In re Bilski: Eligibility of Patent Protection for Business Methods Survives - For Now

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Yesterday, the U.S. Supreme Court sidestepped a decision as to whether business methods are categorically excluded from patent protection, allowing the possibility of patent eligibility for business methods to survive for now. The majority focused its opinion on the narrow issue presented: Is the so-called "machine-or-transformation test" the *only* test for determining what constitutes a patentable "process" under the patentable subject matter requirement of the Patent Act (35 U.S.C. § 101)? The Court unanimously rejected exclusive use of the "machine-or-transformation test" and directed a return to the use of a plurality of tests to determine patent eligibility. Other than noting that a business method may be eligible for patent protection, the majority refused to engage in the broader debate over business method patents. In contrast, a concurrence by Justice Stevens advocated for a categorical exclusion of business methods from patent eligibility.

The case was initially filed with the Court of Appeals for the Federal Circuit by a patent applicant appealing the U.S. Patent and Trademark Office's rejection of a patent application claiming an invention "that explains how buyers and sellers of commodities in the energy market can protect, or hedge, against the risk of price changes." Both the patent examiner and the Board of Patent Appeals and Interferences rejected the claims under 35 U.S.C. § 101, ruling that the subject matter was not eligible for patent protection.

The Federal Circuit affirmed the USPTO's rejection of the claims and held that the subject matter sought to be patented was not a "process" under 35 U.S.C. § 101. 35 U.S.C. §101 states

> Congress is now armed with a succinct outline as to why business methods should not be eligible for patent protection.

that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." In determining that the subject matter at issue was not patent-eligible, the Federal Circuit *en banc* majority ruled that the *only* test appropriately used to determine whether subject matter constitutes a patent-eligible "process" was the "machine-or-transformation test," rejecting several other tests historically used by courts, including the Federal Circuit, to assess patent eligibility. This "machine-or-transformation test" states that a claimed process is patent-eligible under § 101 where (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.

Yesterday, the Supreme Court unanimously ruled that the subject matter sought to be patented was not patent-eligible because

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it consisted only of abstract ideas; the Court rejected *exclusive* use of the "machine-or-transformation test," ruling that such test may not adequately capture all patent-eligible material: "the machine-or-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals." The Court directed a return to the basic premise of patentability -- rewarding innovation while preventing monopolies over abstract ideas, laws of nature, and mental processes -- and a return to the plurality of tests previously employed to help determine patent eligibility.

Recognizing the challenges in assessing patentability in our ever-changing and innovating world, the majority expressly declined to offer any further explanation or crystallized test as to how to assess patentability:

> ... the patent law faces a great challenge in striking the balance between protecting inventors and not granting monopolies over procedures that others would discover by independent, creative application of general principles. Nothing in this opinion should be read to take a position on where that balance ought to be struck.

Yet, the Court expressly stated that it does "not 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."

A concurrence by Justice Stevens, joined by Justices Ginsburg, Breyer, and Sotomayor, delved into the broader issue of the eligibility of business method patents and concluded that "methods of doing business are not, in themselves, covered by the statute." The Stevens concurrence undertakes a thorough review of the patent laws to reach the conclusion that a method of doing business is not a "process" under § 101 and therefore not patent-eligible. The concurrence's historical review concludes that, under both the English patent system (from which the American patent system originated) and the early American patent system, business methods were rarely patented; it was only in recent history that courts began to construe "process" under § 101 to include business methods. Indeed, the Stevens concurrence characterizes 35 U.S.C. § 273, enacted by Congress in 1999 and providing a limited defense to claims of patent infringement of business methods, as a disapproval of the courts' general expansion of patent-eligible material to include business methods rather than condoning by Congress of such expansion. If Stevens is correct, Congress is now armed with a succinct outline as to why business methods should not be eligible for patent protection.

The Take-Away

As summarized by a separate concurrence by Justices Breyer and Scalia, the Court appears to unanimously agree on the following:

1. Section 101 is broad but not without limit; it must balance "what is protected" with "what is free for all to use." "Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable."
2. "Transformation and reduction of an article to a different state or thing is *the clue* to the patentability of a process claim that does not include particular machines."
3. While the machine-or-transformation test is a "useful and important clue" to patent eligibility, it is not the sole or exclusive test.
4. While the Court rejects the machine-or-transformation test as the sole test, it does not agree that anything that produces "a useful, concrete, and tangible result" is patentable.

The rest will be left to Congress.

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