

**SUPREME COURT’S SPLIT DECISION IN *BILSKI* UPHOLDS THE GENERAL  
PATENTABILITY OF BUSINESS METHODS AND REJECTS THE MACHINE-OR-  
TRANSFORMATION TEST AS THE SOLE FRAMEWORK FOR IDENTIFYING  
PATENTABLE PROCESSES**

On June 28, 2010, the U.S. Supreme Court issued its long-awaited decision in *Bilski v. Kappos*,<sup>1</sup> which addressed the patentability of a process for hedging risk in commodities markets.

The en banc Federal Circuit had held that Bilski’s process was unpatentable because it failed the “machine-or-transformation test” – that is, it was not tied to a particular apparatus and did not transform a particular article to a different state or thing.<sup>2</sup> The Federal Circuit held that the machine-or-transformation test was the sole test for determining the patentability of a process.

The Supreme Court agreed that Bilski’s process was not patentable. The majority opinion held that (1) the machine-or-transformation test is not the sole test for determining the patentability of a process, (2) business methods are not categorically excluded from protection under the Patent Act, and (3) Bilski’s method is an unpatentable abstract idea. Four concurring Justices would have gone farther and held that methods of doing business are never patentable.

The Court’s refusal to endorse one sole framework for identifying patentable processes or to categorically exclude business methods from patentability is not surprising, given that most of the Court’s recent patent decisions have eschewed bright-line rules in favor of less rigid approaches.<sup>3</sup> Given that all of the Justices agreed that the machine-or-transformation test provides a valuable clue to patentability, that test might prevent patent protection for many business methods, even if such methods are not excluded by a bright-line rule.

For now, the decision leaves the Federal Circuit and other lower courts to determine what other frameworks exist for evaluating process patentability and to apply the machine-or-transformation test and any other frameworks to business methods and other processes.

### **Overview Of The Decision**

Bilski sought patent protection for a method that explains how buyers and sellers of commodities in the energy market can hedge against the risk of price changes. Claim 1 describes a series of steps for hedging such risk, while claim 4 sets forth the hedging concept in a mathematical formula.<sup>4</sup>

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<sup>1</sup> *Bilski v. Kappos*, No. 08-964 (U.S. June 28, 2010).

<sup>2</sup> *In re Bilski*, 545 F.3d 943, 964 (Fed. Cir. 2008).

<sup>3</sup> *See, e.g., eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (rejecting the Federal Circuit’s patent-specific standard for determining whether to grant injunctive relief); *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (rejecting the Federal Circuit’s rigid application of the teaching-suggestion-motivation test for determining obviousness).

<sup>4</sup> *Bilski*, No. 08-964, slip op. at 2.

Justice Kennedy authored the majority opinion, which was joined in full by Justices Roberts, Thomas, and Alito, and in part by Justice Scalia.

The majority explained that the term “process” should be given its ordinary, contemporary, and common meaning, which does not require a process to be tied to a machine or to transform an article.<sup>5</sup> The majority explained that the Court has only placed limits on the ordinary meaning of the categories of patentable subject matter to provide exceptions for laws of nature, physical phenomena, and abstract ideas.<sup>6</sup> Although the machine-or-transformation test is a “useful and important clue” for determining whether a process is eligible for protection under Section 101 of the Patent Act, the Court has never dictated that it is the *only* test to use.<sup>7</sup> The Court, however, did not define any alternative test.

In keeping with its focus on the broad, plain meaning of the term “process,” the majority also explained that business methods should not be categorically excluded from patent protection.<sup>8</sup> *Bilski*’s claims were unpatentable because they covered an abstract idea, not because they covered a business method.

The majority’s holding focused on the Court’s prior decisions in *Benson*, *Flook*, and *Diehr*.<sup>9</sup> Those decisions held, respectively, that: (1) a patent may not wholly preempt use of a mathematical formula; (2) conventional, insignificant post-solution applications of a mathematical formula do not make it eligible for patent protection; and (3) the application of a law of nature can be patented.<sup>10</sup> *Bilski*’s claims were unpatentable because they would preempt use of the described hedging approach in all fields and “effectively grant a monopoly over an abstract idea.”<sup>11</sup>

Justice Stevens provided a concurring opinion joined by Justices Ginsburg, Breyer, and Sotomayor. Those Justices would have held that business methods are altogether unpatentable.<sup>12</sup> Justice Stevens’ decision is based in large part on the centuries-long history of the Patent Act and its predecessor laws in England, throughout which patents on methods of doing business were not allowed.<sup>13</sup>

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<sup>5</sup> *Id.* at 7.

<sup>6</sup> *Id.* at 6.

<sup>7</sup> *Id.* at 7-8.

<sup>8</sup> *Id.* at 10-11.

<sup>9</sup> *Id.* at 13.

<sup>10</sup> *Id.* at 13-14.

<sup>11</sup> *Id.* at 15.

<sup>12</sup> *Id.* at 1-3 (Stevens, J., concurring).

<sup>13</sup> *Id.* at 15-34.

Justice Breyer authored a succinct concurring opinion that was joined in part by Justice Scalia. He focused on the areas of agreement among the Justices, particularly noting that: (1) although the text of Section 101 is broad, it is not without limits; (2) the machine-or-transformation test has been described as “the clue” to patentability and has repeatedly helped identify patentable processes; (3) the machine-or-transformation test, however, has never been the sole test; and (4) the Federal Circuit’s former “useful, concrete, and tangible result test,” which the Federal Circuit overruled in its en banc *Bilski* decision, is not an appropriate test.<sup>14</sup>

### Implications Of The Decision

The Court’s decision has broad implications for parties that own, or are seeking to obtain, patents on business methods and other processes. Although the Court explained that the machine-or-transformation test is not the only test for patentability, it did not suggest any other framework. Justice Breyer’s concurring opinion explains that the Court did not intend to “de-emphasize the test’s usefulness nor to suggest that many patentable processes lie beyond its reach.”<sup>15</sup>

For now, the Patent Office, the Federal Circuit, and district courts will be left to determine what business methods, if any, fail the machine-or-transformation test but satisfy the patentability criteria relied on by the majority from *Benson*, *Flook*, and *Diehr*. Unless and until new tests are suggested by the Patent Office or the district courts and adopted by the Federal Circuit, the machine-or-transformation test will likely continue to be the most widely used way of determining patentability.

In its en banc decision, the Federal Circuit posited two important unanswered questions concerning application of the machine-or-transformation test. The Supreme Court did not provide guidance on those questions: (1) whether claims reciting generic computer hardware would satisfy the “particular machine or apparatus” prong of the machine-or-transformation test; and (2) when transformations of electronic signals or electronically manipulated data would satisfy the “transformation” prong.<sup>16</sup> Those questions are likely to be key issues in the future for deciding the patentability of business methods.

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Willkie’s Intellectual Property Department advises and represents some of the world’s leading multinational corporations in a broad range of patent, trademark, copyright, and trade secret matters. If you have any questions concerning this memorandum, please contact Kelsey I. Nix (212-728-8256, knix@willkie.com), Heather M. Schneider (212-728-8685, hschneider@willkie.com), or the attorney with whom you regularly work.

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<sup>14</sup> *Id.* at 2-3 (Breyer, J., concurring).

<sup>15</sup> *Id.* at 4.

<sup>16</sup> *In re Bilski*, 545 F.3d at 962.

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