Intellectual Property

June 28, 2010

Supreme Court Broadens Test for Patentable Subject Matter

by Jack Barufka, James Gatto, and Kathy Peng

Today the Supreme Court issued a much anticipated decision regarding the test for patentable subject matter, broadening the test articulated by the Court of Appeals for the Federal Circuit in Bilski v. Kappos (“Bilski”). *The Supreme Court held that the so-called "machine-or-transformation test"— that a process is patent-eligible if it either "transforms an article into a different state or thing" or is "tied to a machine"— is a valid test, but is not the* only *applicable test. However, the Supreme Court did not specifically define any other tests, thus leaving open the door to the possibility for a more flexible test to be adopted down the road. The Supreme Court, however, confirmed the long standing rule that laws of nature, abstract ideas and mental processes are not patentable.*

Those hoping for or expecting radical change to the scope of patentable subject matter will be disappointed by the decision. For example, with respect to so-called business method patents, the court did not do away with or create a separate test for them. Rather, the test articulated by the Supreme Court applies to any process, including methods of doing business.

Background

Section 101 of the Patent Act states that “any new and useful process, machine, manufacture, or composition of matter" is entitled to a patent. However, even though the term “process” is defined in the patent statute itself,[1] the courts have struggled in articulating a test to for what constitutes a patentable process. Over the years, the courts have formulated different tests for what qualifies as a patentable process.

[1] The term "process" means process, art, or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material. *See* 35 U.S.C. §100(b)

The claims at issue in *Bilski* are directed to a method of hedging risk for commodity trading. Specifically, claim 1 of *Bilski* recites:

> A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:
>
> a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;
>
> b) identifying market participants for said commodity having a counter-risk position to said consumers; and
>
> c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.

The Patent Examiner rejected the claims as not being directed to patentable subject matter, a decision that was upheld on appeal to the Board of Patent Appeals and Interferences (BPAI). In particular, the BPAI found the claims to be non-statutory for failing to accomplish any type of physical transformation. The BPAI also found that the claims preempted any and every possible way of performing the steps of the claimed process. Furthermore, the BPAI found that the claims did not produce a "useful, concrete, and tangible result", which was the test at the time.

Bilski timely appealed his case to the Court of Appeals for the Federal Circuit (the "Federal Circuit") and the case was heard by the enlarged panel of the entire Federal Circuit.

Federal Circuit En Banc

In October 2008, the en banc Federal Circuit released its *In re Bilski* decision[2]. In the 9-3 majority opinion written by Chief Judge Paul Michel, the Federal Circuit set forth a new subject matter eligibility test (the "machine-or-transformation" test) which provides that a process claim constitutes patentable subject matter 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 Federal Circuit ultimately concluded that *Bilski*'s claims were unpatentable because it failed to satisfy either prong of this subject matter eligibility test.

In the decision, the Federal Circuit characterized the "true issue" in the case as "whether Applicants' claim recites a fundamental principle and, if so, whether it would pre-empt substantially all uses of that fundamental principle if allowed".[3] Fundamental principles such as laws of nature, natural phenomena, or abstract ideas have long been recognized by the courts as being unpatentable subject matter.

After noting that the inquiry before the court was "hardly straightforward," the court went on to align itself with Supreme Court precedents:

> The Supreme Court, however, has enunciated a definitive test to determine whether a process claim is tailored narrowly enough to encompass only a particular application of a fundamental principle

[2] *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

[3] *Id.* at 954.

> rather than to pre-empt the principle itself. 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.[4]
>
> Although the majority cited previous Supreme Court cases as being the source of the "machine-or-transformation" test, the test in fact has never been expressly articulated by the Supreme Court as the proper test.[5]
>
> In its decision, the Federal Circuit concluded that the "'useful, concrete and tangible result' [of *State Street*[6]]" is inadequate and rejected a technological arts test and the *Freeman-Walter-Abele* test of whether the claim recites an algorithm and whether the algorithm was applied in any manner to physical elements or process steps. Instead, the court decided that the machine-or-transformation test is the proper test to apply.

The court then provided two corollaries to its "machine-or-transformation" test for determining whether a claim to a process is patentable under 101. First, the court stated that mere field-of-use limitations are insufficient to render an otherwise ineligible process claim eligible. Therefore, the specific machine or transformation of an article must impose "meaningful limits on the claim's scope to impart patent-eligibility."[7] Second, the court also recognized that insignificant post-solution activity will not transform an unpatentable principle into a patentable process.[8]

Because the *Bilski* process claims were not limited to a particular machine or apparatus, the Federal Circuit disregarded the "machine" inquiry of the "machine-or-transformation" test, leaving to future decisions to answer the question of "whether or when a recitation of a computer suffices to tie a process claim to a particular machine."

In its discussion of the transformation prong of the test, the court discussed the *In re Abele*[9] decision and noted that the transformation of specifically claimed data that represents an underlying physical object was sufficient to confer patentability even without transformation of the underlying physical object. The court went on to apply the transformation prong of the test to the claims of *Bilski* and stated that the transformation of legal obligations or relationships was not sufficient to satisfy the machine-or-transformation test because these transformations did not effect a change in a physical object, nor did these obligations or relationships represent any physical objects. Accordingly, the court held that *Bilski* sought to claim unpatentable subject matter and affirmed the rejection of *Bilski*'s claims.

