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Bilski v. Kappos – *A Return to Business (Methods) as Usual?*

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Introduction

On Monday, June 28, 2010, the United States Supreme Court decided *Bilski et al. v. Kappos* - a case eagerly anticipated by the patent community. Following somewhat of a recent trend, the Supreme Court again disagreed with the Court of Appeals for the Federal Circuit– this time regarding the scope of patent-eligible subject matter under 35 U.S.C. § 101. While the Court affirmed the decision and agreed Bilski's claims were not patentable, the Court disagreed that the "machine or transformation" test should be the sole determination of what constitutes patentable subject matter under §101.

The *Bilski* decision focused on the patentability of an invention directed to how commodities traders in the energy market can hedge against the risk of price changes. This type of invention is known generally as a "business method patent," because it is a process for conducting business activities – not for making a physical product, chemical, etc. Such "business method" patents are particularly useful for protecting information age businesses that focus on such things as software, management, and financial services.

Recent History Regarding Patent-Eligibility

The patentability of "business method" inventions under § 101 has been the subject of intense debate in the patent community for 30 years. This debate was intensified by the Federal Circuit's October 2008 decision in *In re Bilski*, which upheld the rejection of Bernard Bilski's claimed commodity trading method. In its decision, the Federal Circuit implemented an exclusive "machine-or-transformation test" for determining the scope of patentable subject matter under § 101. Specifically, the Federal Circuit held that an inventive process is eligible for patent protection only if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.

The Federal Circuit's decision led to strife in the patent community. The greatest impact was felt amongst the many U.S. companies that had obtained "business method" patents over the past two decades, because it was no longer clear whether these patents remained valid in view of the Federal Circuit's tightened regime. Further, the PTO began to reject both business method and software patent applications on a frequent basis as failing to recite statutory subject matter under § 101.

The Supreme Court Decision

Against this backdrop, the Supreme Court granted certiorari on June 1, 2009 to review the Federal Circuit's decision. After consideration, the Court issued a unanimous opinion that the Federal Circuit had too narrowly implemented the "machine-or-transformation test" as an exclusive test for determining the patent-eligibility of processes. While the Supreme Court found that the "machine-or-transformation test" may be useful as an

"investigative tool" in the analysis, it explained that this was "not the sole test for deciding" whether a particular process is patent-eligible.

Further, the Court declined to hold that "business method" inventions are categorically outside the scope of patent protection. The Court reasoned such a *per se* rule would generally contravene the "wide scope" that was intended for § 101 and would specifically derogate a specific defense that Congress had created under 35 U.S.C. § 273 for infringement claims concerning "methods of doing or conducting business."

Nevertheless, the Court found that the invention in question was not patentable because it was an "abstract idea." To reach this decision, the Court compared Bilski's invention to the inventions considered in a continuum of previous decisions in *Gottschalk v. Benson*, 409 U. S. 63, 70 (1972), *Parker v. Flook*, 437 U. S. 584, 588–589 (1978), and *Diamond v. Diehr*, 450 U. S. 175, 182 (1981).

In *Benson*, the Court found that an algorithm to convert binary-coded decimal numerals into pure binary code was a not "process" under §101, but was rather an unpatentable abstract idea. 409 U. S., at 64–67. The Court found that a contrary holding "would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself." *Id*., at 72. In *Flook*, the Court found that a procedure for monitoring the conditions during a catalytic conversion process in the petrochemical and oil-refining industries, where the only innovation was reliance on a mathematical algorithm, was a not "process" under §101. 437 U. S., at 585–586; 191-192. Nor could limiting the use of the algorithm to the specified industries circumvent the prohibition against patenting abstract ideas. 450 U. S., at 191–192. In *Diehr*, the Court found that a previously unknown method for molding raw, uncured synthetic rubber into cured precision products using a mathematical formula to complete some of its several steps by way of a computer, was patentable under §101. 450 U. S., at 177-178. The Court explained that while an abstract idea could not be patented, "an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection." *Id*., at 187.

The Court found that the invention at issue was somewhere between the *Benson* and *Flook* inventions on its identified continuum, because hedging was a known abstract idea, similar to the abstract concepts found unpatentable in these two cases. Specifically, the Court found that Bilski attempted to limit the abstract idea of hedging risk to one field of use (*i.e*., energy trading) as the inventor in *Flook* had done with the idea of catalytic conversion in the oil-refining context. As such, Bilski did not "add" enough to the abstract principle of hedging risk to make his methods patent-eligible.

Justice Stevens' Concurrence

Justice Stevens, whom some postulated would be the author of the majority opinion but was not able to garner five votes, wrote a concurring opinion in which three other justices joined. Justice Stevens agreed with the majority that Bilski's claims were not patent-eligible and that the "machine-or-transformation" test is not the exclusive test for patent-eligibility.

Stevens criticizes the majority's opinion in a number of respects, however, and thereby sheds light on the potential impact of the majority's decision. First, Stevens argues that the term "process" should not be interpreted as a laymen's term, but instead should be interpreted in light of the history, context, and patent policy goals to exclude business method patents. Stevens asserts that the majority causes "mischief," therefore, by suggesting that a series of steps that go beyond an "abstract idea" are patent-eligible. Instead, Bilski's method is not patent-eligible because a claim that only describes a method of doing business is not a "process" under § 101. Stevens asserts that this conclusion is compelled by the same precedent and history that the majority uses to justify the continued usefulness of the non-statutory "machine-or-transformation" test and the no "laws of nature" or "abstract ideas" tests.

Second, Justice Stevens rightly points out that the majority opinion does nothing to help identify abstract ideas from patent-eligible ideas. Indeed, as Stevens recognizes, the Bilski claims are far more complex and

concrete than the simple and "abstract" mathematical formulas rejected in earlier Supreme Court cases. Taken to its logical conclusion, therefore, "the Court's analysis means that any process that utilizes an abstract idea is *itself* an unpatentable, abstract idea." Stevens Concurring Opinion, p. 8. This would "undermine a host of patentable processes." *Id*.

Similarly, Stevens argues that the Court does not identify what additional activity beyond applying a principle to a certain context (*e.g.*, activity beyond applying theories of hedging risk to the context of energy commodities trading) is sufficient to make a claim non-abstract. The concurrence, however, does not exactly provide a clear solution by categorically excluding business methods from patent protection without defining what a business method might be.

Justice Breyer's Concurrence

Justice Breyer penned a concurrence, joined by Justice Scalia, to clarify on which issues he believed the Court had agreed:

- Bilski's claims are unpatentable abstract ideas
- The scope of 35 U.S.C. § 101 is broad, but not without limit
- The "machine-or-transformation" test can help courts determine what is a patentable process, but it is not an exclusive test
- The Supreme Court does not endorse the Federal Circuit's previous test that anything which produces a "useful, concrete, and tangible results" is patentable.

Conclusion

In the end, the Supreme Court continued its rejection of rigid Federal Circuit precedent in favor of case-by-case analysis. The Court's decision in *Bilski* has not provided any real clarification regarding what is patentable subject matter beyond a consideration of what is an "abstract idea." That one must present more than an abstract method for patenting is clear, but exactly how much needs to be added to the abstract idea is a blurred line that seems to involve concepts of patent-eligibility and fundamental "inventiveness." One thing that seems sure is that the *Bilski* decision leaves much room to debate the future of business method patents and there will be plenty of litigation trying to sort it all out.

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