have vastly divergent views on this topic. Ideally, the public at large would rely on Congress to draft a clear statute and offer up a bright-line test for what is patentable subject matter and what is not. Unfortunately, patent reform legislation is not likely to see the light of day any time soon, and if it does surface, there is little hope that the legislators will draft it clearly enough. In the absence of a clear direction

⁴ 35 U.S.C. § 273(a)(3) (1999), Defense to Infringement Based on Earlier Inventor, (“[t]he term “method” means a method of doing or conducting business”).

from Congress; we must turn to the courts. As with most questions related to the specialized nuances of patent law, the courts have struggled with the issue of process claims as patentable subject matter.⁵ Business methods as related to patentable processes have proven especially difficult for the courts to grasp since they do not tend to be of a traditionally “technological” nature. Various tests have been offered and revoked (often all within the pendency period of a single patent application, as was the case in the *Bilski* patent application) leaving inventors, patent owners, patent examiners and patent drafters with no clear guidelines. In fact, the Federal Circuit has recently flip-flopped on this topic, offering tests deemed at first to have been too lax (the “concrete, useful, tangible” test) then seemingly running in the other direction by handing down its latest exclusive and, some feel, extremely restrictive test (the “machine-or-transformation” test).

Specifically, and most recently, the business method patent struggle is played out in the case of *Bilski v. Kappos*.⁶ In *Bilski*, the question of business methods as patent-eligible subject matter has been fought out in the USPTO, the USPTO’s Board of Patent Appeals and Interferences (BPAI), the Court of Appeals for the Federal Circuit (CAFC), and, most recently, it has reached the Supreme Court of the United States. The patent application⁷ submitted by Bernard Bilski and Rand Warsaw on April 10, 1997 has become the “straw man” for the patentable subject matter debate. As of the writing of this article, the Supreme Court has yet to issue a ruling in this case.

⁵ 1 David S. Chisum, *Chisum on Patents* § 1.03, at 1-109 (2006).

⁶ *Bilski v. Kappos*, 129 S. Ct. 2735 (2009), *cert. granted*, 545 F. 3d 943 (Fed. Cir. 2008).

⁷ U.S. Patent Application Serial No. 08/833892.

Is the CAFC’s “machine-or-transformation” test the right test in light of the current state of business methods in the 21st century where the “useful arts” and applied sciences touch the financial and business worlds as much they do in the more traditionally “technological” fields? Can the U.S. patent system adapt as innovations move from the economy of the industrial revolution to the current “knowledge economy”? This article will attempt to discuss the topic of business methods as patent-eligible subject matter and evaluate its future in light of the decisions and discussions surrounding *Bilski v. Kappos*.

2. Overview of Patent-Eligible Subject Matter and the *Bilski* Case

“The Congress shall have power... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”⁸

With the establishment of the Patent Clause the framers of the U.S. Constitution laid forth the first substantive law that affirmatively recognized property rights in the fruits of mental acts that result in invention. The concept that these property rights were inherently possessed by the inventor and which the Congress had the power to authorize and secure was embodied in the clause and adopted without change, debate, nor controversy.⁹ Unlike the Patent Clause, however, the question of *which* inventions are eligible for patenting (referred to as “patent-eligible subject matter”) has been the subject of *much* change, debate, and controversy.

⁸ U.S. Const., art. I, § 8, cl. 8.

⁹ Fenning, Karl, *The Origin of the Patent and Copyright Clause of the Constitution*, 11 J. Pat. Off. Soc’y 438 (1929).

2.1. Statutory Basis for Processes as Patent-Eligible Subject Matter

The Legislature has defined which inventions are patentable in Section 101 of the Patent Act as follows:

“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”¹⁰

A person claiming inventions falling into at least one of the statutory classes, namely process, machine, manufacture, or composition of matter, shall be entitled to a patent *unless* their claim may be rejected by one of the conditions for patentability.¹¹ While not the only factor involved in whether an invention is eligible to receive a patent, the question of subject-matter eligibility is a threshold question. According to the USPTO’s Manual of Patent Examining Procedure (MPEP):

Patents are not granted for all new and useful inventions and discoveries. The subject matter of the invention or discovery must come within the boundaries set forth by 35 U.S.C. 101, which permits patents to be granted only for "any new and useful process,

¹⁰ 35 U.S.C. § 101.

