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Machine-or-Transformation Test Is Not the Exclusive Test to Determine Patent Eligibility of "Process" Under 35 U.S.C. § 101, and Business Methods Are Not Categorically Excluded

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Justice Kennedy delivered the opinion of the Court, in which Justices Roberts, Thomas, and Alito joined in full, and Justice Scalia joined except for Parts II-B-2 and II-C-2. Justice Stevens fi led a concurring opinion, in which Justices Ginsburg, Breyer, and Sotomayor joined. Justice Breyer fi led a concurring opinion, in which Justice Scalia joined as to Part II.

In *Bilski v. Kappos*, 561 U.S. ___ (June 28, 2010), the Supreme Court affirmed the Federal Circuit's judgment that the patent application at issue is not patent eligible under 35 U.S.C. § 101. Significantly, the Supreme Court held that the machine-or-transformation ("MOT") test is not the sole test for determining patent eligibility, and that there is no categorical exclusion of business method patents under § 101.

Petitioners Bernard L. Bilski and Rand A. Warsaw (collectively "Bilski") filed a patent application claiming an invention on instructing buyers and sellers of commodities in the energy market to protect, or hedge, against the risk of price fluctuations. In particular, claim 1 covers a series of steps instructing how to hedge risk. Claim 4 applies that concept in a mathematical formula.

The remaining claims apply the claimed inventions of claims 1 and 4 to allow energy buyers and sellers to reduce risks due to fl uctuations in market demand for energy. The patent examiner rejected Bilski's application as manipulating an abstract idea without limitation to a practical application. The Board affirmed, concluding that the application involved mental steps and does not transform physical matter.

The Federal Circuit affirmed the rejection, holding that the MOT is the "the sole test" for the § 101 inquiry. *In re Bilski*, 545 F.3d 943, 955 (Fed. Cir. 2008) (en banc).

"[T]he machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101. The machine-ortransformation test is not the sole test for deciding whether an invention is a patent-eligible 'process.'" Slip op. at 8.

Under the MOT test, a claim is patent eligible under § 101 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." *Id*. at 954. The Supreme Court granted certiorari.

At the outset, the Supreme Court made clear that § 101 broadly covers "any" new and useful process, and that Congress intended "wide scope" to liberally encourage innovation. Slip op. at 4. Three specific exceptions to the broad patent-eligibility principles are "laws of nature, physical phenomena, and abstract ideas." *Id*. at 5. The Court noted that a § 101 patenteligibility inquiry is only a threshold test, and that the invention must also satisfy the requirements under §§ 101, 103, and 112.

"Section 101 similarly precludes the broad contention that the term 'process' categorically excludes business methods." Slip op. at 10.

According to the Court, adopting the MOT test as the sole test of determining a statutory process violates proper statutory interpretation. First, § 100(b) states that "[t]he term 'process' means process, art or method, . . . machine, manufacture, composition of matter, or material." Second, the ordinary definition of process does not require that it be tied to a machine or transform an article. Indeed, the Court has previously declined to "hold that no process patent could ever qualify if it did not meet [the MOT test] requirements." *Id*. at 8 (citing *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972)). Thus, while the MOT test is "a useful and important clue, an investigative tool, . . . [it] is not the sole test for deciding whether an invention is a patent-eligible 'process.'" *Id*.

The Court also held that "[s]ection 101 similarly precludes the broad contention that the term 'process' categorically excludes business methods." *Id*. at 10. The Court noted that "method" under § 100(b) "may include at least some methods of doing business." *Id*. Further, federal law explicitly recognizes business method patents under 35 U.S.C. § 273(b)(1), for which a "method" is defined as "a method of doing or conducting business." Therefore, the prior-use defense under § 273 clarifies that a business method is one kind of method recognized by the Patent Act.

In this case, the Supreme Court concluded that *Bilski's* invention, while "not categorically outside of § 101," attempts to patent abstract ideas and thus is not patent eligible. *Id*. at 13. The Court noted that the invention should be considered as a whole instead of "dissect[ing] the claims into old and new elements." *Id*. at 15 (alteration in original). According to the Court, Bilski's patent application claims "the use of the abstract idea of hedging risk in the energy market." *Id*. Finally, while rejecting the exclusive MOT test, the Court invited the Federal Circuit to develop "other limiting criteria" not inconsistent with its opinion. *Id*. at 16. In portions of the opinion in which Justice Scalia did not join, the Court

recognized the progress of technology and acknowledged that "unforeseen innovations such as computer programs" are patent eligible. *Id*. at 8. The MOT test may suffice for evaluating processes of the Industrial Age, such as inventions involving physical or tangible forms, but should not be the sole test for inventions in the Information Age, such as software, medical diagnostic techniques, data compression, and digital signal manipulation. The Court emphasized that it is "not commenting on the patentability of any particular invention, let alone holding that any of the above-mentioned technologies from the Information Age should or should not receive patent protection." *Id*. at 9-10. The Court also mentioned concerns that business method patents "raise special problems in terms of vagueness and suspect validity," and could "put a chill on creative endeavor and dynamic change." *Id*. at 12. Unpatentability of abstract ideas, however, would provide a limiting

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"[A b]usiness method is simply one kind of 'method'. . . ." Slip op. at 11.

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principle. Moreover, requirements of novelty, nonobviousness, and written description serve to balance "between stimulating innovation by protecting inventors and impeding progress by granting patents when not justifi ed by the statutory design." Id. at 13.

In a 47-page concurring opinion, Justice Stevens "strongly disagree[d] with the Court's disposition of this case." Concurring op., Stevens, J., at 47. He noted that the Court "never provides a satisfying account of what constitutes an unpatentable abstract idea." *Id*. at 9. According to Justice Stevens, "a series of steps for conducting business was not, in itself, patentable." *Id*. at 1-2. Indeed, "a claim that merely describes a method of doing business does not qualify as a 'process' under § 101." *Id*. at 2-3. For support, Justice Stevens detailed the history of English and American patent jurisprudence and legislation. The scope of patent-eligible subject matter, Justice Stevens concluded, is "broad" but "not endless." *Id*. at 47. In a separate concurring opinion, Justice Breyer agreed with Justice Stevens that a method of engaging in business is not a patent-eligible process. Justice Breyer wrote separately, however, because of "the need for

clarity and settled law in this highly technical area." Concurring op., Breyer, J., at 1. Among the four points raised, Justice Breyer stated that the MOT test is an "important example" of determining patent eligibility. *Id*. at 3 (emphasis omitted).

"In disapproving an exclusive machine-or-transformation test, we by no means foreclose the Federal Circuit's development of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its text." Slip op. at 16.
