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## The Nuts And Bolts Of The Bilski Decision

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IP Law360, New York (June 30, 2010) -- On June 28, 2010 — the last day possible for the Term — the U.S. Supreme Court issued its much awaited decision on patent-eligible subject matter in *Bilski v. Kappos*, No. 08-964, 561 U.S. \_\_\_\_ Slip Opinion (2010) (“*Bilski III*”). In *Bilski III*, Justice Anthony Kennedy writing for the majority confirmed the continued viability of so-called “business method” patents.

While *Bilski III* affirmed the decision of the U.S. Court of Appeals for the Federal Circuit in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (en banc) (“*Bilski II*”), which held that the claims at issue were not patent-eligible subject matter, Justice Kennedy’s analysis departed from the Federal Circuit’s decision in several important respects:

- 1) Justice Kennedy rejected the notion that the “machine-or-transformation” test applied by the Federal Circuit was the “exclusive” test. (See *Bilski III*, Slip op. at 7-8).
- 2) Justice Kennedy confirmed that the statutory definition of “process” found in 35 U.S.C. § 100(b) should govern what constitutes patent-eligible processes, rather than some judicially grafted definition. The fact that the Patent Act specifically provides for special defenses for patents that cover “a method of doing or conducting business” (35 U.S.C. § 273(b)(1) & (a)(3)) confirms that “business method” patents cannot be per se unpatentable subject matter. (See *Bilski III*, Slip op. 10-11).
- 3) While Justice Kennedy agreed that the claims at issue in *Bilski* were not patent-eligible subject matter, he agreed because the claims were “attempts to patent abstract ideas,” not because they failed to meet some categorical rule formulated to address inventions from a prior century. (See *Bilski III*, Slip op. 13-16).
- 4) Justice Kennedy left open the opportunity for the Federal Circuit to carve out new boundaries to patent-eligible subject matter in the future that are consistent with the purposes of the Patent Act and not inconsistent with its text. (See *Bilski III*, Slip op. 16).

Justice Kennedy was joined in the opinion of the court by Chief Justice John Roberts, and Justices Clarence Thomas and Samuel Alito, in the opinion in full, and Justice Antonin Scalia with all the parts of the opinion except Parts II-B-2 and II-C-2. Justice John Paul Stevens filed a concurring opinion advocating for a narrow view of patent-eligible processes, which was joined in by Justices Ruth Bader Ginsburg, Stephen Breyer and Sonia Sotomayor.

Justice Breyer submitted a separate concurring opinion, which summarizes the positions advocated by Justice Stevens and characterizes them as “highlighting the substantial agreement among many Members of the Court on many of the fundamental issues of patent law raised by this case.” Justice Scalia joined in Part II of Justice Breyer’s concurring opinion, which like the majority opinion, recognizes that while the “machine or transformation” test is not necessarily the sole test of patentability, it is still an important and useful test. (Breyer Concurrence, Slip op. at 1 & 4).

In this article, first, we briefly review the “machine-or-transformation” test as applied by the Federal Circuit in *Bilski II*. Next, we summarize the analysis set forth by Justice Kennedy’s opinion in *Bilski III* in detail. Third, we review the points

made in Point II of Justice Breyer's concurrence that are held out as setting forth fundamental issues of patent law to which many members of the court purportedly subscribe.

### **The Federal Circuit Test**

As we have previously described in prior articles — see, e.g., Charles R. Macedo and David Boag, The “Machine-Or-Transformation Test” For Processes, IP Law360, Oct. 30, 2008 — the Federal Circuit in *Bilski II* found that the “machine-or-transformation” test was the only “governing” test for determining whether a process claim is patent-eligible. *Bilski II*, 545 F.3d at 955-56.

Under this test, as explained by the majority in *Bilski II* and taken from historical Supreme Court precedent, “an applicant may show that a process claim satisfies § 101” by either:

- 1) “showing that his claim is tied to a particular machine” or
- 2) “showing that his claim transforms an article.” (*Bilski II*, 545 F.3d at 961).

The purpose of the “machine-or-transformation” test is to preclude processes that preempt so-called “fundamental principles” (i.e., laws of nature, natural phenomena and abstract ideas) from being patentable. (*Bilski II*, 545 F.3d at 952).

The majority further explained that under either branch of the “machine-or-transformation” test, the analysis should consider that:

- 1) the use of specific machine or transformation of an article must impose meaningful limits on the claim's scope to impart patent-eligibility; and
- 2) the involvement of the machine or transformation in the claimed process must not merely be insignificant extra solution activity. (*Bilski II*, 545 F.3d at 961–62).

Significantly, the majority dispelled some misconceptions and confirmed that “whether a claimed process is novel or non-obvious is irrelevant to the § 101 analysis” (*Bilski II*, 545 F.3d at 958), recognizing that the analyses under § 102 (novelty), 103 (obviousness), etc., should not be commingled with the § 101 analysis. Issues regarding utility remain an appropriate subject of discussion under § 101. (*Bilski II*, 545 F.3d at 958 n. 15).