¹¹ In addition to the threshold question of subject matter, the patent act requires patent claims to satisfy the requirements of novelty, utility, and written description as required in 35 U.S.C. § 102 Conditions for patentability; novelty and loss of right to patent, 35 U.S.C. § 103 Conditions for patentability; non-obvious subject matter, and 35 U.S.C. § 112 Specification.

machine, manufacture, or composition of matter, or any new and useful improvement thereof." ¹²

A claimed invention directed to a “process” is different from a “machine, manufacture, or composition of matter” in that the claims do not recite a “structural entity but rather an operation or series of steps leading to a useful result.”¹³ Specific definitions or tests as to what types of operative steps recite a “process” as envisioned by the statute are notably absent from the Patent Act. The Supreme Court has held that “the language of § 101 is extremely broad,”¹⁴ “is a dynamic provision designed to encompass new and unforeseen inventions,”¹⁵ and has a “forward-looking perspective.”¹⁶ The Federal Circuit has commented that the repetitive use of the term “any” in the statute is indicative of the Legislature’s intent to make § 101 broad and that “it is improper to read limitations into § 101 on the subject matter that may be patented where the legislative history indicates that Congress clearly did not intend such limitations.”¹⁷ Famously, the Supreme Court has acknowledged that Congress intended § 101 to extend to “anything under the sun that is made by man.”¹⁸ Intentionally broad in its scope, the language of the Patent Act reflects a policy judgment intended to encourage innovation in new and unforeseen areas. This policy perspective aims to bring and maintain innovation in the United States and is markedly different from similar statutes in patent systems outside of the United States with respect to processes. In fact, Donald Chisum, the oft-cited scholar on patent law, notes differences in patent-eligible subject matter between § 101 under United States law and the similar provisions of the European Patent Convention.¹⁹ The most notable difference being that the European Patent Convention makes specific exceptions to eligible subject matter beyond the traditional

¹² Manual of Patent Examining Procedure § 706.03(a) Rejections Under 35 U.S.C. 101 [R-5] (8th Ed., August 2001)

exceptions for abstract ideas, natural phenomena, and laws of nature.²⁰ Process claims directed to business methods are specifically enumerated among the exceptions.²¹

¹³ 1 Davis S. Chisum, *Chisum on Patents* §1.03, at 1-109 (2006); see also *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1318, 1322 (Fed. Cir. 2005), *cert. denied*, 126 S. Ct. 1174 (2006) (METHOD OR PROCESS: ONE OR MORE OPERATIVE STEPS: :A method or process consists of one or more operative steps. . . .”; DISTINCTION BETWEEN METHODS AND TANGIBLE ITEMS: “A method, by its very nature, is nothing more than the steps of which it is comprised. The invention recited in a method claim is the performance of the recited steps.).

¹⁴ *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred International, Inc.*, 534 U.S. 124, 130 (2001) (Quoting *Chakrabarty*, 447 U.S. 308, “Congress plainly contemplated that the patent laws would be given wide scope.”).

¹⁵ *Id.* at 135.

¹⁶ *Id.* at 135.

¹⁷ *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1373 (1998).

¹⁸ *Diamond v. Chakrabarty*, 447 U.S. 303,309 (1980) (quoting S. Rep. No. 1979, 82nd Cong., 2nd Sess. 5 (1952); H.R. Rep. No. 1923, 82nd Cong., 2nd Sess. 6 (1952)).

¹⁹ 1 *Chisum on Patents* § 1.01, at 1-8 (2006).

²⁰ *Diamond v. Diehr*, 450 U.S. 175, 185 (1981) (citing *Parker v. Flook*, 437 U.S. 584, 589 (1978), and *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972)).

²¹ European Patent Convention Article 52(2).

2.2. Interpreting the Statutes: Guidance from the Patent “Bible” and Tests Applied by the Courts

While little to no debate exists surrounding statutory interpretation of what constitutes a “machine”, a “manufacture”, or a “composition of matter”, the USPTO, the Federal Circuit, and the Supreme Court have all had their fair share of debate surrounding the definition of a patent-eligible “process”. The interpretation of patent law follows the same norms of any class of statutory interpretation and, as such, “the starting point in construing a statute is the language of the statute itself.”²² Unfortunately, the statute only offers a circular definition: “The term “process” means process, art, or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.”²³ Following the Supreme Court’s reliance on the canon of statutory interpretation that teaches to rely on the “ordinary, contemporary, common meaning”²⁴ of words in a statute, we then turn to the ordinary dictionary definition. According to the Merriam-Webster online dictionary, “process” is defined as “a series of actions or operations conducting to an end.”²⁵ If the analysis were to stop here, it would seem that the legislative intent regarding “process” as patent-eligible subject matter would be intentionally broad, including *any* series of actions or operations conducting to an end. Of note is that no phrase of the definition is

²² *Randall v. Loftsgaarden*, 478 U.S. 647, 656 (1986) (“Here, as in other contexts, the starting point in construing a statute is the language of the statute itself.”).

