ALERTS AND UPDATES

U.S. Supreme Court Rejects Sole Reliance on Machine-or-Transformation Test for Patent-Eligibility of Processes and Business Methods

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The U.S. Supreme Court gave mixed guidance on the patentability of business methods in its June 28, 2010, decision in *Bilski v. Kappos*.[1] The Court's majority rejected the proposition that business methods are categorically excluded from the term "process" as recited in § 101 of the U.S. patent statute (35 U.S.C.). The Court also rejected the proposition that the machine-or-transformation test is the sole test for determining patent eligibility of a process. The machine-or-transformation test held that a process (or method) claim is patentable only 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 U.S. Supreme Court affirmed that the machine-or-transformation test is useful and helpful in determining the patent eligibility of a process.

Background

Applicants Bernard L. Bilski and Rand A. Warsaw filed a patent application directed to a method of hedging risk in commodities trading. The examiner at the U.S. Patent and Trademark Office ("Patent Office") rejected all of the applicants' claims under 35 U.S.C. § 101 as being drawn to unpatentable subject matter. In rejecting the method claims, the examiner noted the claims were a manipulation of an abstract idea that was not limited to implementation on any specific computer or apparatus—and therefore was not directed to the "technological arts."

On appeal, the Board of Patent Appeals and Interferences ("Appeal Board") found the Patent Office erred in its rejection to the extent that it required the invention to relate to a specific apparatus or fall within the "technological arts." The Appeal Board stated that the proper test was whether the process involved a "transformation of physical subject matter from one state to another," or produced a "useful, concrete and tangible result." Although the Appeal Board disagreed with the patent examiner's analysis, it ultimately agreed that the applicants' claims were unpatentable because the method did not involve a physical transformation or produce a useful, concrete and tangible result.

The applicants appealed to the Federal Circuit, which affirmed the Appeal Board's finding that the applicants' claims were unpatentable. The Federal Circuit concluded that a claimed process is patent eligible if it: (1) is tied to a particular machine or apparatus, or (2) transforms a particular article into a different state or thing (also referred to as the "machine-or-transformation test"). The Federal Circuit also concluded that the machine-or-transformation test is the sole test for determining patent eligibility of a process invention. We reported on this decision in a previous *Alert*.

In January 2009, the applicants filed a petition for a writ of certiorari with the Supreme Court, seeking to overturn the Federal Circuit decision. On June 1, 2009, the Court granted cert. On June 28, 2010, the U.S. Supreme Court rendered its opinion as summarized below.

U.S. Supreme Court Decision

Patentable Subject Matter Under Current Patent Law

The Supreme Court reasoned that a patentable invention must be categorized in the four independent categories of § 101: process, machine, manufacture, and composition of matter. The patentable invention must further meet the standards of novelty, nonobviousness, and a full and particular description—as recited in §§ 102, 103 and 112, respectively. The standards and categories are intended by Congress to "ensure that 'ingenuity should receive a liberal encouragement.'" However, the Supreme Court emphasized there are three specific exceptions to the patentable standards and categories: (1) laws of nature, (2) physical phenomena and (3) abstract ideas. As will be further described, the Court ruled that the Bilski patent application merely presents an abstract idea that is not patentable.

The Machine-or-Transformation Test is Not the Sole Test

The Supreme Court rejected the Federal Circuit ruling that the machine-or-transformation test is not the sole test for determining patent eligibility of a process; rather, "the test is a useful and important clue or investigative tool." In reaching this conclusion, the Court reasoned that the Federal Circuit "'should not read into the patent laws limitations and conditions which the legislature has not expressed,'" and "[u]nless otherwise defined, 'words will be interpreted as taking their ordinary, contemporary, common meaning.'"

Interpretation of "Process" of § 101 Does Not Categorically Exclude Business Methods

The Supreme Court also ruled that a reading of the term "process" does not categorically exclude business methods. The Court cited the definition of "process" that includes the term "method" as defined in § 100 of the patent statute—and particularly noted § 273 where an alleged infringer can assert a defense of prior use if a patentee claims infringement based on a method, whereby "the statute itself acknowledges that there may be business method patents" and served as the Court's precedent where some business-method patents were ruled patentable.

For Further Information

If you have any questions about this *Alert*, please contact any attorney in our Intellectual Property Practice Group, any attorney in our Intellectual Property Litigation Practice Group or the attorney in the firm with whom you are regularly in contact.

Note

1. *Bilski v. Kappos*, 2010 U.S. LEXIS 5521 (U.S. June 28, 2010).