WSGR ALERT

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SUPREME COURT HOLDS THAT SOME BUSINESS METHODS ARE PATENTABLE, BUT AVOIDS GIVING CLEAR GUIDANCE ON HOW TO DETERMINE BUSINESS METHOD PATENTABILITY

On June 28, 2010, a divided Supreme Court in *Bilski v. Kappos* held that business methods may constitute patentable subject matter. The Court acknowledged that the so-called "machine-or-transformation test" used by the lower courts is a "useful and important clue" for determining patentability, but rejected that test as the exclusive test for deciding whether a process is patent-eligible subject matter. The Court declined to provide further guidance beyond past Supreme Court precedents and statutory text, leaving open the test for how to determine whether a claimed invention is a patentable "process" under 35 U.S.C. § 101. Please visit www.supremecourt.gov/opinions/09pdf/08-964.pdf to read the Court's decision.

Background of the Case

Bilski concerns a patent application on a method of hedging risks in the commodities market. The United States Patent and Trademark Office (USPTO) found the hedging process claims to be unpatentable under 35 U.S.C. § 101. The Federal Circuit, reviewing this decision, rejected its own prior test for patentability, which determined whether the invention produced a "useful, concrete, and tangible result" under *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998). Instead, the Federal Circuit applied the "machine-or-transformation test," determining whether the claimed process (1) is tied to a particular machine or apparatus, or (2) transforms a particular article into a different state or thing. The Federal Circuit held that the machine-or-transformation test is the sole test to determine patentability, and, applying that test, found that the application did not constitute patentable subject matter.

The Supreme Court's Decision

The Supreme Court unanimously affirmed the Federal Circuit's judgment that the application was ineligible subject matter under § 101, but splintered as to why the application was ineligible. Four Justices argued that the claimed invention was a business method and would categorically exclude business methods from the ambit of § 101. However, five Justices rejected an absolute bar on business method patents and instead held the claimed invention ineligible as a mere abstract idea. The Justices all agreed, however, that the machine-or-transformation test is not the sole test for what constitutes a patentable process.

The Majority Opinion

Justice Kennedy, writing for the majority, rejected two categorical limitations on "process" patents under § 101: (1) the machine-or-transformation test as a sole test and (2) the categorical exclusion of business method patents. The majority found that adopting either would violate statutory interpretation principles. The Court found that nothing in the "ordinary, contemporary, common meaning" of the term "process" requires the term to be tied to a machine or transform an article. Further, the Court found that 35 U.S.C. § 273(b), which provides a defense of prior use for "a method of doing or conducting business," acknowledges that § 101 encompasses business methods.

Nonetheless, the Court found the application at issue to be ineligible subject matter. The majority held that Bilski improperly claimed an abstract idea. The Court declined to impose further limitation on § 101, stating that it "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*," confirming the long-standing principle that "laws of nature, physical phenomena, and abstract ideas" are not patentable. Importantly, the majority advised that "the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101." However, the Court provided no additional guidance as to how courts should determine whether a patent seeks to claim, for example, an abstract idea.

Justice Stevens' Opinion

Justice Stevens, joined by three other members of the Court, stated his clear objections to the majority's analysis. He admonished the majority for its failure to provide "a satisfying account of what constitutes an unpatentable abstract idea." Justice Stevens further disagreed with the majority's opinion that business methods are patentable, providing support through a grand tour of patent law, from its English roots to its modern development.

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Justice Breyer's Opinion

Justice Breyer, who had joined the Stevens minority opinion, wrote a concurring opinion that was joined in relevant part by Justice Scalia, who had joined parts of Justice Kennedy's majority opinion. Since Justice Scalia seemed to be the swing vote in this case, commentators are nearly unanimous in the belief that Justice Breyer's opinion teaches important lessons about agreement in this splintered decision. His concurrence identifies four points consistent in both the majority opinion and Justice Stevens' opinion. First, although the text of § 101 is broad, it is not without limit. Second, the machine-or-transformation test is *the clue* to the patentability of a process claim. Third, the machine-or-transformation test is not the exclusive test for determining patentability. Lastly, although the machine-or-transformation test is not the only test for patentability, the *State Street* test, which allows anything that produces a "useful, concrete, and tangible result," remains rejected.

Justice Breyer's concluding statements are especially instructive: "in reemphasizing that the 'machine-or-transformation' test is not necessarily the *sole* test of patentability, the Court intends neither to deemphasize the test's usefulness *nor to suggest that many patentable processes lie beyond its reach*." Thus, while the Court has rejected the machine-or-transformation test as the sole test for patentable subject matter, Justice Breyer suggests that cases in which the ultimate determination of patentability does not align with the results of the machine-or-transformation test will be rare.

Practical Implications

Immediately after the Supreme Court issued its ruling in *Bilski*, the USPTO distributed interim guidance (available at www.uspto.gov/patents/law/exam/bilski_guidance_28jun2010.pdf) to its patent examining corps. The interim guidance noted that the Supreme Court had decided that under its precedents (*Benson*, *Flook*, and *Diehr*) the claims in *Bilski* are not patent-eligible processes under § 101, because they are an attempt to patent abstract ideas. The guidance also noted that the Supreme Court had indicated that the machine-or-transformation test is not the sole test for determining patentable subject matter. Most significantly, the interim guidance advised the examiners to continue to use the machine-or-transformation test to determine subject matter eligibility unless there is a clear indication as to whether the method is directed to an abstract idea:

> Examiners should continue to examine patent applications for compliance with section 101 using the existing guidance concerning the machine-or-transformation test as a tool for determining whether the claimed invention is a process under section 101. If a claimed method meets the machine-or-transformation test, the method is likely patent-eligible under section 101 unless there is a clear indication that the method is directed to an abstract idea. If a claimed method does not meet the machine-or-transformation test, the examiner should reject the claim under section 101 unless there is a clear indication that the method is not directed to an abstract idea.

For those prosecuting patents, the *Bilski* decision and the interim guidance confirm the sound judgment of drawing claims to meet the machine-or-transformation test. Claims tied to a particular machine, or that transform an article into a different state or thing, remain soundly within the domain of patentable subject matter unless clearly directed to an abstract idea under the Supreme Court's precedent in *Benson, Flook,* and *Diehr*.

For those litigating against business method patents, the decision does not impact the use of the machine-or-transformation test as an important tool in the determination of patentability. As noted by Justice Breyer, very few patentable processes lie beyond its reach, and failure to meet the test's requirements serves as a critical clue that a claim may constitute a prohibited "abstract idea." Litigators seeking to invalidate a business method patent should further apply *Benson*, *Flook*, and *Diehr* to reinforce a finding that the patent is directed towards a mere abstract idea.

The *Bilski* Court noted that "[w]ith ever more people trying to innovate and thus seeking patent protections for their inventions, the patent law faces a great challenge in striking the balance between protecting inventors and not granting monopolies over procedures that others would discover by independent, creative application of general principles." The refusal of the Court to strike this balance suggests that the Court has placed that responsibility on the lower courts, and certainly on the legislative branch, if it should choose to act. Thus, the ultimate takeaway from *Bilski* may be that those seeking more certainty and guidance in the patent law should consider continuing to challenge business method patents in court, and contacting their congressional representatives.

For additional information about the *Bilski* decision or any related matter, please contact Julie Holloway or Rick Frenkel in Wilson Sonsini Goodrich & Rosati's intellectual property litigation practice.

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