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## The Supreme Court Has Issued Its Opinion in *Bilski v. Kappos*: Many Questions Have Been Answered But Many More Remain

### I. Introduction

The United States Supreme Court has finally issued its long-awaited opinion in *Bilski v. Kappos*. While the opinion answers several important questions, at best it provides some guidance — but not specific answers — regarding what constitutes patentable subject matter under 35 U.S.C. § 101. In affirming the decision of the Federal Circuit rendering Petitioner’s claimed process for hedging risk in a commodities transaction unpatentable, the Court rejected the Federal Circuit’s *en banc* decision establishing the “machine-or-transformation test” as the sole test for determining whether a claimed process is patent eligible. Instead, the Court held that while the machine or transformation test may provide a “useful and important clue” as an investigative tool, it is not the sole test for determining patentability (Majority Opinion, page 8). In so holding, the Court refused to establish a definitive test for patentability beyond the language of § 101 and its prior precedent; and the Court declined to hold that business methods are *per se* unpatentable.

### II. Background

The following background may be helpful. The patent application at issue is directed to a method of hedging risks in commodities trading. Claim 1 of the application recites a three-step method of interaction between three parties to hedge risks, which includes:

1. initiating a series of sales or options transactions between a broker and purchaser-users by which the purchaser-users buy the commodity at a first fixed rate based on historical price levels;
2. identifying producer-sellers of the commodity; and
3. initiating a series of sales or options transactions between the broker and producer-sellers, at a second fixed rate, such that the purchasers' and sellers' respective risk positions balance out.

The patent examiner rejected all of the pending application claims on the ground that they are directed to non-statutory subject matter as they recite an abstract solution to a purely mathematical problem without a practical application. The Board of Patent Appeals and Interferences (BPAI) affirmed the rejection and applicants appealed to the Federal Circuit. After full briefing and oral argument before a three-judge panel, the Federal Court *sua sponte* requested an *en banc* rehearing that was held on May 8, 2008. The Federal Circuit issued its *en banc* decision on October 30, 2008, affirming the BPAI’s rejection. In its ruling, the Federal Court stated that the patentability of method claims must be judged by the

“machine or transformation” 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.” *In re Bilski*, 545 F.3d 943, 960 (Fed. Cir. 2008).

Applicants appealed to the United States Supreme Court. The Supreme Court granted *certiorari* on June 1, 2009; and heard oral argument on November 9, 2009. As indicated above, the Court issued its opinion on June 28, 2010 affirming the Federal Circuit’s judgment. The majority opinion was delivered by Justice Kennedy, who was joined by Justices Roberts, Thomas and Alito, and by Justice Scalia except for Parts II-B2 and II-C-2. Justice Stevens filed a concurring opinion in which Justices Ginsburg, Breyer and Sotomayor joined. Justice Breyer also filed a separate concurring opinion which was joined as to Part II by Justice Scalia.

### III. The Majority Opinion

The majority opinion addressed three principal issues: (1) whether the machine-or-transformation test should be the sole test for determining patentability under § 101; (2) whether the broad category of business method patents are patentable; and (3) whether the *Bilski* application claims are patentable.

The Court held that the machine-or-transformation test is not the sole test for patentability. (Majority Opinion, page 8). Specifically, the Court held that:

“This Court’s precedents establish 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. The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible ‘process.’” (*Id.*).

In so holding, the Court recognized that while the machine-or-transformation test was particularly applicable to inventions in the Industrial Age, “times change” and there are “reasons to doubt whether the test should be the sole criterion for determining the patentability of inventions in the Information Age.” (*Id.* at 9). The Court further opined that the machine-or-transformation test “would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.” (*Id.*). In short, the Court suggested that while the machine-or-transformation test may be helpful, courts should not be confined to that test because “new technologies may call for new inquiries.” (*Id.*).

