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Supreme Court Decides Business Process Patent Case

By: David Carroll. ***This was posted Friday, July 9th, 2010***

A few weeks ago in this blog we alerted you to *Bilski v. Kappos*, 561 U. S. ____ (2010) because the case had the potential to be important in that the Supreme Court might consider the question of whether or not business methods qualified as "process patents," — those patents filed to protect processes rather than concrete inventions. On June 28, 2010, the Supreme Court issued its long-awaited decision in *Bilski v. Kappos*, addressing the patentability of process patent claims under 35 U.S.C. § 101 (the "Patent Act"). While the court did not reject the concept of business process patents nor did it make any effort to provide new criteria that would further limit the patentability of business methods, it did clarify somewhat the criteria for an effective process patent. The Supreme Court also indicated the possibility that courts may later find that the Patent Act forbids patenting certain types of business methods.

The patent application in this case sought protection for a claimed business process that explains how commodities buyers and sellers in the energy market can hedge against the risk of price fluctuations . The key claims involved in the patent application described a series of steps on how to hedge the risk and included a simple mathematical formula. One of the reasons this case was closely watched was that protection of business processes, in particular those using the Internet, have become common and important to developers of business models that are based on a proprietary methodology. If a method can be copied with no legal barrier for protection then the value of the business model collapses.

Generally, the federal statutes specify four independent categories of inventions or discoveries that are eligible for patent protection: (1) processes; (2) machines; (3) manufactures; and (4) compositions of matter. There have been recognized exceptions in court precedents of categories that are not patentable: "laws of nature, physical phenomenon, and abstract ideas." Historically, the lower courts had held that in order for a process to be patentable: " (1) it had to be tied to a particular machine or apparatus, or (2) it had to transform a particular article into a different state or thing." This formulation became known as the "machine-or-transformation test" for approving a process patent. Certain appellate courts had concluded that the machine-or-transformation test was the exclusive test to pass in order to be granted a process patent. The Supreme Court in Bilski held that this line of reasoning incorrectly concluded that the machine-or-transformation test was the sole test. This test is only one among several factors to consider but it is not the sole test for deciding whether a process is patent-eligible.

The Supreme Court held that the Patent Act permits business methods to be patentable processes. The court went on to indicate, however, that even if a particular business method fits into the statutory definition of a "process," that does not mean that the patent application claiming the process should be approved. The business process patent application still needs to qualify under the other criteria of the statute. To receive patent protection a business method or process must be "novel," "non-obvious" and "fully and particularly described," and it can't be one of the exceptions to patent protection: laws of nature, physical phenomenon, or abstract ideas. In this case the court held that the concept of hedging risk and the application of that concept to energy markets was an attempt to patent an abstract idea, and therefore was not patentable. In this form, the decision did not help practitioners much in dealing with process claims that fail the machine-or-transformation test and are not held to be abstract ideas, laws of nature, or physical phenomena. To a great extent the case has left the legal landscape in this area unchanged but more guidance needs to be provided if the courts want to help practitioners protect client's with models built upon proprietary business processes.