Despite the Federal Circuit's "bright-line" decision described above, interpretation of subject matter eligibility has varied in the examining groups of the USPTO, in decisions of various panels of the BPAI, and in lower court holdings. Because of these varying decisions and the uproar caused by the tough new patentability standards imposed by the Federal Circuit in its *In re Bilski* decision, the Supreme Court granted certiorari and agreed to review the Federal Circuit's decision.

4 *Id.* at 954.

5 The Federal Circuit also departs from the broad statutory construction intended by Congress in the majority's interpretation of the statutory framework by ignoring the statutory definition of "process" as set forth in the Patent Act (35 U.S.C. §100(b)) and adding extra limitations on patent-eligible process. It is possible that Congress will address the statutory definition of process in light of the Supreme Court's *Bilski* decision.

6 *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

7 *Id.* at 961-62.

8 *Id.* at 957.

9 *In re Abele*, 684 F.2d 902 (CCPA 1982).

Supreme Court Decision

In its decision, the Supreme Court reiterated the definition of patentable eligible subject matter defined in 35 U.S.C. §101:

> Section 101 specifies four independent categories of inventions or discoveries that are patent eligible: "process[es]," "machin[es],""manufactur[es]," and "composition[s] of matter." "In choosing such expansive terms, . . . Congress plainly contemplated that the patent laws would be given wide scope," *Diamond v. Chakrabarty*, 447 U. S. 303, 308, in order to ensure that " 'ingenuity should receive a liberal encouragement,' " *id.*, at 308–309.

The Court then confirmed that the three specific exceptions to patentable subject matter are 1) laws of nature, 2) physical phenomena, and 3) abstract ideas. The Court explained:

> While not required by the statutory text, these exceptions are consistent with the notion that a patentable process must be "new and useful." And, in any case, the exceptions have defined the statute's reach as a matter of statutory *stare decisis* going back 150 years. See *Le Roy v. Tatham*, 14 How. 156, 174. The §101 eligibility inquiry is only a threshold test. Even if a claimed invention qualifies in one of the four categories, it must also satisfy "the conditions and requirements of this title," §101(a), including novelty, see §102, nonobviousness, see §103, and a full and particular description, see §112. The invention at issue is claimed to be a "process," which §100(b) defines as a "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.

With respect to the "machine-or-transformation test", the Supreme Court held that the "machine-or-transformation test" is not the sole test for patent eligibility under §101, and stated:

> The Court's precedents establish that although that test may be a useful and important clue or investigative tool, it is not the sole test for deciding whether an invention is a patent-eligible "process" under §101.

Moreover, the Supreme Court rejected the notion of categorically excluding business method patents as patent-eligible subject matter:

> Section 101 similarly precludes a reading of the term "process" that would categorically exclude business methods. The term "method" within §100(b)'s "process" definition, at least as a textual matter and before other consulting other Patent Act limitations and this Court's precedents, may include at least some methods of doing business.

Ultimately, the Supreme Court rejected Bilski's claims under the Court's precedents on the unpatentability of abstract ideas:

> Because petitioners' patent application can be rejected under the Court's precedents on the unpatentability of abstract ideas, the Court 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*. Nothing in today's opinion should be read as endorsing the Federal Circuit's past interpretations of §101. *See, e.g., State Street*, 49 F. 3d, at 1373.

However, the Supreme Court stated that the Federal Circuit is free to develop other limiting criteria to patentability as long as the tests are not inconsistent with the text of the Patent Act:

> The appeals court may have thought it needed to make the machine-or-transformation test exclusive precisely because its case law had not adequately identified less extreme means of restricting business method patents. In disapproving an exclusive machine-or-transformation test, this Court by no means desires to preclude the Federal Circuit's development of other limiting criteria that further the Patent Act's purposes and are not inconsistent with its text.

Conclusion

Today's holding by the Supreme Court is not limited to business methods directed to the financial services industry. Rather, the *Bilski* holding will be applied by the U.S. Patent and Trademark Office and the lower courts to determine patent-eligibility for all methods or process inventions, including software. As a result, this holding will have long term repercussions throughout many industries.

Accordingly, it suggested that you consult with a patent attorney to evaluate your patent portfolio and patent strategy, including your approach to pending applications and licenses and litigation involving these patents. Because the Supreme Court has not limited the test for patent-eligibility to only the machine-or-transformation test, if prior claims were amended to comply with the test, broader claims may again be available.

If you have any questions about the content of this client alert, please contact the Pillsbury attorney with whom you regularly work or the authors below.

Jack S. Barufka
Northern Virginia
+1.703.770.7712
jack.barufka@pillsburylaw.com

James G. Gatto
Northern Virginia
+1.703.770.7754
james.gatto@pillsburylaw.com

Kathy Peng
Northern Virginia
+1.703.770.7522
kathy.peng@pillsburylaw.com