²³ 35 U.S.C. §100 (b) Definitions – Patent Laws (1999).

²⁴ *Diamond v. Diehr*, 450 U.S. 175, 182 (1981).

²⁵ process. (2010). In *Merriam-Webster Online Dictionary*. Retrieved April 25, 2010, from <http://www.merriam-webster.com/dictionary/process>

modified by the word “technological”, a modifier that some members sitting on the CAFC and the Supreme Court seem to attribute without reason or analysis. Utilizing the plain meaning of “process” as described above, business methods can be defined as a series of actions or operations conducting to an end. If the legislative intent behind the Patent Act, as frequently affirmed by the Federal Circuit and the Supreme Court, was to make the entry point of patentable subject matter intentionally broad in scope in order to encourage innovation in new and unforeseen areas, it would seem that business methods would easily fall into the category of patent-eligible subject matter. Having passed this intentionally broad threshold, the claimed process would then be subject to the patentability criteria that any other process would need to pass in order to receive patent protection. Why should a process be subject to any additional or different criteria for patentability than machines, manufactures, or compositions of matter? In fact, much evidence points to support of business methods as statutory subject matter. In 1999, Congress enacted a business method defense to patent infringement,²⁶ giving support to the argument that legislative intent was that business methods should be patent-eligible. The Federal Circuit recently confirmed that business methods fall under the purview of the patent system and are subject to the “same legal requirements for patentability as applied to any other process or method.”²⁷ Hearing oral arguments in the *Bilski* case, Supreme Court Justice Sonia Sotomayor

²⁶ In 1999 Congress enacted 35 U.S.C. § 273, providing for a business method defense (prior use) to patent infringement even after having ample opportunity to introduce business methods as a statutory exception.

²⁷ *In re Bilski*, 545 F.3d 943, 960 (Fed. Cir. 2008), *cert. granted sub nom.* *Bilski v. Doll*, 129 S. Ct. 2735 (2009) (expressly stating that the court was “reaffirm[ing]” *State Street’s* conclusion “that the so-called ‘business method exception’ was unlawful and that business method claims

plainly stated that “no ruling in this case is going to change *State Street*.”²⁸ Given these judicial interpretations and commentary, why is there so much attention now focusing on business methods as patentable subject matter?

Perhaps part of the confusion surrounding business method patents can be traced back to the USPTO itself. Professor John F. Duffy, of George Washington University Law School, argues that the USPTO promulgated a misguided and “tepid” endorsement of a business method exception dating back to 1949 with the First Edition of its Manual of Patent Examining Procedure (MPEP).²⁹ In that first edition of the “bible” of patent law,³⁰ the USPTO listed “a method of doing business” as an exception to patentable subject matter:

(and indeed all process claims) are ‘subject to the same legal requirements for patentability as applied to any other process or method’”) (quoting *State Street*, 149 F.3d at 1375-76).

²⁸ Transcript of Oral Argument at 301, *Bilski v. Kappos*, 129 S. Ct. 2735 (No. 08-964), available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/08-964.pdf. (Plainly stating that any ruling by the Supreme Court on the *Bilski* case would be directed to the patent claims themselves and/or to the machine-or-transformation test itself, but that no ruling would reverse the *State Street Bank* decision that claims directed to business methods do indeed recite patentable subject matter.)

