

Supreme Court Issues Long Awaited Decision in *Bilski* But Provides Little Certainty

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On Monday, June 28, 2010, the United States Supreme Court released its long awaited decision in the case of *Bilski v. Kappos*. Unfortunately, the decision may not result in the certainty many desired. In holding the Bilski invention unpatentable, the Court declined to articulate a general test for determining when business methods are patentable.

In the case, Bernard Bilski and Rand Warsaw sought a patent for a business method of hedging risks, specifically risks of price changes in the energy market. The case has focused primarily on two of the key claims in the patent application - one specifying the steps involved in the process of hedging risks and the other articulating a simple mathematical formula for implementing the process.

After both the patent examiner and the Board of Patent Appeals and Interferences concluded that the claimed invention involved only abstract ideas and was not patentable, the United States Court of Appeals for the Federal Circuit, *en banc*, affirmed. After much analysis, the Federal Circuit concluded that the machine-or-transformation test should be the sole and exclusive test for patentability of a process. That test requires a determination of whether the invention (i) "is tied to a particular machine or apparatus, or (2) [] transforms a particular article into a different state or thing." The Bilski invention was neither tied to a machine or apparatus nor transformed a particular article, and thus was not patentable under the Federal Circuit's test. Bilski appealed the decision of the Federal Circuit, and the U.S. Supreme Court granted certiorari.

The Supreme Court began its opinion by identifying the question of "whether a patent can be issued for a claimed invention designed for the business world." However, the Court's ultimate conclusion was far more limited, and established only that this particular invention was not patentable because the method was abstract.

The Court acknowledged that Section 101 of the Patent Act provides for four categories of inventions that are entitled to patent protection: processes, machines, manufacturers, and compositions of matter. Based on a review of the definition of "process" provided in Section 100(b) of the Patent Act, the Court reasoned that at least some processes are entitled to patent protection. However, the Court also acknowledged that not all processes are entitled to patent protection, and that processes must be carefully scrutinized for patentability purposes, stating: "If a high enough bar is not set when considering patent applications of this sort, patent examiners and courts could be flooded with claims that would put a chill on creative endeavor and dynamic change."

In determining that the Bilski invention was not patentable as an abstract idea, the Court relied on its previous decisions in *Benson*, *Flook*, and *Diehr*, each of which considered the patentability of methods or processes. In *Benson*, the Court refused to allow a patent on an algorithm to convert binary coded decimal numerals into pure binary code because it was an unpatentable abstract idea. *Flook* considered a procedure for monitoring the conditions during the catalytic conversion process in the petrochemical and oil-refining industry, where the

process relied on a mathematical algorithm. The Court held that the *Flook* process was not patentable, despite the fact that it was limited to the petrochemical and oil-refining industries because "postsolution activity" is not sufficient to make a process patentable, and an abstract idea does not become patentable by limiting its use to a particular technological environment. In contrast, in *Diehr*, the Court considered a method for "molding raw, uncured synthetic rubber into cured precision products" which utilized a mathematical formula. Because the process in that case was the application of a mathematical formula to a known structure, and involved the molding of rubber products rather than the abstract formula itself, it was patentable.

Applying the rationale of these three cases, the Court determined that the *Bilski* application "explained the basic concept of hedging, or protecting against risks," found that such concept is a fundamental economic practice, and determined that the process was an abstract idea and thus unpatentable.

In summary, the *Bilski* opinion made it clear that some business methods may be patentable, but that those individuals determining patentability are tasked with carefully analyzing the invention to confirm that, considering all possible factors, it is a patentable process. The standard to be applied is arguably somewhat relaxed from the Federal Circuit's position, because the machine-or-transformation test is not the exclusive test of process patentability. However, exactly which test or tests have to be applied to determine patentability remains unclear. As the Court states:

With ever more people trying to innovate and thus seeking patent protections for their inventions, 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 principals. Nothing in this opinion should be read to take a position on where that balance ought to be struck.

In light of the limited guidance from the Court, the USPTO has issued interim guidance to its examiners stating that while the USPTO will be reviewing the *Bilski* decision and developing further guidance, for the time being, examiners should continue to utilize the existing guidance for patentability standards, including the machine-or-transformation test. In a memo to the patent examiner's Acting Associate Commissioner for Patent Examination Policy, Robert W. Bahr stated that "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." Applicants will have the opportunity to respond to rejections under section 101 just as they have the opportunity to respond to other rejections.

If you would like to discuss the implications of this decision on your intellectual property protection strategies, please contact:

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