WOMBLE CARLYLE
INNOVATORS AT LAW®

Client Alert

June 2010

Supreme Court Rules on Business Method Patents in *Bilski v. Kappos*; Business as Usual at the USPTO

On June 28, 2010, the Supreme Court issued its long-awaited decision on business method patents in *Bilski v. Kappos*, No. 08-964. The Court unanimously agreed that Bilski's invention, which was a process directed toward "how buyers and sellers of commodities in the energy market protect, or hedge, against the risk of price change," was an abstract idea and thus not a patent-eligible process under 35 U.S.C. § 101.

In its decision below, the Federal Circuit had concluded, *en banc*, that the exclusive test for determining if a process was eligible for patenting was the "machine-or-transformation test." *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008) (en banc). Under the machine-or-transformation test, a claimed process is eligible for patenting if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." *Id.* Applying this test, the Federal Circuit found that Bilski's invention was not eligible for patenting. *Id.*

While a majority of the Court found that the machine-or-transformation test is "a useful and important clue, an investigative tool," the Court refused to adopt the machine-or-transformation test as the sole test for determining whether a process is a patent-eligible process. *Bilski v. Kappos* at 8. Instead, the Court cited its prior decisions on the subject as providing a resolution for patent eligibility and asserted that it "need not define further what constitutes a patentable 'process,' beyond pointing to the definition of that term provided in §100(b) and looking to the guideposts in *Benson, Flook*, and *Diehr*." *Id.* at 16. *See Gottshalk v. Benson*, 409 U.S. 63 (1972) (holding that a process for converting binary-encoded decimals into pure binary code to be patent ineligible); *Parker v. Flook*, 437 U.S. 584 (1978) (holding that a process for monitoring the conditions during the catalytic conversion process in the petrochemical and oil-refining industries to be patent ineligible); and *Diamond v. Diehr*, 450 U.S. 175 (1981) (holding that a method for molding uncured synthetic rubber into cured products using a mathematical formula by way of a computer to be patent eligible).

The Court began its analysis with the long-held interpretation that 35 U.S.C. § 101 does not include laws of nature, physical phenomena, and abstract ideas. After discussing its decisions in *Benson, Flook*, and *Diehr*, the Court ultimately found Bilski's invention for hedging risk to be an abstract idea not eligible for patenting under § 101.

Many patent practitioners and patent owners were concerned with the potentially broader implications of the exclusive machine-or-transformation test propounded by the Federal Circuit, believing that such a test would signal the demise of the patent eligibility of far more than business methods. While its decision alleviates these concerns, the Court refrained from providing any new guidance as to what does constitute patent-eligible subject matter.

In particular, the Court expressly declined to adopt any new "categorical rules with potentially wide-ranging and unforeseen impacts." *Bilski v. Kappos* at 13. In other words, the Court did not

categorically render any decision on the patent eligibility of business methods, software, or other computer-related inventions. To the relief of many, the Court recognized that certain inventions could be eligible for patenting even if they failed the machine-or-transformation test (*i.e.*, even if they were not tied to a particular machine or apparatus or did not transform an article into a different state or thing). *Id*. at 8. Thus, inventions directed toward diagnostic techniques, gene identification, and other processes in the biological arts that otherwise might fail the machine-or-transformation test would not necessarily be excluded from patent eligibility.

In response to the Court's decision, the U.S. Patent and Trademark Office issued interim guidelines to its examining corps regarding Bilski. These guidelines state, in pertinent part:

> 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.

Bahr, Robert W., Acting Associate Commissioner for Patent Examination Policy, U.S. Patent and Trademark Office, "Memorandum to Examining Corps re Supreme Court Decision in *Bilski v. Kappos*," June 28, 2010.

In the end, *Bilski* failed to provide the sought-after clarity as to which inventions are or are not eligible for patenting under § 101. Inventors developing new business methods, software, or computer-related inventions should continue to utilize patent practitioners adept in navigating these muddy waters in their efforts to seek protection for such inventions.

This Client Alert was written by Rick A. Toering in Womble Carlyle's Intellectual Property Practice Group and Ramya Possett, Summer Associate. If you have any questions, please contact Rick Toering via email (rtoering@wcsr.com) or via telephone at (703) 790-7915 or the Womble Carlyle attorney with whom you work.