²⁹ Duffy, John F., *Why Business Method Patents?*, GWU Law School Public Law Research Paper No. 484. available at SSRN: <http://ssrn.com/abstract=1501317>

³⁰ See ROBERT C. FABER & JOHN L. LANDIS, *LANDIS ON MECHANICS OF PATENT CLAIM DRAFTING*, § 1:2, at 1–2 n.3 (5th ed. 2005) (noting that the MPEP “normally operates as the examiner’s bible” and recommending that attorneys follow the Manual “to the letter

Method of Doing Business

Though seemingly within the category of an “art” or method, the law is settled by the method of doing business can be rejected as not being within the statutory classes [of patentable subject matter]. *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467.³¹

Professor Duffy argues that the USPTO’s “shakey support” in the case law was flawed.³² In creating the exception, the USPTO cited only a lower court decision as authority for the exception then actually proceeded to misinterpret the decision.³³ According to Professor Duffy,

“*Hotel Checking* ultimately turned on the basic rule that ‘[i]n the sense of the patent law, an art is not a mere abstraction.’ Of course, abstractions are not allowed to be patented in any field of endeavor, so the *Hotel Checking* opinion does not stand for any special restriction on business methods.”³⁴

Furthermore, the USPTO did not couch the language of the exception in absolutes. In fact, the exception does not state that *all* business method claims should be excluded, but rather that business method claims *can* be excluded.³⁵ Far from barring business method patents at the

except where one is convinced that the Manual is wrong and the client’s interests are likely to be prejudiced”).

³¹ Manual of Patent Examining Procedure § 706.03(a) (1st ed. 1949), *available at* http://www.uspto.gov/web/offices/pac/mpep/old/E1R0_700.pdf.

³² Duffy, *Why Business Method Patents?*, at page 10.

³³ *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467 (2d Cir. 1908).

³⁴ Duffy at 10, citing *Hotel Checking*, 160 F. 467, 469 (2d Cir. 1908).

³⁵ *Id.* at 11.

threshold, the reality was that the USPTO continued to issue business method patents despite the exception, and in 1995 revised the MPEP to drop the business method exception altogether.³⁶

The Federal Circuit has fared no better in promulgating a consistent and durable test for patentable subject matter. The predecessor court to the Federal Circuit, the Court of Customs and Patent Appeals, developed the *Freeman-Walter-Abele* “two-step” test in the late 1970’s and early 1980’s in order to determine if mathematical algorithms were patentable subject matter.³⁷ The “two-step” test requires determining whether the claim recites an algorithm within the meaning of *Benson*,³⁸ and then determining whether the algorithm is applied in any manner to physical elements or process steps.³⁹ The Federal Circuit largely did away with the *Freeman-Walter-Abel* “two-step” test with its decisions in *In re Alappat*⁴⁰ and *State Street Bank*.⁴¹ The holdings in those two cases created a test that would render a claimed invention eligible for a patent if it involved some practical application and it produces a “useful, concrete, and tangible result”. In

³⁶ Manual of Patent Examining Procedure § 706.03(a)(1) (6th ed., rev. 1 1995), *available at* http://www.uspto.gov/web/offices/pac/mpep/old/E6R1_700.pdf.

³⁷ *See In re Freeman*, 573 F.2d 1237 (C.C.P.A. 1978); *In re Walter*, 618 F.2d 758 (C.C.P.A. 1980); *In re Abele*, 684 F.2d 902 (C.C.P.A. 1982).

³⁸ *Gottschalk v. Benson*, 409 U.S. 63 (1972) (In which the Court held that a process claim directed to a numerical algorithm was not patentable.).

³⁹ *See 1 Chisum on Patents* § 1.03[6][i], at 1-287 (2006).

⁴⁰ *In re Alappat*, 33 F.3d 1526, 31 USPQ 1545 (Fed. Cir. 1994).

⁴¹ *State Street Bank and Trust Company v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) (Holding that a claim is eligible for protection by a patent if it involved some practical application and it produces a useful, concrete, and tangible result.).

its opinion in *State Street*, the Federal Circuit observed that the “business method exception has never been invoked by this court, or the CCPA, to deem an invention unpatentable.”⁴² This opinion in *State Street* has been credited with ushering in the boom of poor quality business method patents that flowed out of the USPTO until the *Bilski* decision in 2008.⁴³ In 2008, the Federal Circuit significantly changed course with respect to processes that recite patentable subject matter. The court, in an *en banc* decision in *In re Bilski*⁴⁴, both affirmed their decision in *State Street* with respect to rejecting any business method exception, and stated that the “useful, concrete, and tangible result” test should no longer be relied upon. Instead the court held that “the clue to the patentability of a process claim” was the “machine-or-transformation” test. “A claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.”⁴⁵

The Supreme Court’s case law on patentable subject matter, in contrast, has been remarkably consistent. In the past thirty years, the Supreme Court has ruled three times on the issue of patentable subject matter. In *Diamond v. Chakrabarty*, the Court held that patent-eligible subject

⁴² *Id.* at 872.

