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Bilski v. Kappos: The Supreme Court Clarifies The Test For Patent-Eligible Processes

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On June 28, 2010, the Supreme Court issued its opinion in *Bilski v. Kappos*, the high court's most anticipated decision in the area of patent law in years. While many expected that the decision would be the death knell for business method patents, the Court issued a narrow decision, holding only that the Bilski application was ineligible for patent protection because an invention designed to hedge risk in the field of commodities trading was an unpatentable abstract idea. Notably, the Court did not preclude the patentability of business methods as a general proposition, although four justices, in a concurring opinion written by Justice Stevens, took the position that methods of conducting business do not constitute patentable subject matter. The Court also clarified that while the "machine or transformation" test is an important tool for determining whether a process is patentable, it is not the sole test as the Federal Circuit had held.

The Bilski Application

The Bilski patent application concerned a method for managing financial risk. The broadest claim of the application sought to cover a "series of transactions" to limit risks to consumers in the field of commodities trading, including, for example, price changes associated with fluctuations in supply or demand. The Patent Office rejected the Bilski application on the grounds that the invention was not limited to operation on a specific apparatus and that it merely manipulated an abstract idea.

Statutory Context

Section 101 of Title 35 of the U.S. Code specifies four categories of inventions or discoveries that are eligible for patent protection: processes, machines, manufactures, and compositions of matter. Section 101 has been interpreted broadly but with three specific exceptions to patent-eligible subject matter: laws of nature, physical phenomena, and abstract ideas. These exceptions are consistent with the notion that patentable processes must be "new and useful."

The Federal Circuit Decision

The Federal Circuit affirmed the rejection of all pending claims in the Bilski application. The Federal Circuit applied the "machine-or transformation" test, ruling that a process claim constitutes patentable subject matter only if it is: (1) tied to a particular machine or apparatus; or (2) transforms a particular article into a different state or thing.

The Federal Circuit reasoned that mere business transactions were not "transformations" under the machine-or-transformation test because "they are not physical objects or substances, and they are not representative of physical objects or substances." To hold otherwise, in the Court's view, would present a "danger that the scope of [a] claim would wholly pre-empt all uses" of a fundamental principle or abstract idea.

In making the machine-or-transformation test the exclusive test for determining the patentability of a "process" under Section 101, the Federal Circuit rejected its prior test – *i.e.*, whether the invention produces a "useful, concrete, and tangible result."

The Court's Opinion

The Court's opinion was written by Justice Kennedy and joined by Chief Justice Roberts and Justices Scalia (in part), Thomas, and Alito.

The Court held that Section 101 precluded the broad contention that the term "process" categorically excludes business methods. The Court reasoned, in part, that federal law explicitly contemplates the existence of at least some business method patents (e*.g.*, Section 273 of Title 35 of the U.S. Code).

- The Court characterized the machine-or-transformation test as a “useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under [Section] 101.”

- The Court held that the machine-or-transformation test is not the sole criterion for determining the patentability of an invention in the “Information Age.” It is not clear, however, that many patentable processes lie beyond the reach of this test.

- The Court noted that even if a particular business method fits the statutory definition of a patent-eligible “process,” that does not mean an application claiming the method should be granted. Any claimed invention must also be novel (Section 102), non-obvious (Section 103), and fully and particularly described (Section 112). The Court explained: “These limitations serve a critical role in adjusting the tension, ever present in patent law, between stimulating innovation by protecting inventors and impeding progress by granting patents when not justified by the statutory design.”

The Concurrences

Justices Breyer, Sotomayor and Ginsburg joined a concurring opinion, authored by Justice Stevens, that methods of doing business are not patentable “processes” under Section 101. They based their decision on their belief that methods of doing business fall outside of the subject matter that has historically received protection under U.S. patent law.

Justice Breyer, joined by Justice Scalia, also wrote separately to highlight the “substantial agreement among many Members of the Court” on certain fundamental issues of patent law raised by the *Bilski* case. He highlighted four points: (1) that although the text of Section 101 is broad, it is not without limit; (2) that the machine-or-transformation test is a “useful and important clue” that has repeatedly helped the Court determine what is a patentable process; (3) that the machine-or-transformation test has never been the sole test; and (4) that it is by no means true that anything that produces a “useful, concrete, and tangible result” is patentable.

Looking Forward

What does this mean for you? Without a bright-line test, the Supreme Court's decision in *Bilski* will only encourage more debate as to whether specific business methods are patentable. While the entire court agreed that Bilski was not entitled to a patent here, the Court's opinion requires the lower courts to decide the issue of patentability on a case-by-case basis. The decision makes clear that the machine-or-transformation test is not the only test for deciding whether an invention is a patent-eligible "process." Nonetheless, the justices were unanimous in the view that the "machine or transformation" test will remain an important tool for determining the patentability of claimed business method inventions in the future.

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