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The Supreme Court's Decision in ***Bilski***

On June 28, 2010, the Supreme Court issued its long-awaited decision in *Bilski v. Kappos*, No. 08-964, and, significantly, affirmed the underlying Federal Circuit decision in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), even while refusing to adopt the Federal Circuit's holding that the *only* test for section 101 patentability was the so-called "machine-or-transformation" test. The Supreme Court held in its majority opinion, as did the Federal Circuit below, that business method patents are not categorically unpatentable, although the majority provided the caveat that while the Patent Act "appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions."

The majority opinion was authored by Justice Kennedy and was joined by Justices Roberts, Thomas, Alito and (except for two parts) Scalia, and clearly held that the machine-or-transformation test, while not the exclusive test, was nonetheless "a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes" under Section 101 of the Patent Statute.

The majority provided an analysis of its prior decisions in *Benson*, *Flook* and *Diehr* (all decided before 1981) and, in particular, the guidance that those decisions offered on attempts to claim abstract ideas. In *Benson*, the Court held that the attempt to patent an algorithm to convert binary-coded decimal numerals into pure binary code would "wholly pre-empt the mathematical formula" and thus would be unpatentable as an improper attempt to, in effect, patent the algorithm itself. In *Flook*, the Court held that the prohibition against patenting abstract ideas "cannot be circumvented by attempting to limit the use of the formula to a particular technological environment," or by adding insignificant post-solution activity. Finally, in *Diehr*, the Court concluded that there was patentable subject matter, but only because the previously unknown method for molding raw, uncured synthetic rubber into precision products using a mathematical formula was merely an application of a mathematical formula, and not an attempt to pre-empt use of the formula altogether by others.

A majority of the Justices also agreed with the Federal Circuit's holding that the test that provided the foundation for business method patents, first articulated in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) ("useful, concrete and tangible results"), should no longer be relied upon. At the same time, the majority suggested that the Federal Circuit may want to devise limiting criteria for patentability that would further the purposes of the Patent Statute.

As for the patent claims at issue, the Court found that Bilski's claims were not patentable because they attempted to patent abstract ideas. The Court described Bilski's "invention" as an "invention that explains how buyers and sellers of commodities in the energy market can protect, or hedge, against the risk of price changes." The Court resolved Bilski's claims "narrowly on the basis of [the] Court's decisions in *Benson*, *Flook* and *Diehr*." Under those precedents, the Court held that Bilski's attempt "to patent both the concept of hedging risk and the application of that concept to energy markets" was an attempt to patent an abstract idea and thus was outside the scope of section 101 of the Patent Statute.

Justice Scalia refused to join in two portions of the Kennedy opinion but joined in Part 2 of a second concurrence, authored by Justice Breyer, in which both Justices expressed their view that nothing in the majority opinion nor any concurrence is intended "to deemphasize the [machine-or-transformation] test's usefulness nor to suggest that many patentable processes lie beyond its reach."

Justices Ginsburg, Breyer and Sotomayor joined in a concurrence authored by Justice Stevens that laid out an impassioned but unsuccessful argument for an exception to patentability for business methods.

Before the end of the day, and noting that further guidance would be forthcoming, the United States Patent and Trademark Office issued its first Memorandum to the Patent Examining Corps regarding *Bilski* that included the following:

> Examiners should continue to examine patent applications for compliance with section 101 using the existing guidance concerning the machine-or-transformation test as a tool for determining whether the claimed invention is a process under section 101. If a claimed method meets the machine-or-transformation test, the method is likely patent-eligible under section 101 unless there is a clear indication that the method is directed to an abstract idea. If a claimed method does not meet the machine-or-transformation test, the examiner should reject the claim under section 101 unless there is a clear indication that the method is not directed to an abstract idea. If a claim is rejected under section 101 on the basis that it is drawn to an abstract idea, the applicant then has the opportunity to explain why the claimed method is not drawn to an abstract idea.

The Supreme Court's decision is broad ranging, and its holdings as to the proper test for patentability are not limited to traditional business method patents. Any patents issued under the *State Street Bank* test of "useful, concrete and tangible result" may feel the impact of the *Bilski* decision.

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