⁴³ Merges, Robert P., *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform* (September 6, 1999). available at SSRN: <http://ssrn.com/abstract=180748>.

⁴⁴ *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (The “useful, concrete and tangible result” test of *State Street* should no longer be relied on. A method claim is surely patentable subject matter if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.).

⁴⁵ *Id.* at 954.

matter includes “anything under the sun that is made by man,”⁴⁶ and that “Congress plainly contemplated that the patent laws would be given wide scope.”⁴⁷ Just one year later, in *Diamond v. Diehr*, the Court reiterated that courts “should not read in to the patent laws limitations and conditions which the legislature has not expressed.”⁴⁸ As recently as 2001, the Supreme Court affirmed that that “the language of § 101 is extremely broad.”⁴⁹ Justice Breyer, in his influential dissent in *LabCorp. V. Metabolite*,⁵⁰ was severely critical of the lower courts for departing from Supreme Court teachings and promulgating tests which restrict the scope of patentable subject matter beyond what was expressed by the legislature. Referring specifically to the “useful, concrete, and tangible result” test of *State Street*, Justice Breyer emphatically stated, “*this court* has never made such a statement and, if taken literally, the statement would cover instances where this Court has held the contrary.”⁵¹

2.3. The *Bilski* Issue

In 1997, Bernard Bilski and Rand Warsaw filed a patent application in the USPTO for “methods for managing the consumption risk costs of a commodity sold at a fixed price and,

⁴⁶ *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

⁴⁷ *Id.* at 308.

⁴⁸ *Diamond v. Diehr*, 450 U.S. 175 (1981) (quoting *Diamond v. Chakrabarty*, 477 U.S. 303, 308 (1980)).

⁴⁹ *J.E.M. Ag. Supply, Inc. v. Pioneer Hi-Bred Int’l., Inc.*, 534 U.S. 124, 130 (2001).

⁵⁰ *Lab. Corp. of Am. Holding v. Metabolite Labs., Inc.*, 548 U.S. 124 (2006).

⁵¹ *Id.* at 137.

more particularly, methods for managing the weather-related risks associated with energy pricing.”⁵² The claimed process comprises three steps:

1. initiating a series of sales or options transactions between a broker and purchaser-users by which the purchaser-users buy the commodity at a first fixed rate based on historical price levels;
2. identifying producer-sellers of the commodity; and
3. initiating a series of sales or options transactions between the broker and producer-sellers, at a second fixed rate, such that the purchasers’ and sellers’ respective risk positions balance out.

The examiner at the USPTO rejected all claims of the Bilski patent application on the grounds that "the invention is not implemented on a specific apparatus and merely manipulates [an] abstract idea and solves a purely mathematical problem without any limitation to a practical application, therefore, the invention is not directed to the technological arts."⁵³ Bilski appealed the examiner’s rejection to the USPTO Board of Patent Appeals and Interferences (BPAI). On appeal, the BPAI affirmed the examiner’s rejection but on different grounds. The board rejected the examiner’s “technological arts” test and the requirement of a specific apparatus. The BPAI nevertheless rejected the Bilski claims as not involving any patent-eligible transformation of physical subject matter from one state to another and that the claims preempt any and every

⁵² U.S. Patent Application 08/833,892 (filed April 10, 1997), entitled "Energy Risk Management Method,' which claims the priority benefit under 35 U.S.C. 5 119(e) of Provisional Application 60/015,756, filed April 16, 1996.”

⁵³ *Ex parte Bilski*, No. 2002 2257, 2006 Pat. App. LEXIX 51 (Bd. Pat. App. & Int’f Sept. 26, 2006).

possible way of performing the steps of the claimed process. Bernard Bilski and Rand Warsaw then appealed the BPAI rejection to the Court of Appeals for the Federal Circuit. The Federal Circuit “sua sponte ordered an *en banc* review.”⁵⁴ The court upheld the BPAI rejection in a 9-3 decision. While court affirmed the *State Street* view that business methods are not *per se* excluded from patent-eligible subject matter, the court opined at length that previous tests for patentable subject matter were not valid. The court then held that *the* test to apply is the “machine-or-transformation” test, and that Bilski and Warsaw’s claimed method does not meet that test.⁵⁵ Bilski and Warsaw appealed their case to the Supreme Court and the Court granted certiorari on June 1, 2009. Oral arguments were heard on November 9, 2009.⁵⁶ As of the writing of this article, the Supreme Court has not handed down a decision on this case.

