CLIENT ALERT

Supreme Court's *Bilski* Decision: Business Method Patents Survive, at Least for Now

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Overview

The United States Supreme Court yesterday issued its long-awaited decision in *Bilski v. Kappos*, 561 U.S. ___ (2010). Although this case was expected to be a vehicle for a definitive pronouncement on the patentability of so-called "business methods," the Supreme Court decided the case on much narrower grounds, leaving the broader question unanswered. Specifically, the Supreme Court agreed with the United States Court of Appeals for the Federal Circuit that the particular invention at issue, directed to a method for managing risk in commodities markets, was unpatentable. However, rather than relying on the "machine-or-transformation" test that the Federal Circuit erroneously determined was the exclusive test for deciding whether a claimed "process" qualified as patentable subject matter, the Supreme Court found the invention at issue unpatentable under its own precedent rejecting the patentability of abstract ideas.

More interestingly, by a slim 5-4 majority the Supreme Court refused to find business methods unpatentable *per se*, but the decision provides little guidance as to how to separate patentable business methods from unpatentable ones. For example, the Supreme Court suggested that the machine-or-transformation test can be a useful (but clearly not exclusive) tool for determining patentability, yet the only arguably bright-line test articulated in the decision is that inventions directed to "laws of nature, physical phenomena, and abstract ideas" are unpatentable. Even as to what constitutes an abstract idea, however, the majority decision provides scant guidance as to how to make a determination that often proves quite difficult in practice. Thus, the decision is in many ways unsatisfying, and the clear split regarding the patentability of business methods means the Supreme Court has done little to resolve the well-publicized uncertainty surrounding a broad swath of the patents that have been issued in recent years, and many more that are still being sought.

Details

In the decision below, the Federal Circuit held *en banc* that the so-called "machine-or-transformation test" constitutes the sole criterion for determining whether or not a process claim defines subject matter eligible for patent protection. Under the Federal Circuit's test, to qualify for patent protection a claimed process either must be tied to a particular machine or must transform an article from one state to another in order. Moreover, the Federal Circuit discarded the "useful, concrete and tangible result" test it first articulated in the *State Street Bank* decision, which generally had been viewed as opening the door to broader patentability of business methods.

The Supreme Court affirmed the decision of the Federal Circuit, holding that Bilski's claims for a "method for managing the consumption risk costs of a commodity sold by a commodity provider" were directed to an abstract idea, and thus not patentable. But the Supreme Court rejected the Federal Circuit's underlying reasoning, and instead applied older Supreme Court case law (including *Benson*, *Flook*, and *Diehr*) to find that Bilski's claims failed to recite patentable subject matter because they were directed to an abstract idea. All nine justices agreed on this point.

Notwithstanding the unanimous result, the majority opinion, while providing some guidance, left many issues unresolved:

- Business methods are not unpatentable *per se*, but no definitive test was provided for determining which business methods are patentable and which are not.
- The machine-or-transformation test is not the sole test for determining whether a process claim recites patentable subject matter. The majority stated that the machine-or-transformation test is a "useful and important clue or investigative tool," but no other definitive test was provided as an alternative.
- The "useful, concrete and tangible result" test from *State Street Bank* is no longer a viable standard for patent-eligible subject matter.
- The majority confirmed the continuing vitality of the Supreme Court's precedent as set forth in *Benson*, *Flook* and *Diehr*. Under those cases, laws of nature, physical phenomena, and abstract ideas cannot be patented. On the other hand, the majority declined to further define what constitutes a patentable "process," beyond pointing to the definition of that term provided in §100(b) as well as the "guideposts" in the Supreme Court's prior decisions.
- The Supreme Court expressly declined to comment on the patentability of computer software.

Justice Stevens (joined by Justices Ginsburg, Breyer and Sotomayor) and Justice Breyer each wrote separate concurrences in which they, among other things, expressed a view that business methods do not qualify as patentable subject matter under §101. While Justice Stevens agreed that the machine-or-transformation test is not the only test for patentable subject matter under §101, he reasoned that Bilski's claims did not recite a "process" within the meaning of §101. Likewise, Justice Breyer wrote that business methods are not eligible for patent protection, observing that "[t]his Court has never before held that so-called 'business methods' are patentable, and, in my view, the text, history, and purposes of the Patent Act make clear that they are not."

Conclusion

At this early date, it is difficult to predict exactly where this decision will lead. While business methods were not deemed unpatentable *per se*, both the majority and concurring opinions signal broad skepticism about the continuing viability of business method patents. It is likely we will see these issues treated again, and certainly additional guidance will be provided as the Federal Circuit and the district courts attempt to apply the Supreme Court's decision. To this end, in his majority opinion, Justice Kennedy stated that "[i]n disapproving an exclusive machine-or-transformation test, this Court by no means desires to preclude the Federal Circuit's development of other limiting criteria that further the Patent Act's purposes and are not inconsistent with its text."

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