SUPREME COURT EASES TEST FOR PATENTABILITY IN *BILSKI V. KAPPOS*

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The U.S. Supreme Court has ruled that a business method invention was not entitled to a U.S. patent because it was merely an abstract idea. On June 28, 2010, the Supreme Court handed down its decision in *Bilski v. Kappos*, affirming a lower court's decision but doing so on different grounds than was rendered by the lower court. Although all nine justices agreed on the outcome, there was a sharp 5-4 split among the justices regarding whether so-called "business methods" should be eligible for patent protection. A slim majority of the Court said that business methods should be eligible for patent protection as long as they do not constitute an abstract idea or fall within one of the other previously-recognized exceptions to patentability.

FROM PATENT OFFICE TO U.S. SUPREME COURT

The case originated in the United States Patent and Trademark Office (USPTO) and was the subject of an *en banc* 2008 decision rendered by the U.S. Court of Appeals for the Federal Circuit. Bilski sought to patent a method involving a series of transactions between a commodity provider and market participants in a way that balanced risk. The USPTO rejected the patent application on the basis that it was not a "process" as that term is understood in patent law.

Test for Abstract Ideas

The Federal Circuit affirmed the USPTO, concluding that under controlling U.S. Supreme Court precedent, in order to be patentable a process must either be tied to a machine or it must transform something. Because Bilski's claims met neither prong of this "machine-or-transformation" test, it was deemed to be unpatentable. In his dissenting opinion, Judge Mayer would have gone farther, imposing a "technological arts" requirement for patentability. Two other judges filed dissenting opinions. The U.S. Supreme Court granted *certiorari* and heard arguments in November 2009.

COURT REJECTS "MACHINE-OR-TRANSFORMATION" TEST

Justice Kennedy, writing for a majority of the Supreme Court, rejected the Federal Circuit's reliance on the "machine-or-transformation" test as the sole test of patent eligibility for process patents. According to the Court, the only recognized limitations on patentable subject matter are laws of nature; physical phenomena, and abstract ideas. The Court did, however, state that the "machine-or-transformation" test was "a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101." This likely provides a safe harbor for patents that can satisfy the "machine-or-transformation" test, even though a patent need not meet that test to be patent eligible. Justice Scalia, however, did not join Kennedy's plurality suggestion that the Federal Circuit could further refine the definition of "abstract idea" to bar certain categories of business methods. While a majority of the Justices did not agree to this suggestion, it is likely that the Federal Circuit will in future cases need to

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grapple with the definition of "abstract idea." The Court also noted that the Federal Circuit was free to develop "other limiting criteria" as long as they were not inconsistent with the patent statute.

ATTEMPT TO HARMONIZE PRIOR SUPREME COURT PRECEDENT

The majority tried to harmonize earlier U.S. Supreme Court decisions dealing with patent eligibility. Justice Kennedy wrote that, "the Court resolves this case narrowly on the basis of this Court's decisions in *Benson*, *Flook*, and *Diehr*, which show that petitioners' claims are not patentable processes because they are attempts to patent abstract ideas." In *Benson*, for example, the Supreme Court held that an algorithm to convert binary-coded decimal numerals into pure binary codes was an unpatentable abstract idea, and that a contrary holding would "wholly pre-empt the mathematical formula and would in practical effect be a patent on the algorithm itself." In *Flook*, the Court ruled that a process for monitoring conditions during a catalytic conversion process was unpatentable, noting that the prohibition on patenting abstract ideas "cannot be circumvented by attempting to limit the user of the formula to a particular technological environment" or adding "insignificant post-solution activity." Finally, in *Diehr*, the Court held that although an abstract idea cannot be patented, an application of a law of nature or mathematical formula could be eligible for patent protection. The Court concluded that Bilski's claim to a method of hedging risk was like the unpatentable algorithms at issue in *Benson* and *Flook*. Because the broadest claim was to an abstract idea and the narrower claims attempted to add insignificant extra-solution activity, patentability was barred.

STEVENS CONCURRENCE: CATEGORICALLY EXCLUDE BUSINESS METHOD PATENTS

Justice Stevens, in his last day on the Court, wrote a concurring opinion that was joined by three other justices. Taking a historical approach, Stevens argued that so-called "methods of doing business" were not the type of inventions that were traditionally patented in the United States. According to Stevens, "For centuries, it was considered well established that a series of steps for conducting business was not, in itself, patentable." Stevens argued that the "wiser approach" would have been to hold that "business methods are not patentable." He criticized the majority opinion because it "never provides a satisfying account of what constitutes an unpatentable abstract idea."

Patenting business methods

CONCLUSION

Justice Kennedy's majority opinion concluded by stating that, "we by no means foreclose the Federal Circuit's development of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its text." This invitation to the Federal Circuit to further clarify the boundaries of patentable subject matter suggests that perhaps *Bilski* was not the best test case for the Supreme Court to refine the contours of the law in this area. While many business method patents that can satisfy the "machine-or-transformation" test may survive *Bilski*'s abstract idea test, undoubtedly others will not. It may take several more years before the Federal Circuit is able to provide greater clarity in this area. For now, the Supreme Court has loosened the reins a bit on the standards for patent eligibility. ■