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Information

Supreme Court Says No to Exclusivity of Machine-or-Transformation Test, *In re Bilski*

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Patents

INTRODUCTION

The Supreme Court of the United States of America has rendered its long-awaited decision on *In re Bilski.* The Court upheld the result reached by the Federal Circuit Court of Appeal and decided that the claims are directed to unpatentable subject matter. However, the Court based this decision on its conclusion that the *Bilski* claims were directed to an abstract idea. The Court made it clear that business method patents are not *per se* excluded from patentability, to the extent they are not directed to abstract ideas, laws of nature, or physical phenomena.

The claims in the patent at issue are directed towards a method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price. The first step of the method is to initiate a series of transactions between the commodity provider and consumers of the commodity, wherein the consumers purchase the commodity at a fixed rate based upon historical averages, the fixed rate corresponding to a risk position of the consumer. Market participants are then identified for the commodity having a counter-risk position to the consumers, and a series of transactions between the commodity provider and the market participants are initiated at a second fixed rate such that the series of market participant transactions balances the risk position of the series of consumer transactions.

FEDERAL CIRCUIT DECISION (IN RE BILSKI, 545 F.3D 943 (FED. CIR. 2008) (EN BANC))

In 2008, the Federal Circuit declared that a process is patentable under §101 if, and only if:

(1) it is tied to a particular machine or apparatus, or

(2) it transforms a particular article into a different state or thing.

This test has become known as the Machine-or-Transformation (MoT) test and has shown to be very limiting. While the original intent was to exclude business methods from patentable subject matter under §101, application of the MoT test has caused collateral damage particularly in the areas of software and biotechnology.

QUESTIONS PRESENTED TO THE SUPREME COURT

In an effort to eliminate some of the collateral damage of the MoT test, and to clarify the patentability of business methods, two questions were presented to the Supreme Court:

(1) Whether the Federal Circuit erred by holding that a “process” must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing (“machine-or-transformation” test), to be eligible for patenting under 35 U.S.C. § 101, despite this Court’s precedent declining to limit the broad statutory grant of patent eligibility for “any” new and useful process beyond excluding patents for “laws of nature, physical phenomena, and abstract ideas.”

(2) Whether the “machine-or-transformation” test for patent eligibility adopted by the Federal Circuit, effectively foreclosing meaningful patent protection to a business method involving a series of transactions among a commodity provider, consumers,

and market participants, contradicts the clear congressional intent that patents protect "method[s] of doing or conducting business." 35 U.S.C. § 273.

MACHINE-OR-TRANSFORMATION TEST

The Court clearly indicated that the MoT test is not the sole test for patent eligibility under §101. While it has been established as "a useful and important clue or investigative tool," it should not be considered the exclusive means of determining whether a "process" is patent-eligible under §101. In fact, the Supreme Court insisted on this point by stating that such a reading would be in violation of certain principles of statutory interpretation, and that the Court is "unaware of any ordinary, contemporary, common meaning of 'process' that would require it be tied to a machine or the transformation of an article."

PATENTABILITY OF BUSINESS METHODS

The patentability of business methods remains a point of contention amongst the justices of the Supreme Court, with two concurring opinions expressing the view that business methods should not be patent eligible. However, the majority's opinion is that "Section 101 [of the statute] precludes a reading of the term 'process' that would categorically exclude business methods." The Court held that the statute (in particular §273(b)(1)) explicitly contemplates the existence of at least some business method patents and, therefore, concludes that a door has been left open to the possibility of some business method patents.

REJECTION OF BILSKI CLAIMS

The Court's decision to affirm the Federal Circuit's rejection of the claims is based on the exclusion of abstract ideas as patent-eligible subject matter. In particular, the Court held that the claims in question, which are viewed by the Court as explaining the basic concept of hedging and reducing that concept to a mathematical formula, is an attempt at patenting the use of the abstract hedging idea. The Court relied on the three specific exceptions to §101's broad principles, namely laws of nature, physical phenomena, and abstract ideas, to reject the *Bilski* claims.

CONCLUSION

In conclusion, the Court reversed the Federal Circuit's position regarding the exclusivity of the Machine-or-Transformation test to determine patent eligibility of a process, and left the door open to the patentability of business methods. It is important to remember that even if a particular business method fits into the statutory definition of a "process," that does not mean the application claiming that method will be granted. In order to receive patent protection, any claimed invention must also meet the criteria of novelty and non-obviousness, and must be fully and particularly described.

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