

To: Our Clients and Friends

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In re Bilski: No Bright-Line Rule For Determining Whether Processes Are Patent-Eligible Subject Matter

The United States Supreme Court has issued the long-awaited *Bilski* “business methods” decision, addressing whether a “process” must be tied to a particular machine or apparatus, or must transform a particular article into a different state or thing (also known as the “machine-or-transformation” test) to be patentable under 35 U.S.C. § 101. *Bilski v. Kappos*, 08-964 (June 28, 2010). Importantly, the Court did not eliminate business methods from the realm of patentable subject matter, or even severely curtail their availability. It affirmed the Court of Appeals for the Federal Circuit’s holding that the machine-or-transformation test is “a useful and important” tool but held that it is not the “sole test for deciding whether an invention is a patent-eligible ‘process.’” The test is whether the subject matter sought to be patented falls under one of the exceptions to patent-eligibility, namely: a law of nature, a physical phenomenon, or an abstract idea. The Court, however, did not define what constitutes a patentable “process” beyond “pointing to the definition of that term provided in §100(b)” and previous Court case law.

Thus, in the aftermath of *Bilski*, there are unresolved questions as to the scope of business method patents, which will be the subject of debate and (most likely) litigation as interested parties seek to probe the parameters of the Court’s holding.

Before The Supreme Court Decision

The scope of patentable subject matter is set forth in 35 U.S.C. §101. To be patentable, an invention must be a “new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” The term “process” was added to §101 in 1952 and its meaning was the subject of several Supreme Court decisions. In *Gottschalk v. Benson*, 409 U.S. 63 (1972), the Court held that an algorithm based on a mathematical formula was not patentable subject matter because a patent claiming the algorithm would wholly preempt the underlying mathematical formula for all uses. The Court also explained, in *Parker v. Flook*, 437 U.S. 584 (1978), that the prohibition against patenting an abstract idea such as a formula cannot be circumvented by adding insignificant post-solution activity. Subsequently, in *Diamond v. Diehr*, 450 U.S. 175 (1981), the Court held that a process

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for molding uncured synthetic rubber into cured products using an algorithm to determine when the curing was finished was patentable. The Court reasoned that while a claim drawn to a fundamental principal is unpatentable, “an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection” (emphasis in original).

Years later, in *State Street Bank v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998), the Federal Circuit issued an opinion that arguably opened the door to the broad patentability of business method patents. In *State Street*, the Federal Circuit extended the test for patentability (“useful, concrete, and tangible result”), which it first set forth in *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994), to methods of conducting business. Following *State Street*, the U.S. Patent Office was flooded with patent applications seeking to protect business methods.

In *In re Bilski*, 545 F. 3d 943 (Fed. Circ. 2008) (en banc), the Federal Circuit purported to narrow the scope of patentability of processes. More specifically, the Federal Circuit held that “those portions of our opinions in *State Street*... relying solely on a ‘useful concrete and tangible result’ analysis should no longer be relied on” and that a process is only patentable if it satisfies the newly-articulated “machine-or-transformation” test. Broadly speaking, the machine-or-transformation test requires that a process claim be tied to a particular machine or the transformation of an article -- and that the use of the machine or transformation impose meaningful limits and not be merely insignificant extra-solution activity. Under the “machine-or-transformation” test, the Federal Circuit found Bilski’s claimed invention (“method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price”) to be unpatentable. Bilski appealed to the Supreme Court, which granted *cert.* and heard oral argument on November 9, 2009.

The Supreme Court's Majority Opinion

The Bilski patent application, widely viewed as a business method application, sought to patent a method for managing risks associated with commodities. Justice Kennedy authored the majority opinion for the Court, affirming that the process claimed in the Bilski application is unpatentable subject matter. “Today, the Court once again declines to impose limitations on the Patent Act that are inconsistent with the Act’s text. The patent application here can be rejected under our precedents on the unpatentability of abstract ideas. The Court, therefore, need not define further what constitutes a patentable ‘process’ beyond pointing to the definition of that term provided in §100(b) and looking to the guideposts in *Benson*, *Flook*, and *Diehr*. ” In doing so, the Court rejected the notion that the machine-or-transformation test is the exclusive test for deciding whether an invention is a patent-eligible process, and, instead, relied upon its precedent to find the claimed processes unpatentable because they cover the fundamental economic practice of risk hedging, a mathematical formulation for such a practice, or broad post-solution examples of how hedging can be used in commodities. All nine justices agreed that the Bilski patent application falls outside of §101 because it claims an abstract idea.

Despite rejecting the exclusive application of the machine-or-transformation test, the Court explained that the test is a “useful and important clue” and an “investigative tool” for determining patent eligibility of processes. The Court further explained that the machine-or-transformation test is likely sufficient for evaluating inventions “grounded in a physical or other tangible form,” but raised doubts as to whether it should be the sole criterion applied to emerging technologies, such as software, diagnostic techniques and inventions based on the manipulation of digital signals.

Implications Of The Opinion

Although it affirmed the Federal Circuit's decision that *Bilski's* claimed invention is not patentable, the Supreme Court flatly rejected the Federal Circuit's "machine-or-transformation" test as the sole test for deciding the patentability of "process" claims. Significantly, relying in part upon 35 U.S.C. §273(b)(1) (which provides an infringement defense based upon the prior use of a patented method), the Court recognized that "federal law explicitly contemplates the existence of at least some business method patents." Accordingly, the door to patent eligibility remains open for business methods, as well as emerging technologies, so long as such inventions do not run afoul of the three well-established exceptions to patent-eligibility ("laws of nature, physical phenomena, and abstract ideas"), as well as § 102 (novelty), § 103 (nonobvious), and § 112 (fully and particularly described).

In discussing its applicable precedent, the Court made an observation regarding its *Flook* decision that may provide guidance to inventors, litigants, and the Federal Circuit. The Supreme Court noted that in *Flook* it held that the claimed invention (a process of which the only innovation was the reliance upon a mathematical algorithm) was not unpatentable because it contained a mathematical algorithm, "but because once that algorithm [wa]s assumed to be within the prior art, the application, considered as a whole, contain[ed] no patentable invention." In so holding, the Court stated that the *Flook* decision "rejected '[t]he notion that post-solution activity . . . can transform an unpatentable principle into a patented process.'"

Patent owners, applicants, and inventors should consider the teachings of this important decision in deciding how best to protect their rights going forward. If you would like to discuss how this may affect your business, please contact any of the following members of Bryan Cave's [Intellectual Property Client Service Group](#):

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