The U.S. Supreme Court Rules on Business Method Patents

By: The Livingston Firm

The U.S. Supreme Court has finally released its long awaited decision in *Bilski v Kappos*, a decision that could have invalidated many software and business method patents. Although the Supreme Court upheld a lower court's decision that the business method covered by the Bilski patent application was not patentable, the Supreme Court did not go so far as to rule that all business methods are unpatentable.

Section 101 of the Patent Act (Title 35 United States Code) specifies four categories of inventions or discoveries that are eligible for patent protection: processes, machines, manufacture, and composition of matter. Section 101(b) further defines processes as including a "method." Thus, in reviewing *Bilski*, the Supreme Court had to consider what type of business methods qualify as patentable processes.

The Bilski patent application, which was filed in 1997, covered a business method for hedging risk in the field of commodities trading and more specifically a method that manages how weather impacts energy prices. Upon examination before the U.S. Patent and Trademark Office ("USPTO"), the assigned Patent Examiner rejected the application alleging that the claims, which reduced the method to a mathematical formula, covered an abstract idea and as such was not eligible for patent protection under Section §101 of the Patent Act. The Patent Examiner's rejection was then upheld by the Board of Patent Appeals and Interferences.

That decision was appealed to the Federal Circuit Court of Appeals resulting in a decision that set forth the "machine or transformation test" as the exclusive test for determining if a business method claim is patentable subject matter. Under this test, a business method claim is patentable subject matter if it is (1) tied to a particular machine or apparatus, or (2) transforms a particular article into a different state or thing. Thus, the Circuit Court again rejected Bilski's patent application for covering an abstract idea and also rejected it under the new "machine or transformation test."

Bilski successfully petitioned the Supreme Court to hear the case. Bilski argued that there should be no rigid test, such as the "machine or transformation test," for determining the patentability of business methods. In its decision, the Supreme Court affirmed the Federal Circuit's holding that Bilski's method simply explained the basic concept of hedging reduced to a mathematical formula and thus, was an unpatentable

abstract idea. Because the Supreme Court has held in prior decisions that abstract ideas are not patentable, it rejected Bilski's method on those grounds.

In doing so, the Supreme Court confirmed that abstract ideas, laws of nature, and physical phenomena are not patentable. However, the Supreme Court declined to conclude that software or business methods are inherently unpatentable abstract ideas or that abstract medical diagnostics involve only unpatentable physical phenomena or laws of nature.

Further, the Supreme Court also ruled that the Federal Circuit's "machine or transformation test" is not the exclusive test to be applied in determining what is patentable subject matter, and that it is merely a useful clue or investigative tool. The Court stated that it did not need to define further what would constitute a patentable method, and encouraged the Federal Circuit to develop other limiting criteria to the extent needed to restrict business method patents consistently with the purposes and text of the Patent Act. As a result, the Supreme Court's decision should provide a more favorable examination of business methods within the USPTO and signal a return to the days prior to the implementation of the Federal Circuit's overly rigid machine-or-transformation test.

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