



The Supreme Court's *Bilski* Decision: Did Anything Change?

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General practice lawyers do not often focus on issues relating to the long-established fundamentals of the patent law statute. But over the past several months, the corporate world has been transfixed on threshold issues relating to whether business-method types of inventions are truly patentable. Since the U.S. Court of Appeals for the Federal Circuit's *State Street Bank* case in 1998 confirmed the patentability of such inventions, many high-tech corporations, financial institutions, startups, and Web-based companies have depended on these business-method patents to protect their core businesses.

This year, the Supreme Court took another look at the issue. On June 28, 2010, the Court handed down its highly anticipated *Bilski* decision. *See Bilski v. Kapos* (2010). In its first Section 101 decision in 29 years, the Court reaffirmed the vitality of its precedents on what constitutes a patentable "process" and rejected categorical limitations for patent eligibility of a process. More specifically, the Court unanimously held that the machine-or-transformation test is not the sole test for determining patent eligibility of a process and, in 5-4 split, upheld the patentability of business method patents.

Section 101 of the Patent Act defines the term "process" as "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material." In *Bilski*, although it rejected a categorical exclusion for business methods patents, the Federal Circuit pronounced the machine-or-transformation test as the definitive test for patent-eligibility of a process. *See In re Bilski* (Fed. Cir. 2008). Under this test, a claimed process or method is patent-eligible if either: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.

Bilski's patent application claimed a method of hedging risks in commodities trading. The claimed method admittedly was not tied to any specific machine or apparatus, and included steps of (a) initiating transactions between a commodity provider and consumers of a commodity at a fixed rate corresponding to a risk position of said consumer, (b) identifying market participants for the commodity having a counter-risk position to those consumers, and (c) initiating transactions between the commodity provider and the market participants to balance the risk position of the consumer transactions.

The Federal Circuit found that the claimed method covers the exchange of only options. Because options are merely "legal rights to purchase some commodity," according to the court, the claimed method does not transform any physical object or substance (or an electronic signal representative of any physical object or substance). Therefore, the court ruled that *Bilski*'s

claimed method of hedging risks in commodities trading failed the machine-or-transformation test and was not a patent-eligible “process.” In the wake of the Federal Circuit’s decision in *Bilski*, many observers expected that the machine-or-transformation test would restrict the scope of patentable subject matter, especially for software patents, business method patents, and pharmaceutical patents.

The Supreme Court, however, unanimously disagreed with the Federal Circuit that the machine-or-transformation test is the sole test for determining whether an invention is a patent-eligible “process” under Section 101. The Court, led by Justice Kennedy, noted that requiring a patent-eligible “process” under §101 to be tied to a machine or to transform an article violated statutory interpretation principles. The Court also explained that it never intended for the machine-or-transformation test to be an exhaustive or exclusive test. *See Gottschalk v. Benson*, 409 U.S. 63, 70 (1972); *Parker v. Flook*, 437 U.S. 504, 588-89 (1978). Nonetheless, the Court acknowledged that the “machine or transformation” test provides “a *useful and important clue, an investigative tool* for determining whether some claimed inventions are processes under §101.”

Justice Kennedy’s opinion, which was joined in full by Chief Justice Roberts and Justices Thomas and Alito, further recognized the concerns of many in the patent community that the machine-or-transformation test “would create uncertainty as to the patentability of [other technologies in the Information Age beyond business methods, including] software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.” Since innovation may advance in unexpected ways, the patent laws leave room for new inquiries in response to new technologies, wrote Justice Kennedy. He was clear, however, that nothing in the opinion should be read as taking a position on the patentability of any of these technologies.

A majority of the Court also declined invitations to exclude specific categories of technology - i.e., business methods - from patent protection. Instead, the majority held that the plain meaning of the term “method” in the definition for “process” in the patent statute precludes an interpretation of “process” that categorically excludes business methods. Citing other portions of the statute, the majority noted that a business method is simply one kind of “method,” which is patent-eligible under Section 101. The majority reasoned that holding business methods categorically not patentable-eligible would render other sections of the patent statute meaningless.

This is not to say that the Court embraced business methods wholeheartedly. Justice Kennedy’s opinion conceded that some sort of limiting criteria for business methods patents may be acceptable because “some business method patents raise special problems in terms of vagueness and suspect validity.” The Court even seemed to encourage the Federal Circuit to develop other limiting criteria for business methods patents beyond the machine-or-transformation test:

It may be that the Court of Appeals thought it needed to make the machine or transformation test exclusive precisely because its case law had not adequately identified less extreme means of restricting business method patents, including (but not limited to) application of our opinions in *Benson*, *Flook*, and *Diehr*. 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. *Op.* at 16.

And in a 47-page concurring opinion, Justice Stevens, joined by Justices Ginsburg, Breyer and Sotomayor, took great pains to argue that business methods are *not* patent-eligible subject matter. Justice Stevens based his argument on the historical development of patentable subject matter in the patent laws. He also viewed business methods patents as a monopoly on “the basic tools of commercial work ... [and] business innovation,” which is likely to stifle rather than motivate both innovation and competition.

In the end, the Court held that there was no need to define what constitutes a patent-eligible “process” beyond pointing to the definition of the term provided in Section 100(b) and looking to other Supreme Court precedent such as *Gottschalk v. Benson* (1972), *Parker v. Flook* (1978) and *Diamond v. Diehr* (1981) for the traditional exceptions to patent-eligibility: “laws of nature, physical phenomena, and abstract ideas.” Following this precedent, the Court held that the specific claims at issue were not patent-eligible because they claimed an abstract idea. The Court stated, however, that the Federal Circuit was free to develop of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its opinion.

Justice Breyer’s short 4-page concurring opinion, joined by Justice Scalia, emphasized that the entire Court agreed that the claims at issue were “unpatentable abstract ideas.” He further noted four points of agreement between all nine justices: (1) that Section 101 is not unlimited; (2) that the machine-or-transformation test remains a helpful “clue” to patent eligibility; (3) that machine-or-transformation is not the sole test for determining patentability; and (4) that the Court’s holding should not be read as an endorsement of the Federal Circuit’s “useful, concrete and tangible result” test as set out in *State Street*.

Undoubtedly, corporate observers breathed a collective sigh of relief as the Court recognized the importance of new and developing technologies, refusing to limit patent-eligibility to the narrow machine-or-transformation test. The Court’s opinion reaffirmed its precedent relating to Section 101 and ensured that a flexible analysis of patentable subject matter could be applied. Indeed, given the fact that the Court did not specify any further guidelines on how and when processes are patentable, the door remains open for the Federal Circuit to define additional tests relating to Section 101 in the future. For the time being, however, the machine-or-transformation test is certainly not dead. At the end of the day, it remains to be seen whether or not the decision will have any real effect on the scope or validity of business method patents.

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