The Brief for Petitioner Bernard L. Bilski and Rand A. Warsaw⁵⁷ presented two issues before the Court. The issues presented are:

Whether a “process” must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing (“machine-or-transformation” test), to be eligible for patenting under 35 U.S.C. § 101 and;

Whether the “machine-or-transformation” test for patent eligibility, contradicts Congressional intent that patents protect “method[s] of doing business” in 35 U.S.C. § 273.

⁵⁴ 545 F.3d at 949.

⁵⁵ *Id.* at 963-64.

⁵⁶ Transcript of Oral Argument, *Bilski v. Kappos*, 129 S. Ct. 2735 (No. 08-964), available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/08-964.pdf.

⁵⁷ Brief for Petitioner, *Bilski v. Kappos*, 129 S. Ct. 2735 (No. 08-964), available at http://www.abanet.org/publiced/preview/briefs/pdfs/07-08/08-964_Petitioner.pdf

The transcript of the oral arguments indicates that the Justices were not comfortable with the inflexible test promulgated by the Federal Circuit but neither were they in favor of a wholesale inclusion of *any* business method as patentable subject matter. Despite simplistic and, at times, derisive examples from the Justices (such as Justice Scalia wondering if he could get a patent for a book on how to win friends and influence people, or Justice Sotomayor's inquiry as to the patentability of speed dating) it is suggested from the transcript that the Justices felt that the Federal Circuit went too far with the "machine-or-transformation" test. Justice Sotomayor repeatedly referred to the Federal Circuit's decision in *Bilski* as "extreme". "Once you announce an exclusive test," Justice Sotomayor said, "you're shoe-horning technologies that might be different. So help us with a test that doesn't go to the extreme the Federal Circuit did, which is to preclude any other items, something we held open explicitly in two other cases, so we would have to backtrack and say now we are ruling that we were wrong, and still get at something like this." Neither the advocates nor the Justices could offer an alternate test. Even Justice Breyer confessed that he couldn't come up with a meaningful test under Section 101.

The oral argument transcript is also telling in that it suggests that members of the Supreme Court are not clear on the distinction between *patent-eligible* subject matter and claims which are *patentable*. Patent-eligible subject matter is a threshold issue under 35 U.S.C. § 101, while a claim only merits receiving a patent (patentable) if it meets the other requirements of Title 35, specifically 35 U.S.C. § 102/103 and § 112. Justice Breyer asked if his "great, wonderful, really original method of teaching antitrust law" that keeps "80 percent of his students awake" could be patented. Mr. Jakes, the attorney for the petitioners, responded that it may be "patent-eligible." The subtle distinction seems to have been lost on Justice Breyer. "Let's take training horses," Justice Scalia said. "Don't you think that some people, horse whisperers or

others, had some, you know, some insights into the best way to train horses? And that should have been patentable on your theory." Once again, the Justices were confusing the subtle distinction between subject matter that is patent-eligible and claims that are meritorious of a patent.

3. Arguments for *Bilski* (in favor of reversing the Federal Circuit and removing/redefining the machine-or-transformation test)

Perhaps the best argued and most thought out analysis in favor of the Supreme Court reversing the Federal Circuit decision in *Bilski* and removing or redefining the machine-or-transformation test comes directly from the Federal Circuit itself. Dissenting in the *Bilski* opinion, Judge Randall Rader takes the majority to task for what he calls the invention of “several circuitous and unnecessary tests.”⁵⁸ According to Judge Rader’s analysis, the majority relied on “dicta taken out of context from numerous Supreme Court decisions dealing with technology of the past.”⁵⁹ That is not to say that Judge Rader would have upheld the patentability of the claims presented by *Bilski* and *Warsaw*. In fact, Judge Rader would have preferred a one sentence opinion, “Because *Bilski* claims merely an abstract idea, this court affirms the Board’s rejection.”⁶⁰ Regardless of the fate of the *Bilski* claims, Judge Rader bases his dissent on the fact

⁵⁸ *In re Bilski*, Rader, J. dissenting.