While rejecting the machine-or-transformation test as the sole criterion on which to determine patentability, the Court resolved the case based on the standards articulated in three of its past decisions — *Benson*, *Flook* and *Diehr*. In *Benson*, the Court reasoned that “[a] principle, in the abstract, is a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right.” (Majority Opinion, page 13) (*quoting Le Roy v. Tatham*, 14 How. 156, 175 (1853)). The Court further held that the invention at issue “was not a ‘process,’ but an unpatentable abstract idea.” (*Id.* at 13). In *Flook*, the Court extended the reasoning in *Benson* to establish that the prohibition on patenting abstract ideas cannot be circumvented by attempting to limit the use of the formula to a particular technological environment or by adding insignificant postsolution activity. (*Id.* at 14). Finally, in *Diehr*, the Court established a limitation on the principles articulated in *Flook* and *Benson*, holding that “an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.” (*Id.* at 14) (citing *Diehr*, 450 U.S. at 187).

The Court appeared to hold that certain types of business methods could be patentable. Specifically, 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.” The Court acknowledged that “the Patent Act leaves open the possibility that there are at least some processes that can be fairly described as business methods that are within the patentable subject matter under § 101.” (*Id.* at 10-12).

Finally, the majority addressed the specific claims at issue. In particular, the Court held that applicants’ claims were directed to basic concepts of hedging risk in financial transactions, as well as to broad examples of how to hedge risk in the commodities and energy markets. Relying on its precedent, the Court concluded that the claims were unpatentable because they are directed to an “unpatentable, abstract idea” and to “token postsolution components.” (*Id.* at 15).

#### IV. The Concurring Opinions

As indicated above, two concurring opinions were filed. The first was authored by Justice Stevens. While affirming the Court’s opinion that the machine-or-transformation test is not the sole test in determining patentability, Justice Stevens faulted the opinion because it is “less than pellucid in more than one respect, and, if misunderstood, could result in confusion or upset settled areas of law.” (Stevens Concurring Opinion, page 6). In particular, Justice Stevens criticized the majority for failing to properly consider the significance of so-called “token postsolution components” (*id.* at 8) and for failing to provide an account of what constitutes an “abstract idea.” (*id.* at 9). In doing so, Justice Stevens accused the majority of applying a “Jekyll-and-Hyde” form of interpretation of § 101. (*id.* at 30, n.39). Justice Stevens’ concurring opinion also carefully described the judicial and legislative history of § 101 and concluded that the history supports the view that business method claims as a class are unpatentable. (*id.* at 15, 33). In so doing, Justice Stevens opined that issuing business method patents acted to stifle innovation rather than promote it; and has resulted in patent holders having the ability to threaten litigation and to “bully competitors” through “drawn out, fact-intensive patent litigation.” (*id.* at 46).

Justice Breyer also authored a concurring opinion. While also concurring in the judgment that the *Bilski* claims are unpatentable, Justice Breyer raised four basic points. First, he concurred that while § 101 is intended to be broad in its application, it is not without limitation. (Breyer Concurring Opinion, page 2). Second, the opinion reiterated the continued viability of the machine-or-transformation test by characterizing it as “the clue” to patentability. (*id.*). Third, Justice Breyer’s opinion acknowledged that while the machine-or-transformation test is important, it should not be the sole test in determining patentability. (*id.* at 3). Fourth, the opinion reiterated that the “useful, concrete, tangible result” test articulated in the *State Street Bank* decision was not the correct standard. (*id.* at 3-4; see also *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998)).

#### V. Conclusion

The much-anticipated *Bilski* decision from the Supreme Court has brought some clarity to the determination of patentability under § 101. The machine-or-transformation test, while still apparently viable as a guide, is no longer the sole test for determining patentability. However, the Court provided only some guidance regarding what constitutes an abstract idea which is excepted from the scope of § 101. And, though the majority opinion

acknowledged the viability of business method patents in general, Justice Stevens' concurring opinion still casts some doubt on the future of business method patents.

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