U.S. SUPREME COURT HEARS ARGUMENTS WHETHER SOFTWARE AND BUSINESS METHOD ARE PATENTABLE

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The Federal Circuit's October 2008 decision, *In re Bilski*, has created much concern whether software and business methods are still patentable. That concern may turn out to be unwarranted, as the U.S. Supreme Court recently heard oral argument in the case.

In *Bilski* – a case that arose out of the U.S. Patent Office's rejection of a patent application directed to a method of hedging risks in commodities trading – the Federal Circuit examined "what test or set of criteria governs the determination as to whether a claim to a process is patentable under [35 U.S.C.] § 101 or, conversely, is drawn to unpatentable subject matter because it claims only a fundamental principle." The Federal Circuit analyzed several prior cases and attempted to clarify what constitutes patentable subject matter by establishing a single, specific test.

The Federal Circuit explained that an invention may only be patentable if it is tied to a particular machine or apparatus, or it transforms a particular article into a different state or thing. This is sometimes now referred to as the "machine-transformation" test.

In introducing this test, the Federal Circuit used the new "machine-transformation" analysis to distinguish between several patentable and unpatentable concepts. For example, the court explained that a computerized rubber curing machine for turning raw rubber into molded, cured rubber products may be patentable while a particular mathematical formula to calculate an "alarm limit" is not patentable. Other examples of unpatentable concepts that do not meet the "machine-transformation" test include a particular algorithm operating on a digital computer that shows no other utility beyond operating on that digital computer, nor is a mathematical optimization algorithm patentable.

In *Bilski*, the Federal Circuit further explained that the numerous other tests which had been routinely applied for determining whether an invention is directed to patentable subject matter should no longer be used. The Federal Circuit specifically held that its "useful, concrete, and tangible result" test was no longer appropriate. That test was most closely associated with the court's 1998 State Street decision, one which has generally been considered as the first to specifically acknowledge the patentability of business methods.

In view of the "machine-transformation" test adopted in *Bilski* and the rejection of the "useful, concrete, tangible result" test applied in State Street, some have suggested that software and business methods are no longer patentable. In some cases, this may be true, as many of these types of inventive methods merely enhance one's decision-making ability and are not directly tied to a machine or a transformation of matter. However, in other cases, appropriate care in the drafting of claims or analysis of existing patents to more particularly identify the machine or transformation associated with the software or business method could avoid these potential pitfalls.

The U.S. Supreme Court may provide some clarity when it rules on B*ilski* next year. It is worth noting that in many of its recent opinions reviewing Federal Circuit decisions, the Supreme Court has rejected the Federal Circuit's tests as too rigid. Whether the *Bilski* "machine-transformation" test will come under the same scrutiny remains to be seen. If the Justices'

questions at oral arguments were any indication, however, the outcome of the specific patent application in question does not seem to be in doubt; rather, the question now appears to be how sweeping the Supreme Court's decision will be and whether the Court will provide any bright line test regarding the eligibility of software and other types of business methods for patent protection. *Bilski* is also likely be the first patent case before the Supreme Court that includes newly appointed Justice Sonia Sotomayor. As a result, it may also provide insight into what impact, if any, the new make-up of the Court will have on patent cases for years to come.