Column No.17

Can a business method be patented?
-Bilski Case Supreme Court decision

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On June 28, 2010, the U.S. Federal Supreme Court rendered a court decision on the "Bilski case". Bilski's patent application relates to a risk hedge method in the field of business transactions for performing various business transactions based on the cost fluctuation of specific goods. The Supreme Court decision drew attraction as a measure of the patentability of a pure business method. The final result was that The Supreme Court upheld the decision of CAFC (Court of Appeals for the Federal Circuit) in October 2008 and rejected Bilski's claims due to lack of patentability according to Article 101 of the US Patent Act.. On the other hand, the CAFC decision that the "Machine-or-transformation" test of Article 101 is the sole criterion for determining patentability was rejected. Moreover, the Supreme Court expressed the opinion that the "method" regulated in Article 101 does not exclude the business method category.

Having been involved in the past with business methods, Patent Attorney, Mr. Toshio Takamatsu of Miyoshi and Miyoshi explains this court decision.

1. Business method patents

With the release of Microsoft Windows 95 in 1995, computer networks spread globally and computer technology and IT technology remarkably improved. Accordingly, financial and business transactions began to be performed on computer networks and this largely changed the economic activities of the world.

In such circumstances, news of the CAFC decision affirming a business model patent in the US in 1998 rushed around the world. This is the State Street Bank case. This news spread recognition that a business model patent can be granted in the world and as a result, global applications for obtaining business model patents sharply increased.

However, a patent system aims at improving scientific technology to develop industry, and determination of whether pure business model methods (finance and business transactions) shall be granted patent or not, began to be judged extremely carefully.

2. State Street Bank Case (July 1998)

In the State Street Bank case, it was contested whether a hub and spoke patent (US No. 5,193, 056) owned by Signature, Inc. was valid or not. Claim 1 of the hub and spoke patent is as follows.

Claim 1 A data processing system for managing a financial services configuration of a portfolio established as a partnership, each partner being one of a plurality of funds, comprising:
(a) computer processor means for processing data;
(b) storage means for storing data on a storage medium;
(c) first means for initializing the storage means;
(d) second means for processing data regarding assets in the portfolio and each of the funds from a previous day and data regarding increases or decreases in each of the funds and assets and for allocating the percentage share that each fund holds in the portfolio;
(e) third means for processing data regarding daily incremental income, expenses, and net realized gain or loss for the portfolio and for allocating such data among each fund;
(f)fourth means for processing data regarding daily net unrealized gain or loss for the portfolio and for allocating such data among each fund; and
(g) fifth means for processing data regarding aggregate year-end income, expenses, and capital gain or loss for the portfolio and each of the funds.

CAFC expressed the view that "Claim 1 relates to a device programmed by a hub and spoke-type software and produces a useful, concrete and tangible result", and approved patentability under Article 101. Moreover, CAFC found that even if claims are described in a business method form, they are not regarded as an exception but instead have similar patentability to other applications. From this time forward, the criteria for determination, namely "useful, concrete and tangible result" shown in the CAFC decision was further used for a long period in determining patentability under Article 101.

3. CAFC decision of Bilski case (October 2008)

Bilski was dissatisfied with the decision on a patent application for a pure business method rendered by US PTO and filed an appeal to CAFC. Regarding this, CAFC considered the legal importance of the case and decided to use an en banc decision in October 2008.
Bilski's patent application relates to a risk hedge method in the field of business transactions for performing various business transactions based on cost fluctuation of specific goods,

whose claim 1 is as follows.

Claim 1 A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price, comprising the steps of:
(a) initiating a series of transactions between the commodity provider and consumers of the commodity, wherein the consumers purchase the commodity at a fixed price based on the past average, and the fixed price corresponds to a risk position of the consumers;
(b) identifying market participants for the commodity having a counter-risk position of the consumers; and
(c) initiating a series of transactions between the commodity provider and the market participants so that a series of transaction at the second fixed price between the commodity provider and the market participants may balance the series of risk position between the commodity provide and the consumers.

The CAFC stated that applying the "useful, concrete and tangible result" test, which was the criterion for determination used in the State Street Bank case, was not appropriate to the Bilski case. Instead, the Supreme Court adopted the "machine-or-transformation" test shown in the Benson case (1972). This test states that the following requirements are satisfied.

(1) The method is related to a specific machine or device or
(2) The method transforms a specific product into a different state or a different thing

The "useful, concrete and tangible result" test of the State Street Bank case took note of "results" produced by performing the business method, but the "machine-or-transformation" test of Bilski case took note of "a process" during which the business method is performed, which is where the difference lies. The CAFC determined that Bilski's pure business method lacks patentability under Article 101 because it does not satisfy requirements for the "machine-or-transformation" test.

4. The U.S. Supreme Court decision of Bilski case (June 2010)

Bilski filed a final appeal to the Supreme Court because it was dissatisfied with the decision of the CAFC (en banc). For this reason, how patentability of a pure business method would be rendered by the Supreme Court drew attention.
On June 28, 2010, the Supreme Court eventually rendered a long-waited decision. In the

decision, the Supreme Court noted the following points.

(a) Bilski's claims relate to an "abstract idea" and are not patentable under Article 101.

Article 101 provides methods, machines, products and compositions as a category having patentability. Moreover, case law follows natural law such that natural phenomena and abstract ideas are an exception of patentability. The Supreme Court determined that Bilski's claims relate to a risk hedge method in the business transaction field and corresponds to an abstract idea.

(b) The "machine-or-transformation" test is not a sole test for determining patentability under Article 101.

The CAFC (en banc) stated that the "machine-or-transformation" test is a sole test for determining patentability under Article 101 but the Supreme Court rejected this. The Supreme Court stated that the "machine-or-transformation" test remains a useful test for determining patentability under Article 101 but is not a sole test. The Supreme Court suggested the possibility of other tests but did not declare what kinds of tests are possible.

(c) "A method" provided in Article 101 does not eliminate a business method patent as a category. Article 273 provides defense of prior use on the premise that a business method shall be granted.

"The principle of excluding a business method" that had been maintained for many years was negated by the CAFC in the State Street Bank case, and negated again by the Supreme Court in the Bilski case. Article 273 premises a business method; therefore, a business method shall be patentable under the article.

5. A business method having patentability

In the State Street Bank case, it is determined that a "useful, concrete and tangible result" is produced because realizing a business method using computer software and hardware is concretely described, and patentability under Article 101 was admitted.

In the Bilski case, the claims recite a commodity provider, consumers, market participants, goods and fixed prices, but the claims do not recite how its business transactions are realized using computer technology and IT technology. Accordingly, Bilski's business method is determined to be an "abstract idea" and patentability under Article 101 was rejected.

The CAFC and Supreme Court affirmed that a business method has patentability under

Article 101. However, the business method has to satisfy requirements for the "machine-or-transformation" test. In order to satisfy the requirements, it will be necessary to concretely describe realizing the business method using computer technology and IT technology in claims.

Decision by U.S. Supreme Court:
http://www.supremecourt.gov/opinions/09pdf/08-964.pdf