



IP LAW ADVISORY

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Business as Usual Post-Bilski

Overview

On June 28, 2010, the Supreme Court issued its decision in *Bilski v. Kappos*, the long-awaited opinion addressing the question of whether business methods are patentable subject matter. The Supreme Court found that the claims of the Bilski patent were not patentable because they were nothing more than abstract ideas (a well-recognized exception to what is patentable subject matter). The decision leaves the door open for protection of business methods and software, but offers little guidance or clarification as to what test should be applied for the identification of patentable subject matter.

The claims of the Bilski application were directed to a method of hedging against the risk of price fluctuations in commodities trading. The question for the Court was whether the Federal Circuit had correctly determined that a process must pass the "machine or transformation test" in order to satisfy the statutory requirement under §101.¹ The majority opinion, penned by Justice Kennedy, rejected the notion that patent eligible subject matter could be limited to the machine or transformation test, indicating that the test was only a "tool" that could be useful in determining whether a process was patentable. Instead, the Court

¹ The Federal Circuit held that processes are only patentable if they are "(1) ... tied to a particular machine or apparatus, or (2) ... [transform] a particular article into a difference state or thing." This requirement was known as "the machine or transformation test."

relied on precedent and narrowly ruled that the claimed methods for hedging risk were not patentable subject matter because they were simply abstract ideas.² The Court specifically stated that business methods are not categorically excluded as patentable subject matter.

In general, the ruling does not severely impact the current understanding of what qualifies as patent-eligible subject matter. In fact, the majority opinion arguably broadens the scope of what was protectable under the Federal Circuit's previous ruling. However, the majority decision ended on a cautionary note, which may limit the patentability of business methods and software in future decisions. In particular, the court stated: "nothing in today's opinion should be read as endorsing interpretations of §101 that the [Federal Circuit] has used in the past. See e.g. *State Street*, 149 F. 3d, at 1373; *AT&T Corp.*, 172 F. 3d at 1357." These cases ushered in the era of software and business method patents. Thus, although the Court held that a categorical exclusion of these inventions is not warranted, it indicated that some limitation on the patentability of these types of processes may be required and even welcomed. "In disapproving an exclusive machine-or-transformation

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² Previous case law has established that mental processes and fundamental principles (e.g., "laws of nature, physical phenomena, and abstract ideas") are not patentable.

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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."

In a concurring opinion written by Justice Stevens, four justices agreed that business methods in general are not patent eligible subject matter ("a claim that merely describes a method of doing business does not qualify as a 'process' under §101"). Writing separately, Justice Breyer highlighted several areas of unanimous agreement. In particular, he pointed out that all nine Justices agree that (i) Bilski's method is unpatentable because it is an abstract idea, (ii) there are limits on patent-eligible subject matter, (iii) the machine or transformation test is "a useful and important clue" as to whether something is patentable but not the sole test, and (iv) contrary to the Federal Circuit's decision in *State Street*, not everything that produces a "useful, concrete, and tangible result" is patentable.

Practical Impact

In general, the opinion will have little impact on current patent law practice. The Court did not create any new rules or exclusions, and specifically "decline[d] to impose limitations on the Patent Act." As for business methods, the Court specifically noted that they are not excluded under §101, and that §273 explicitly indicates that some business methods may be patentable. Similarly, the Court's ruling appears to

have no immediate impact on the patentability of software.

Here, the finding of unpatentability rested on the conclusion that Bilski's method was an abstract idea, and it is unclear how examiners would apply the "abstract idea" test. That abstract ideas are unpatentable has been the law for several decades, so it is unlikely that this case will have any dramatic effects on current §101 rejections.

In general, the Court refused to articulate a test for patent-eligible subject matter, instead rejecting the Federal Circuit's requirement that all patent-eligible processes pass the machine-or-transformation test. The Court indicated that the machine-or-transformation test is simply a clue to patentability. Accordingly, passing or failing the test is not determinative and the broader question of how to determine what does or does not qualify as patentable subject matter has been saved for a later decision.