Client Brief: Living Up to the Hype? – The Supreme Court Rules on Patenting Business Methods and Other Processes: Bilski and Its Impact

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- Court's decision was less than what some feared and others had hoped
- Confirms that business methods *can* be patentable, and that process claims on abstract ideas are *not* patentable
- Rules that the "machine-or-transformation" test is not the sole test for determining whether a particular process is patent-eligible subject matter, but is "a useful and important clue, an investigative tool" in that determination
- Refuses to further define a "process" under the Patent Laws, but allows the Federal Circuit to develop other criteria that further the purposes of the patent statute and are not inconsistent with its text

This week, the U.S. Supreme Court issued a long-awaited decision in *Bilski v. Kappos*, No. 08-964, 561 U.S. ___ (2010), in which it provided further guidance on the patentability of processes, and in particular "business methods." It was anticipated that this decision would settle a years-long debate among patent lawyers and others in the business and technical communities about whether business methods should be eligible for patenting. In the end, however, the decision was less than what some feared and others had hoped.

In *Bilski*, a patent applicant (Bilski) sought to obtain patent protection on a method of hedging against risks of price fluctuations in energy markets. The principal independent claim of Bilski's application recited a series of steps instructing how to hedge risk. A further dependent claim put the concept into a simple mathematical formula. Other narrower claims explain how energy suppliers and consumers can minimize risks resulting from fluctuations in market demand for energy. Some claims also suggested familiar statistical approaches to determine the inputs to use in the mathematical formula.

The U.S. Patent Office rejected the application because the alleged inventive process was not implemented in a specific apparatus—it merely manipulated an abstract idea and solved a purely mathematical problem. The Appeals Board of the Patent Office affirmed the patent examiner's decision, and the Court of Appeals of the Federal Circuit ("Federal Circuit") affirmed the decision of the Appeals Board. The Federal Circuit ruled that its "machine-or-transformation" test was the *sole* test for determining whether a particular process involved patentable subject matter. Under the test, a process is eligible for patenting if it: (1) is tied to a particular machine or apparatus, or (2) transforms a particular article into a different state or thing.

On Monday, the Supreme Court affirmed the Federal Circuit's decision, but for a slightly different reason. It ruled that Bilski's alleged invention, while not categorically outside the scope of the Patent Laws, was not eligible for a patent because it covers an abstract idea. First, the Court said that under Section 101 of the Patent Laws, there are "four independent categories of inventions or discoveries that are eligible for protection: processes, machines, manufactures, and compositions of matter," and that Congress plainly contemplated that the Patent Laws would be given wide scope. *Id.* at 4. The Court pointed out that its precedent provides three exceptions to these broad eligibility principles: "laws of nature, physical phenomena, and abstract ideas." *Id*. at 5.

With that understanding, the Court addressed the Federal Circuit's "machine-or-transformation" test for determining the patent-eligibility of processes. The Court simply found that there was nothing in the patent statue that required a process or method to be tied to a machine or to transform an article. *Id*. at 7. Thus, it rejected the "machine-or-transformation" test as the *sole* test for determining whether an invention is a patent-eligible "process" under the statute. *Id*. at 8. Rather, the Court viewed the test as "a useful and important clue, an investigative tool" for such a determination. *Id*.

Next, the Court tackled the issue of business methods. Similarly, the Court found that the patent statute "precludes the broad contention that the term 'process' categorically excludes business methods." *Id.* at 10. Thus, the mere fact that a process is a business method does not prevent it from being eligible for a patent.

Ultimately, however, the Court affirmed the lower decision rejecting the patentability of Bilski's process claims by resolving the case narrowly on the basis that Bilski was attempting to patent abstract ideas, a rationale that the Court used in three of its previous decisions, *Gottschalk v. Benson*, 409 U.S. 63 (1972), *Parker v. Flook,* 437 U.S. 584 (1978), and *Diamond v. Diehr*, 450 U.S. 175 (1981). *Id*. at 13. Without much discussion of the details of Bilski's process claims, the Court said:

"The concept of hedging, described in claim 1 and reduced to a mathematical formula in claim 4, is an unpatentable abstract idea, just like the algorithms at issue in *Benson* and *Flook*. Allowing petitioners to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea." *Id.* at 15.

Interestingly, however, the Court concluded its opinion with comments directed at the Federal Circuit. In what appears to be an admonishment of the lower court, the Court first explained that it "once again declines to impose limitations on the Patent Act that are inconsistent with the Act's text." *Id.* at 16. But the Court then offered what appear to be words of encouragement, or possibly an olive branch, to the Federal Circuit: "In disapproving an exclusive machine-or-transformation test, 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." *Id.*

In the end, the Court's decision in *Bilski* may not have lived up to the hype. It did not eliminate business method patents, but it also did not provide much guidance, either. The practical reality is that patent practitioners and clients with pending patent applications on business methods are breathing a sigh of relief, as their claims will not be categorically rejected by the Patent Office just because they cover business methods.

However, the same day that *Bilski* issued, the Patent Office issued a memorandum to its examiners stating that they should continue to use the machine-or-transformation test "as a tool" for determining whether a claimed invention is a process under Section 101 of the Patent Laws. It remains to be seen what the Federal Circuit will do in developing "other limiting criteria" in this area, but that development is likely to be in the area of abstract ideas, and as *Bilski* has indicated, the Supreme Court seems to favor that approach.

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