⁵⁹ *Id.*

⁶⁰ *Id.* See also, Risch, Michael, *Everything is Patentable* (January 15, 2009). Tennessee Law Review, Vol. 75, p. 591, 2008. Available at SSRN: <http://ssrn.com/abstract=1085871> (The currently confused and inconsistent jurisprudence of patentable subject matter can be clarified by

that the court “links patent eligibility to the age of iron and steel at a time of subatomic particles and terabytes.”⁶¹

Judge Newman, also dissenting in the CAFC opinion, criticizes the majority for imposing restrictions that redefine the word “process” in the patent statute to “exclude all processes that do not transform physical matter or that are not performed by machines.”⁶² Judge Newman writes at length, citing page after page of historical and judicial precedent that runs counter to the reasoning espoused by the majority in offering the “machine-or-transformation” test. “In sum,” she writes, “history does not support the retrogression sponsored by the concurrence.”⁶³

Justices Breyer and Sotomayor, in the oral arguments before the Supreme Court, expressed the sentiments of many in favor of an expansive view of patentable subject matter by characterizing the Federal Circuit’s “machine-or-transformation” test as “extreme” as well as by expressing their discomfort with just how far the Federal Circuit went with the new test. Professor Mark Lemley of Stanford Law School, in a group of 20 law and business professors, presented a brief *amici curiae* to the Supreme Court in the *Bilski* case critical of the “machine-or-

implementing a single rule: any invention that satisfies the Patent Act’s requirements of category, utility, novelty, nonobviousness, and specification is patentable. In other words, if a discovery otherwise meets the requirements of patentability, then the discovery will be properly patentable without need to consider non-statutory subject matter restrictions such as the bars against mathematical algorithms, products of nature, or natural phenomena.)

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

transformation” test.⁶⁴ “A rule that freezes the definition of patentable subject matter in time will hobble new areas of innovation.”⁶⁵ In the *amici* brief, they offer a simpler test for patentability. “Where an idea is claimed as applied, it is eligible for patentability, but if it is claimed merely in the abstract it is not.”⁶⁶

The most vociferous arguments against the “machine-or-transformation” test come from the technology sectors that fear this test will hamper innovation in future, cutting-edge areas.

“It is clear that the future economic strength of the United States will rely greatly on cutting-edge technologies — such as artificial intelligence, genetic programming, and human-machine communications — that in the broadest sense are not ‘physical’ or ‘tangible.’ But the ‘machine-or-transformation test’ set forth by the Federal Circuit gives cause for serious concern that patentability will be statically limited to ‘physical’ or ‘tangible’ implementations of technical developments, largely excluding innovations in such cutting-edge technologies.”⁶⁷

In fact, Professor John Duffy feels confident that technological innovations themselves will provide the impetus for the inevitable obsolescence of the “machine-or-transformation” test. “As engineering and applied science develops new fields that are not tied to physical articles,

⁶⁴ Brief for 20 Law and Business Professors as Amici Curiae Supporting Neither Party, *Bilski v.*

Kappos, 129 S. Ct. 2735 (No. 08-964), *available at*

[http://www.abanet.org/publiced/preview/briefs/pdfs/07-08/08-](http://www.abanet.org/publiced/preview/briefs/pdfs/07-08/08-964_NeutralAmCu20LawandBusProfs.pdf)

[964_NeutralAmCu20LawandBusProfs.pdf](http://www.abanet.org/publiced/preview/briefs/pdfs/07-08/08-964_NeutralAmCu20LawandBusProfs.pdf).

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ Brief for Teles AG as Amici Curiae Supporting Neither Party, *Bilski v. Kappos*, 129 S. Ct.

2735 (No. 08-964), *available at* [http://www.abanet.org/publiced/preview/briefs/pdfs/07-08/08-](http://www.abanet.org/publiced/preview/briefs/pdfs/07-08/08-964_NeutralAmCuTelesAG.pdf)

[964_NeutralAmCuTelesAG.pdf](http://www.abanet.org/publiced/preview/briefs/pdfs/07-08/08-964_NeutralAmCuTelesAG.pdf).

physical machines, and physical sciences, the *Bilski* en banc court's rule can be expected to follow the path toward obsolescence that no prior rule of patentable subject matter has escaped."⁶⁸

4. Arguments against *Bilski* (in favor of affirming the Federal Circuit and the “machine-or-transformation” test)

The arguments against *Bilski*, those in favor of affirming the Federal Circuit and the “machine-or-transformation” test, mostly center on the philosophy that patents should only cover material which is “technological” in nature. According to Professor Robert P. Merges in the Berkley Technology Law Journal, “[e]veryone knew that manufactures and machines were at the core of the patent system.”⁶⁹ Professor Merges makes the historical argument that against the backdrop of colonial America, “it would have been seen as absurd for an entrepreneur to file a patent on a new finance technique such as publicly traded corporate shares, techniques for obtaining private financing for a bridge to compete with an existing bridge, or a security interest in uncut timber.”⁷⁰ In addition to laying out the foundation to historically invalidate business

⁶⁸ Duffy, John F., *Rules and Standards on the Forefront of Patentability*. William & Mary Law Review, Vol. 51, No. 2, 2009 at 653; GWU Law School Public Law Research Paper No. 483. Available at SSRN: <http://ssrn.com/abstract=1502419>.

