

***Bilski*: High Court Rejects Strict Test for Patentability of Method Claims**

*The U.S. Supreme Court rejects the Federal Circuit's holding that the "machine-or-transformation test" is the only test for patentability of a method claim, but refuses to go further in defining what constitutes a patentable process.*

**June 28, 2010**

Unanimously holding that the claimed invention directed to methods of risk hedging in commodities trading was not patentable, the U.S. Supreme Court today issued its much-anticipated decision in *In re Bilski*. A 5-4 majority of the Court also agreed that business methods can be patentable, under certain circumstances. Overall, the opinion seems to set the clock back to the 1980s and early 1990s, when there was widespread uncertainty about the patentability of method claims in general, and particularly in the area of business methods.

**Background**

A patent may be granted only to one who "invents or discovers" a new and useful process, machine, or composition.<sup>1</sup> Courts, patent applicants, litigants, and patent examiners have long struggled with the distinction between an "invention" or "discovery," which is patentable, and an abstract idea or principle, which is not. That line has proven particularly difficult to draw in the area of so-called "business method" patents.

Prior to 1998, there was much uncertainty about the patentability of claims directed to business methods. In *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,<sup>2</sup> the Federal Circuit seemed to put to rest much of that uncertainty. The court rejected the so-called "business method exception" to patentability and held that the applicable test for patentability was whether the claimed subject matter produced "a useful, concrete and tangible result."<sup>3</sup> The broad holding of *State Street* was widely credited with ushering in a new era in which business methods—and even claims directed only to computer software—were generally accepted as potentially patentable.

Ten years later, the law in this area dramatically shifted once again when the Federal Circuit addressed the patentability of a method of risk hedging for commodities trading, invented by Bernard Bilski and Rand Warsaw. After the U.S. Patent and Trademark Office (USPTO) rejected the claims as unpatentable under

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<sup>1</sup> 35 U.S.C. § 101.

<sup>2</sup> *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

<sup>3</sup> *Id.* at 1373.

Section 101, Messrs. Bilski and Warsaw appealed that decision to the Federal Circuit. On October 30, 2008, the Federal Circuit issued a 9-3 *en banc* opinion that established a two-part test: “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.”

The Federal Circuit affirmed the USPTO’s Section 101 rejection of the method claimed by Bilski and Warsaw because the method “does not involve the transformation of any physical object or substance, or an electronic signal representative of any physical object or substance.”<sup>4</sup> The court expressly declined to address how this new machine-or-transformation test would apply to claims relating to software or other computer-implemented business methods. Last summer, the Supreme Court granted *certiorari* in the case of *In re Bilski* and on June 28 issued its long-awaited decision in the case.

### The Supreme Court’s Opinion

The majority opinion, written by Justice Kennedy, began by noting that the Patent Act broadly allows a patent to be issued on a “process.” The only exceptions to patentability that exist in Supreme Court precedent are for “laws of nature, physical phenomena, and abstract ideas.” Thus, the Court rejected the Federal Circuit’s holding that the “machine-or-transformation test” is the *only* test for patentability of a method claim. Instead, the Court held that this test is “a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101.” This is reminiscent of the Court’s recent holding in *KSR v. Teleflex*,<sup>5</sup> where it held that the Federal Circuit’s teaching-suggestion-motivation test was one useful tool to analyze obviousness, but could not be applied as a rigid “all-or-nothing” test.

The Court also rejected attempts by some *amici curiae* to revive the so-called “business method exception” from the days before *State Street* was decided. The majority opinion concluded that “a business method is simply one kind of ‘method’ that is, at least in some circumstances, eligible for patenting under § 101.” A separate section of Justice Kennedy’s opinion suggests that “a narrower category or class of patent applications that claim to instruct how business should be conducted” might well be broadly unpatentable. That section of the opinion, however, was joined by only four Justices (Justice Scalia did not join) and, thus, is not part of the holding in the case. In the concurrence authored by Justice Stevens—and joined by Justices Ginsburg, Breyer, and Sotomayor—Justice Stevens urged the Court to conclude: “[B]usiness methods are not patentable. More precisely, although a process is not patent-ineligible simply because it is useful for conducting business, a claim that merely describes a method of doing business does not qualify as a ‘process’ under § 101.” However, because Section II(C)(1) of Justice Kennedy’s opinion was supported by five votes, it appears that business methods are still potentially patentable.

Many observers have been wondering what effect the opinion in this case will have on computer-implemented business methods, including patent claims directed to computer software. One section of the majority opinion (joined by only four Justices) notes that intangible inventions that would not have satisfied the machine-or-transformation test have historically not been patentable, but then goes on to state: “But times change. Technology and other innovations progress in unexpected ways. . . . [T]his fact does not mean that unforeseen innovations such as computer programs are always unpatentable.”

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<sup>4</sup> *Id.* at 964.

<sup>5</sup> *KSR v. Teleflex*, 117 S. Ct. 1727 (2007).

The significance of that last sentence, however, is diminished by the later clarification that “the Court today is not . . . holding that any of the above-mentioned technologies from the Information Age should or should not receive patent protection.” It is perhaps to be expected that Court has expressed no opinion on the patentability of computer software, since that issue was not presented in the particular case under consideration.

With respect to the particular patent claims at issue in the case, the Court affirmed the judgment of the Federal Circuit, because the applicants were trying to patent the “abstract idea” of risk hedging with only “token postsolution components.” The Court held this type of method claim unpatentable under existing Supreme Court precedent, including most notably *Parker v. Flook*.<sup>6</sup>

## Implications

In the end, it appears that the law in this area has essentially returned to where it was prior to the Federal Circuit’s 1998 decision in *State Street*. A method claim may potentially be patentable, as long as it does not fall within one of the exceptions for “laws of nature, physical phenomena, and abstract ideas.” For those attempting to discern the common ground among the different opinions, Justice Breyer’s separate concurrence is particularly useful. Section II of that brief, three-page opinion—in which, significantly, Justice Scalia also joins—sets forth a summary of four key points that “are consistent with both the opinion of the Court and Justice Stevens’ opinion concurring in the judgment:”

1. “[P]henomena of nature, . . . mental processes, and abstract intellectual concepts are not patentable.”
2. The machine-or-transformation test has “repeatedly helped the Court to determine what is ‘a patentable process.’”
3. The machine-or-transformation test is not the “*exclusive test*.”
4. The Court did *not* express approval of the Federal Circuit’s “useful, concrete, and tangible result” test (from *State Street*) which preceded *Bilski* (and, indeed, seemed to go out of its way to make that point clear).

For additional information on this opinion, join Morgan Lewis for a webcast on Thursday, July 1 at 12:00 pm ET (9:00 am PT). For more information or to register for the webcast, please visit [www.morganlewis.com/events/inrebilski](http://www.morganlewis.com/events/inrebilski).

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