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On June 28, 2010, the Supreme Court issued its much-anticipated decision of *Bilski v. Kappos* (hereinafter "*Bilski*") regarding what are currently known as "business method patents." While it has been long established that patentable subject matter includes machines, compositions of matter, articles of manufacture, and processes, the advent of software and its application to methods of doing business, in conjunction with the 1998 Federal Circuit decision in *State Street Bank*, has paved the way for a sub-class of patents, namely, patents directed to inventions based on the manipulation of data in electronic form and pertaining to fields as diverse as finance, diagnostic medicine, and digital information processing. In effect, *State Street Bank* removed the legal challenges to business method patents by holding that an invention met the threshold for patent-eligibility as per the utility requirement of §101 of the patent law if the method involved some practical application and if it produced a "useful, concrete and tangible result."

The *Bilski* decision, on the other hand, was the result of a patent application filed in April 1997, by Bilski and Warsaw for a method of hedging risks in commodities trading. During prosecution of the Bilski application, the examiner rejected all of the claims on the grounds that the invention was not implemented on a specific apparatus and that it merely manipulated an abstract idea and solved a purely mathematical problem without any limitation to a practical application, thereby making it not directed to the technological arts. In an appeal to the Board of Patent Appeals and Interferences (BPAI), the rejection of the application by the examiner was affirmed. The BPAI holding was appealed to the Circuit Court of Appeals for the Federal Circuit (CAFC), which affirmed the decision of the BPAI and held the claims to be patent-ineligible. In support of its analysis, the CAFC distilled a legal test from various cases, indicating that "A claimed process is surely patent-eligible under §101 if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." This test became known as the "machine-or-transformation" test. In taking up the appeal of the CAFC decision, the Supreme Court, in a 5-4 decision and without using the "machine-or-transformation" test of the CAFC, held that Bilski's method of hedging risks in commodities trading was not the type of technological innovation that may be patented and that the claimed method was unpatentably abstract.

Although *Bilski* does not completely overturn the 1998 *State Street Bank* decision, the "useful, concrete and tangible result" test of *State Street Bank* has been explicitly rejected and is no more. In rejecting this test, one Justice noted that "it would be a grave mistake to assume that anything with a 'useful, concrete and tangible result' may be patented." Another Justice noted that if such a test were to be taken literally, inventions that were previously held by the Supreme Court to be ineligible for patenting would then become patent-eligible. In view of the *Bilski* decision, algorithms and purely mental processes continue to be non-patentable subject matter, and the scope of patentable subject matter as it applies to business method patents has been significantly narrowed. Consequently, any new applications directed to business methods should be drafted to steer clear of reliance on algorithms and mathematical functions as the patentable feature and further to avoid reliance on aspects focusing on useful, concrete, and tangible results.

Also, much to the disappointment of advocates for the free use of computer code, the Court in *Bilski* additionally refused to rule on the patentability of software. Thus, it appears that software will remain patentable, and any decision barring the categorical exclusion of software patents will not be forthcoming.

What we can expect now is that the Patent Office will continue to utilize the "machine-or-transformation" test for determining at least the threshold of patent- eligibility with regard to business method patents. Although the *Bilski* decision is only a few days old, examiners have already been informed that "if a claimed [business] method meets the machine-or-transformation test, the method is likely patent eligible under §101 unless there is a clear indication that the method is directed to an abstract idea." Note, however, the machine-or-transformation test has been deemed as not being absolutely definitive of a patentable process. Instead, the machine-or-transformation test is merely "a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101." It is, therefore, not the sole test for determining whether a business method is a patent-eligible process, and we may find that examiners have been given a seemingly very wide brush with which to paint and are allowed to exhibit substantial amounts of discretion in making rejections. Furthermore, it should also be remembered that once the patent- eligibility threshold is met under §101, an invention must also be novel (§102), non-obvious (§103), and descriptive and enabling (§112) as has previously been required.

For our clients, what this means is that in the drafting of patent applications directed to business methods we should shift our focus from the "useful, concrete and tangible result" aspect and continue, to the extent possible, to define business method inventions as embodying either a machine or a transformation. As always, we will continue to strive to provide superior quality patent applications that comply with the existing Patent Office requirements as well as those now enunciated in *Bilski*.