Similarly, the majority “made clear that it is inappropriate to determine the patent-eligibility of a claim as a whole based on whether selected limitations constitute patent-eligible subject matter. After all, even though a fundamental principle itself is not patent-eligible, processes incorporating a fundamental principle may be patent-eligible. Thus, it is irrelevant that any individual step or limitation of such processes by itself would be unpatentable under § 101.” (*Bilski II*, 545 F.3d at 958).

Applying these principles to the *Bilski* claim, the majority found that it failed both parts of the test. For a more detailed discussion of *Bilski II*, see, e.g., Charles R. Macedo, Processes must be tied to machine or transform matter to be patent-eligible in the United States, *Journal of Intellectual Property Law & Practice*, Jan. 27, 2009.

While in our amici submission, we disagreed with certain points of the majority decision as adopting too narrow a view of patent-eligibility, as Justice Kennedy recognizes, “[s]tudents of patent law would be well advised to study these scholarly opinions.” (*Bilski III*, Slip op. at 3).

### **Justice Kennedy's Analysis**

Justice Kennedy begins the court's analysis in Part II-A of *Bilski III* by turning to Section 101 itself, which provides:

“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” (35 U.S.C. § 101, quoted in *Bilski III*, Slip op. at 4).

As we advocated in our amici submission, Justice Kennedy confirms that the statute provides for four independent categories of inventions or discoveries that are eligible for protection: processes, machines, manufacturers and compositions of matter, which Congress plainly contemplated would be given wide scope. *Bilski III*, Slip op. at 4 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980)).

Justice Kennedy also recognizes that the court’s precedent provided three specific exceptions to §101’s broad patent-eligibility principles: “laws of nature, physical phenomena, and abstract ideas.” *Bilski III*, Slip op. at 5 (quoting *Chakrabarty*, 447 U.S. at 309). Justice Kennedy ties these exceptions to the statute by noting that “they are consistent with the notion that a patentable process must be ‘new and useful.’” *Bilski III*, Slip op. at 5.

Justice Kennedy properly noted that § 101 is only a threshold test, and makes references to the other gatekeepers which the patent law relies upon to weed out unpatentable inventions. *Id.*

Justice Kennedy then turns to the statutory definition of “process” found in § 100(b) that the majority in *Bilski II* found “unhelpful” (545 F.3d at 951 n.3), defining a “process” as:

“process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” 35 U.S.C. § 100(b), quoted in *Bilski III*, Slip op. at 5.

With this statutory framework firmly at hand, in Part II-B of *Bilski III*, Justice Kennedy rejected the rigid rule adopted by the majority that the process must meet the “machine or transformation” test. “Adopting the machine-or-transformation test as the sole test for what constitutes a ‘process’ (as opposed to just an important and useful clue) violates these statutory interpretation principles.” *Bilski III*, Slip op. at 6-7.

Justice Kennedy rejected the notion that the ordinary meaning of the term “process” requires that it be tied to a machine or to transform an article. He likewise rejected the notion that the terms used around the term “process” in § 101 import some limited meaning, when the term “process” was broadly defined explicitly in § 100(b). *Bilski III*, Slip op. at 7.

Justice Kennedy also cited the court’s prior precedent as confirming that the “machine-or-transformation” test was never intended to be exclusive. *Bilski III*, Slip op. at 7-8, discussing *Cochrane v. Deener*, 94 U. S. 780, 788 (1877); *Gottschalk v. Benson*, 409 U. S. 63, 70 (1972); and *Parker v. Flook*, 437 U. S. 584, 588 n.9 (1978).

Thus, Justice Kennedy concluded that, “[t]his 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.’” *Bilski III*, Slip op. at 8.

Next, in Part II-B-2, not joined in by Justice Antonin Scalia, Justice Kennedy indicated that patents which failed to meet the machine-or transformation test were rarely granted in earlier eras, especially the Industrial Age; however, “times change”, and in the present Information Age such a test is no longer sufficient alone. *Bilski III*, Slip op. at 8.

Justice Kennedy explained that “Section 101 is a ‘dynamic provision designed to encompass new and unforeseen inventions.’ *J. E. M. Ag Supply Inc. v. Pioneer Hi-Bred Int’l Inc.*, 534 U. S. 124, 135 (2001). A categorical rule denying patent protection for ‘inventions in areas not contemplated by Congress ... would frustrate the purposes of the patent law.’ *Chakrabarty*, 447 U. S., at 315.” *Bilski III*, Slip op. at 8-9.

“The machine-or-transformation test may well provide a sufficient basis for evaluating processes similar to those in the Industrial Age — for example, inventions grounded in a physical or other tangible form. But there are reasons to doubt whether the test should be the sole criterion for determining the patentability of inventions in the Information Age.” *Bilski III*, Slip op. at 9.

