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Business Methods and Software Patent Eligibility Saved with *Bilski* Decision

In an anxiously awaited decision, the U.S. Supreme Court in *Bilski v. Kappos* (No. 08-964) issued a ruling on June 28, 2010 that preserves – at least for now – patents on business methods and software. Although the unanimous ruling affirmed the Federal Circuit Court's decision that the method at issue - hedging risks in commodities trading - was not patentable, the Supreme Court said that the test the Federal Circuit used to reach its conclusion was too restrictive.

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Many financial services, software and other industries were concerned that such a test, if applied to so-called business methods patents, would render those patents invalid and worthless. Broader test criteria, as the *Bilski* decision mandates, will keep business method and software patents viable for the time being.

Long-Time Debate

Determining what is or is not eligible for patenting has been the subject of intellectual property law and subsequent litigation for decades. Over the years the courts addressed this issue by announcing various patentability tests and criteria. These have reflected the evolution of innovation from that occurring during the "Industrial Age" of the past to the "Information Age" of today. Determining whether a process or method is patentable has been particularly challenging.

The 2008 Federal Circuit ruling in *Bilski* was that processes or methods were considered eligible for patenting if they satisfied one test: the "machine or transformation" test. As its name implies, this test required that a patentable process or method be tied to a particular machine or apparatus, or that it transform a particular article into a different state or thing. Patents on business methods or software that could not satisfy this test were at risk. The *State Street* decision of 1998 considered business methods patentable as along as the invention produced a "useful, concrete, and tangible result." This assessment began to lose favor in light of the 2008 "machine or transformation" test.

Supreme Court Ruling

The Supreme Court agreed with the Federal Circuit and the U.S. Patent Office in deciding that Mr. Bilski's commodities trading method was not eligible for patenting. The Court, however, did not base its ruling on the result of the machine or transformation test. Instead, it based its ruling on well-settled precedent that an "abstract idea" (*e.g.,* an algorithm) is not patentable. The Court concluded that while the test may still be a useful and important investigative tool, it cannot be the sole test for determining whether a process or method constitutes patentable subject matter.

In rejecting the rigid application of the machine or transformation test, the Supreme Court made clear that the patent laws need to stay dynamic, as was intended, to encompass the inventions in new and unforeseen technologies. In addition, the Court cautioned that "limitations and conditions which the legislature has not expressed" should not be read into the patent laws. In other words, the patent laws do not categorically exclude business method and software patents. The Court also pointed to one part of the U.S. Patent Statute (35 U.S.C. § 273(b)(1)) to show that the patent laws provide for at least some business method patents.

The Future of Business Methods Patents

It is important to recognize that the Supreme Court did not order the end of the "machine or transformation" test. Instead, the Court disallowed the use of this test as the exclusive arbiter of patent eligibility for processes and methods. This test may still be used, albeit in conjunction with other criteria and precedent to evaluate patent eligibility. Although the Court declined to impose specific limitations or tests for determining patent eligibility for "process patents" or provide additional meaning for the term "process" beyond that given in the patent laws, it did leave the door open for the lower court to develop other "limiting criteria" (*e.g.*, other tests for patent eligibility). Importantly, this means that business method and software patents are not to be entirely excluded from patent eligibility at this time.

Of the nine Justices on the Supreme Court, four of them (Stevens, Ginsburg, Breyer, and Sotomayor) concurred in the result but submitted a separate opinion. It appears from that concurring opinion that these Justices appear to be ready to hold that business methods were never eligible for a U.S. patent. Thus, if in a future dispute the Supreme Court is presented with a question on whether a pure business method is eligible for patenting, a decision on that issue may be quite close.

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