⁶⁹ Merges, Robert P., *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform* (September 6, 1999). Available at SSRN: <http://ssrn.com/abstract=180748>.

⁷⁰ *Id.*

method patents, Professor Merges sees these “non-technological” patents in the light of a greater evil; that of perpetuating poor patent quality and of pushing the patent system into crisis due to the increased volume of patent applications stemming from this newly patentable subject matter.⁷¹ Echoing Professor Merges’ view, Professor David S. Olson of Boston College Law School lauds the Federal Circuit’s approach to patentable subject matter, especially in their handling of *Bilski*. Professor Olson writes, “until the recent *Bilski* case, the courts had largely abandoned their role as gatekeepers of subject matter patentability. The result has been a flood of new patents drawn to subject matter that formerly were unpatentable.”⁷² Olson also characterizes business methods in an “evil” light, describing business methods as a “prime example of a type of subject matter for which allowing patentability makes society worse off.”⁷³

Professor Olson’s view that patent law should return to its utilitarian roots (namely that patent protection should exist in order to provide incentives for innovation) is shared in some sectors of the corporate world as evidenced by the *amici* briefs against *Bilski* from companies such as Google and Bank of America. These *amici* argue that claims such as those presented by the *Bilski* and Warsaw patent application, are not “inventions” that need incentivizing and the abstract ideas are presented “not to make productive use of them, but to extract licensing fees

⁷¹ *Id.*

⁷² Olson, David S., *Taking the Utilitarian Basis for Patent Law Seriously: The Case for Restricting Patentable Subject Matter* (January 12, 2009). Temple Law Review, Vol. 82, No. 1, 2009; Boston College Law School Legal Studies Research Paper No. 172. Available at SSRN: <http://ssrn.com/abstract=933167>

⁷³ *Id.*

from businesses that apply and improve those ideas and methods in real-world products and services.”⁷⁴

5. Conclusion

The legal, business, and scientific communities eagerly await the Supreme Court’s ruling in *Bilski v. Kappos* and many scholars, business leaders, and legal professionals try their best to anticipate how the Court will rule. Many patent attorneys and patent agents are drafting two sets of claims for their clients and the one they file will depend on how the Supreme Court rules. For all of the opinions, articles, and conjecture, all one need do is study the law and look at the precedents to know that anticipating how the Supreme Court will rule in a case is akin to trying to gaze into a crystal ball. So, what will be the future of business methods as patent-eligible subject matter? Will the machine-or-transformation test stand? What will be the fate of the *Bilski* patent? An educated guess is the best that one can hope for in this situation. It is the opinion, and hope, of the author of this paper that the Supreme Court will rely on *stare decisis* and continue to favor their expansive view of patentable subject matter that they have supported for the past thirty years. The patent system should be like a funnel with a wide mouth but a narrow exit. While it is likely that the Court will find the Federal Circuit’s “machine-or-transformation” test

⁷⁴ Brief for Bank of America Corporation, Barclays Capital Inc., the Clearing House Association L.L.C., the Financial Services Roundtable, Google Inc., Metlife, Inc., and Morgan Stanley as Amici Curiae Supporting Respondent, *Bilski v. Kappos*, 129 S. Ct. 2735 (No. 08-964), available at http://www.abanet.org/publiced/preview/briefs/pdfs/09-10/08-964_RespondentAmCu7FinancialCorps.pdf.

to be too inflexible; however, it is not likely that the court would venture to offer a test of their own. As for the claims in the Bilski patent, it is unlikely that any analysis by the Supreme Court would find that the purely mental process, as claimed, recites patentable subject matter. Finally, with regards to a wholesale exclusion of business methods from being eligible under 35 U.S.C. §101, it is a fair bet to heed Justice Sotomayor's admonition that "no ruling in this case is going to change *State Street*" and that business method patents will live to see another day. Then again, the Supreme Court could go the other way... you never really know.