Justice Kennedy noted the concern among amici 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.” *Bilski III*, Slip op. at 9.

He further recognized that the “larger object” of patent law is “securing patents for valuable inventions without transgressing the public domain.” *Bilski III*, Slip op. at 9. With this touchstone, future inquiries of patent-eligibility should be analyzed.

Significantly, Justice Kennedy did not pretend that *Bilski III* was the final word on the subject of patent-eligible processes. “It is important to emphasize that the court today 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. This Age puts the possibility of innovation in the hands of more people and raises new difficulties for the patent law. With 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. Nothing in this opinion should be read to take a position on where that balance ought to be struck.” *Bilski III*, Slip op. at 9-10.

In Part II-C-1, Justice Kennedy rejected arguments that the term “process” in § 101 categorically excludes business methods. *Bilski III*, Slip op. at 10. As we advocated to the Federal Circuit and the Supreme Court in our amici submissions, Justice Kennedy recognized that such an argument is contrary to the terms of the Patent Act, and in particular to the language set forth in 35 U.S.C. § 273.

As Justice Kennedy explained, “by allowing this defense the statute itself acknowledges that there may be business method patents. Section 273’s definition of ‘method,’ to be sure, cannot change the meaning of a prior-enacted statute. But what § 273 does is clarify the understanding that a business method is simply one kind of ‘method’ that is, at least in some circumstances, eligible for patenting under § 101.” *Bilski III*, Slip op. at 11.

Justice Kennedy does, however, caution, that “while § 273 appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions.” *Bilski III*, Slip op. at 11.

In Part II-B-2, Justice Kennedy noted that while some limiting principles may be justified to prevent a chilling effect caused by some business method patents which “raise special problems in terms of vagueness and suspect validity”, other provisions of the patent law, besides § 101, can be used to address these concerns. *Bilski III*, Slip op. at 11. This portion of the opinion was not joined in by Justice Scalia.

In Part III, Justice Kennedy applied the broad principles of the prior Supreme Court precedent in *Benson*, *Flook* and *Diehr* to find that the *Bilski* claims merely claim an abstract idea and as such are not patent eligible. *Bilski III*, Slip op. at 13-16.

In summation, Justice Kennedy explained:

“Today, the Court once again declines to impose limitations on the Patent Act that are inconsistent with the Act’s text. The patent application here can be rejected under our precedents on the unpatentability of abstract ideas. The Court, therefore, 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*.” *Bilski III*, Slip op. at 16.

Justice Kennedy however further warned that “nothing in today’s opinion should be read as endorsing interpretations of § 101 that the Court of Appeals for the Federal Circuit has used in the past” nor should be read to “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.” *Bilski III*, Slip op. at 16.

## **Part II of Justice Breyer’s Concurrence**

Although Justice Breyer agreed with Justice Stevens’ view that “[t]his Court has never before held that so-called ‘business methods’ are patentable, and in my view, the text, history, and purpose of the Patent Act make clear that they are not,” he further presented a concurring opinion “in order to highlight the substantial agreement among many Members of the Court on many of the fundamental issues of patent law raised by this case.” Breyer, Slip op. at 1.

It is unclear whether the “many” members constitute a majority of the court or will constitute a majority of the court next term when Justice Stevens has retired.

Nonetheless it is useful to understand the following four “fundamental issues” as set forth by Justice Breyer:

“First, although the text of § 101 is broad, it is not without limit.” Breyer, Slip op. at 2.

“Second, in a series of cases that extend back over a century, the Court has stated that ‘[t]ransformation and reduction of an article to a different state or thing is the clue to the patentability of a process claim that does not include particular machines.’” Breyer, Slip op. at 2 (quoting *Diamond v. Diehr*, 450 U.S. 175, 184 (1981)).

“Third, while the machine-or-transformation test has always been a ‘useful and important clue,’ it has never been the ‘sole test’ for determining patentability.” Breyer, Slip op. at 3.

“Fourth, although the machine-or-transformation test is not the only test for patentability, this by no means indicates that anything which produces a ‘useful, concrete, and tangible result,’ *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F. 3d 1368, 1373 (CA Fed. 1998), is patentable.” Breyer, Slip op. at 3.

“In sum, it is my view that, in reemphasizing that the ‘machine-or-transformation’ test is not necessarily the sole test of patentability, the Court intends neither to de-emphasize the test’s usefulness nor to suggest that many patentable processes lie beyond its reach.” Breyer, Slip op. at 4.

## **Conclusion**

Many in the patent community breathe a sigh of relief with the court’s decision in *Bilski III*, knowing that another rigid rule has been struck down as too narrow. The safe harbor of the machine-or-transformation test probably remains open, but it is not the unforgiving boundary that it was last week.

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